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Department of Airports  
Los Angeles, California

# ANNUAL FINANCIAL REPORT

**LAX**

LOS ANGELES INTERNATIONAL AIRPORT

FISCAL YEARS ENDED JUNE 30, 2022 AND 2021



**LAX**

LOS ANGELES INTERNATIONAL AIRPORT







## **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, 2022 and 2021

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LOS ANGELES INTERNATIONAL AIRPORT

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

Annual Financial Report  
Fiscal years ended June 30, 2022 and 2021

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## Board of Airport Commissioners, Elected City Officials, and Los Angeles World Airports Executive Staff



Beatrice C. Hsu  
President



Valeria C.  
Velasco  
Vice President



Gabriel L.  
Eshaghian  
Commissioner



Belinda M. Vega  
Commissioner



Sean O. Burton  
Commissioner



Nicholas P.  
Roxborough  
Commissioner



Karim Webb  
Commissioner



Justin Erbacci  
Chief Executive Officer

### CITY OF LOS ANGELES ELECTED OFFICIALS

Eric Garcetti, Mayor<sup>1</sup>  
Michael N. Feuer, City Attorney  
Ron Galperin, City Controller

### CITY COUNCIL

Gilbert Cedillo, District 1	Nury Martinez, District 6 <sup>3</sup>	Mike Bonin, District 11
Paul Krekorian, District 2	Monica Rodriguez, District 7	John Lee, District 12
Bob Blumenfield, District 3	Marqueece Harris-Dawson, District 8	Mitch O'Farrell, District 13
Nithya Raman, District 4	Curren D. Price, Jr., District 9	Kevin De Leon, District 14
Paul Koretz, District 5	Mark Ridley-Thomas, District 10 <sup>2</sup>	Joe Buscaino, District 15

### LOS ANGELES WORLD AIRPORTS EXECUTIVE STAFF

Justin Erbacci, Chief Executive Officer  
Tatiana Starostina, Assistant General Manager, Chief Financial Officer  
Samantha Bricker, Assistant General Manager, Chief Sustainability and Revenue Management Officer  
Michael R. Christensen, Assistant General Manager, Chief Operations and Maintenance Officer  
Terri Mestas, Assistant General Manager, Chief Development Officer  
Becca Doten, Chief Airport Affairs Officer  
Louis Gutierrez, Chief Human Capital and Equity Officer  
Ian Law, Assistant General Manager, Chief Digital Transformation Officer  
Cecil W. Rhambo Jr., Chief of Airport Police  
Martin Elam, Deputy Executive Director, Public Safety and Security  
Jacob Adams, Deputy Executive Director, Landside Access Modernization Program Executive  
Richard J. Connolly, Deputy Executive Director, Facilities Management  
Robert Falcon, Deputy Executive Director, The Development Group Enterprise Services  
Dave Jones, Deputy Executive Director, Commercial Development  
David Reich, Deputy Executive Director, Mobility Planning and Strategy  
Hans Thilenius, Deputy Executive Director, Terminal Development and Improvement Program  
Douglas G. Webster, Deputy Executive Director, Operations  
Aura Moore, Deputy Executive Director, Information Management and Technology  
Brian Ostler, General Counsel

<sup>1</sup> On July 9, 2021, President Biden nominated Mr. Garcetti for Ambassador Extraordinary and Plenipotentiary to the Republic of India. If confirmed by the U.S. Senate, Mr. Garcetti is expected to resign to serve as ambassador. The City Council would then have the option to appoint an interim mayor or call a special election.

<sup>2</sup> Council Member Ridley-Thomas was suspended on October 20, 2021.

<sup>3</sup> Council Member Nury Martinez resigned on October 12, 2022.

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## Message from the Chief Executive Officer

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I am pleased to present Los Angeles International Airport's (LAX) Annual Financial Report for the fiscal year ended June 30, 2022.

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, 2022 and 2021, were fairly presented in conformity with accounting principles generally accepted in the United States of America (US 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, 2022. Moss Adams' report is on pages 139 to 141.

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 applicable to and that could have a material effect on its customer facility charge program for the fiscal year ended June 30, 2022. Moss Adams' report is on pages 146 to 148. US 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 40.

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. Delta Air Lines and American Airlines accounted for 20.4% and 19.2%, respectively, of all enplaned passengers at LAX for fiscal year 2022. For fiscal year 2021, an estimated 85.9% of passengers at LAX represented originating and destination (O&D) passengers (that is, all passengers beginning or ending their trips at LAX). The remaining estimated 14.1% 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. As of July 2022, LAX provided scheduled service to 69 international destinations, as compared to 63 international destinations in July 2021.

LAX is classified by the FAA as a large hub airport. According to U.S. DOT statistics, in calendar year 2021, LAX was the 5<sup>th</sup> busiest airport in the U.S. as measured by revenue enplaned passengers, and 4<sup>th</sup> busiest airport in the U.S. in terms of total cargo landed weight. According to U.S. DOT statistics, in calendar year 2019 (the last full year prior to the start of the COVID-19 pandemic), LAX was the 2<sup>nd</sup> busiest airport in the U.S. as measured by revenue enplaned passengers, and 4<sup>th</sup> busiest airport in the U.S. in terms of total cargo landed weight. According to preliminary ACI statistics, in calendar year 2021, LAX ranked as the 5<sup>th</sup> busiest airport in the world in terms of total passengers, and 8<sup>th</sup> busiest airport in the world in terms of total cargo metric tons. According to ACI statistics, in calendar year 2019 (the last full year prior to the start of the COVID-19 pandemic), LAX ranked as the 3<sup>rd</sup> busiest airport in the world in terms of total passengers, and 13<sup>th</sup> busiest airport in the world in terms of total cargo metric

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tons. Global travel restrictions due to the COVID-19 pandemic and LAX's share of international passengers relative to other large hub airports contributed to the change in rankings. According to the U.S. DOT Origins and Destinations Survey of Airline Passenger Traffic for calendar year 2020, LAX ranked 1<sup>st</sup> 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. Passenger traffic at LAX increased by 108.9% in fiscal year 2022 to 60.7 million as compared to 29.1 million in fiscal year 2021.

## COVID-19 Pandemic Issues and Impacts

The pandemic caused by COVID-19 and the related restrictions and measures adopted to contain the spread of the virus, have had a negative impact on both international and domestic travel and travel-related industries, including airlines and concessionaires serving the airport system, and have caused unemployment, labor shortages, supply chain issues, reductions in tourism, business travel, and travel-related industries, and a contraction of global and national economies, among other issues.

After the outbreak of COVID-19, the United States and many other countries adopted a number of restrictions, guidelines and other orders including, but not limited to, stay-at-home orders, restrictions on travel and requirements relating to masks and vaccinations in response to COVID-19. These restrictions, guidelines and other orders have been implemented at the state and local level throughout the United States and abroad. Governments have relaxed and intensified these measures at various points throughout the COVID-19 pandemic in response to changes in circumstance, including, but not limited to, the status of infection rates, the percentage of the population vaccinated and other various factors relating to public health and other public policy concerns with localized and global geographic considerations. Following the outbreak of COVID-19, airlines reported an unprecedented decrease in domestic and international air traffic, causing the cancellation of numerous flights. Likewise, many of the airport system's retail concessionaires either temporarily or permanently closed or reported substantial declines in sales. In addition to the impact on concessionaires, the reduction in air travel had an adverse effect on parking, transportation network companies (TNC), such as Uber and Lyft, ground transportation (such as taxi and limousine) and rental car revenues throughout LAWA.

Since late 2020, after several vaccines against COVID-19 were approved and began to be administered, air traffic has begun to recover. However, the COVID-19 pandemic is ongoing, with new variants of the disease emerging, and the duration, severity and ultimate economic effects of COVID-19 remain uncertain. Despite widespread distribution of vaccines and vaccine boosters against COVID-19 in many parts of the United States and for an expanding set of eligible partakers, there are still geographic regions locally and in other parts of the world where vaccination levels remain low. Ongoing concerns about the continued spread or effects of the virus have and may result in some governments re-imposing travel restrictions, in particular as it relates to international air travel.

Airports in the United States have been acutely impacted by the reductions in passenger volumes and flights, as well as by the broader economic activity reductions resulting from the COVID-19 pandemic. Initially, airlines serving LAX reduced or cancelled flights and curtailed their overall capacity due to the reduction in demand for both domestic and international air travel in an attempt to match capacity to the modified demand for air travel. Passenger traffic at LAX increased by 108.9% in fiscal year 2022 as compared to fiscal year 2021; and passenger traffic at LAX decreased by 53.7% in fiscal year 2021 as compared to fiscal year 2020. LAWA anticipates that airlines will continue to increase capacity on existing routes and continue to restart additional destinations in the coming months, but it cannot predict precisely when these actions will occur or if levels may fluctuate if COVID-19 infection case rates increase.

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## Government Stimulus and Relief Measures in Response to the COVID-19 Pandemic

As a direct result of the COVID-19 pandemic, three separate bills were adopted by the U.S. Congress that provided or continue to provide financial aid to the airports around the country, the airlines and other concessionaires. LAWA was allocated approximately \$323.6 million of federal grant assistance for LAX under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which became law on March 27, 2020. LAWA drew down all \$323.6 million CARES Act grant funds for LAX to pay LAX maintenance and operation expenses and debt service in fiscal years 2020 and 2021.

The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), which became law on December 27, 2020, also provided additional direct aid to LAWA. LAWA was allocated approximately \$72.3 million in Airport Coronavirus Response Grant Program funds pursuant to CRRSAA and has drawn approximately \$8.5 million to pay LAX maintenance and operation expenses in fiscal year 2022. The Department expects to draw the remaining balance of Airport Coronavirus Response Grant Program funds during fiscal year 2023.

A third round of federal relief was provided to airports through the American Rescue Plan Act (ARPA), which became law on March 11, 2021. LAWA was awarded \$303.8 million in American Rescue Grants pursuant to ARPA. Of the total \$303.8 million in American Rescue Grant funding for which LAX is eligible, \$267 million must be used for operational relief and \$36.8 million for concessions relief. As of June 30, 2022, LAWA has not drawn any of its eligible American Rescue Grants from the FAA. LAWA expects to draw all of its eligible American Rescue Grants during fiscal year 2023.

The following table summarizes the federal relief funds received by LAX pursuant to the CARES Act, CRRSAA and ARPA:

<u>Federal Program</u>	<u>Amount Awarded (in millions)</u>	<u>Amount Drawn (in millions)</u>
CARES Act	\$ 323.6	\$ 323.6
CRRSAA	72.3	8.5
ARPA	303.8	—
Total Federal Relief Funds	<u>\$ 699.7</u>	<u>\$ 332.1</u>

Passenger traffic at LAX increased by 108.9% in fiscal year 2022 as compared to fiscal year 2021, even though LAWA experienced a decrease in total revenue operations, enplanements and deplanements over fiscal year 2020 and fiscal year 2021 as compared with fiscal year 2019. In fiscal year 2022, LAWA's operations and revenues have shown strong improvement, although such recovery has not reach pre-COVID-19 levels. The continuing impact of the COVID-19 pandemic on air travel through LAX and on LAX's operations, budget and finances will heavily depend on future events outside of the control of LAWA. As a result of these uncertainties, LAWA expects to regularly review traffic and revenue performance and projections and make necessary adjustments throughout fiscal year 2023.

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In August 2022, LAX reported a total of 6.1 million passengers, up from 5.1 million in August 2021. The increase of nearly 19% was largely due to international travelers, who totaled 1.7 million – an increase of 87% compared with August 2021. Throughout the summer months, international traffic continued to show strong growth and we saw overall robust passenger numbers compared to the same time last year. With new routes to international destinations coming online, LAX is optimistic that there will be continued growth in passenger numbers into the fall and winter holiday months. LAX continues to attract new international airlines and offer new destinations with additional airlines including Lynx Air, Flair Airlines, Cayman Airways and Air Premia planning to launch this fall and winter. For the calendar year through August, overall passenger traffic at LAX is up 50.3% compared with the same time in 2021 with a total of 43.1 million passengers. The number of international guests during this period of time is up 130.73% compared to 2021 (10.5 million vs. 4.5 million), while domestic passengers are up 35.12% (32.6 million vs. 24.1 million) through August 2022.

Passenger and other traffic activity highlights at LAX, together with analysis of LAX’s financial activities during the last three fiscal years, are discussed in the MD&A.



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## LAWA's Mitigation Measures in Response to COVID-19

In response to the COVID-19 pandemic, LAWA has implemented measures intended to mitigate operational and financial impacts, including: hiring limits, except for specific critical positions; 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; collaborating with the 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 COVID-19 pandemic. LAWA also implemented a Separation Incentive Program (SIP) as part of the fiscal year 2021 budget plan to manage headcount. Under the SIP, cash payments were provided for eligible LAWA employees who chose to voluntarily retire from the City of Los Angeles. A total of 334 employees chose to participate in the program to voluntarily terminate their employment with LAWA, and departed by the end of April 2021.

### **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 work streams include: (1) improving the Department's fiscal position, (2) engaging and communicating with stakeholders, (3) completing construction and repairs faster, (4) making the airports safer, (5) setting up the Department for success, (6) bringing employees back to work, and (7) preparing the airports for the resumption of travel. The COVID-19 Recovery Task Force was convened and is led by the Chief Executive Officer. Each work stream is led by an executive team member, and work stream teams are comprised of staff throughout LAWA.

### **Passenger Airline Temporary Relief Program and Concessionaires and Services Temporary Relief Program**

In response to the COVID-19 pandemic, LAWA provided temporary relief to airlines and concessionaires and service providers at LAX. A temporary terminal and airfield fee relief program with respect to passenger airlines serving LAX (Passenger Airline Temporary Relief Program) permitted eligible passenger air carriers subject to a terminal lease or the Airport Terminal Tariff to apply for relief, which relief included deferral of terminal and airfield fees payable from April through May 2020. All airlines that received a deferral of terminal and airfield fees have repaid the same in accordance with the requirements of the Passenger Airline Temporary Relief Program.

LAWA implemented a fee relief program for LAX concessionaires and service providers at LAX (Concessionaires and Services Temporary Relief Program), which provided for the waiver of the minimum annual guarantees (MAGs), lower fees and deferrals. The Concessionaires and Services Temporary Relief Program ended on June 30, 2021, and was subsequently extended through June 30, 2022. LAWA may provide additional relief in the future as it deems reasonably necessary to address the impacts of the COVID-19 pandemic on the Department and its operations and its airlines, concessionaires and service providers.

### **Airline Cost Stabilization and Recovery Plan**

LAWA developed a multi-year plan (Airline Cost Stabilization and Recovery Plan) to enhance the competitive position of LAX during and after the COVID-19 pandemic by lowering annual fixed costs at LAX through, among other things, a restructuring of certain debt service costs and managing rates and charges at LAX from calendar year 2020 through fiscal year 2023. The key objectives of the Airline Cost Stabilization and Recovery Plan are to: (i) mitigate the increase in rates and charges for airlines due to reduced activity; (ii) harmonize common use costs across LAX; and (iii) achieve stability in LAX financial operations. Specifically, the proposed annual fixed cost reductions and corresponding reductions in airline rates and charges would be achieved by: (i) using a portion of federal relief grants to pay certain LAX maintenance and operation expenses and other eligible costs such as debt service, (ii) refunding and restructuring outstanding principal and interest on the outstanding existing senior bonds and existing subordinate bonds, and (iii) deferring and restructuring annual amortization charges of Department cash that has been spent on capital projects in airline cost centers.

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## Debt Service Restructuring

Through the Airport Terminal Tariff or terminal leases, LAWA passes through debt service, among certain other costs, to its aeronautical users. The restructuring of certain debt service costs allowed the Department to lower, for certain periods, the annual cost and related airline rates and charges associated with terminal buildings, airfields, and other airline-used facilities at LAX to better match the current and anticipated-near term utilization levels of those facilities. The Department restructured approximately \$322.9 million of debt service on existing senior bonds and existing subordinate bonds, lessening the Department's near-term debt service payment obligations but increasing debt service obligations in certain future fiscal years.

## Other Cost Management Measures

The Airline Cost Stabilization and Recovery Plan included LAWA's completion of the transition of a lease between LAWA and an airline consortium to a third-party service contract, which occurred in May 2021. This transition gives LAWA control of the rates and fees charged for the use of certain common facilities, reduces near-term costs, unifies the baggage system cost rate for domestic and international aeronautical users and eliminates the current system of rates which differs amongst terminals. Unifying the baggage system cost rate also allows LAWA to coordinate airline use in the terminals and facilitate growth in aviation activity.

On June 3, 2021, following LAWA's receipt of the requisite consents from the Signatory Airlines, the Board approved, among other things, an amended "Methodology for Establishing Rates and Charges for the use of Passenger Terminal Facilities at LAX" pursuant to the Airport Terminal Tariff as part of the Airline Cost Stabilization and Recovery Plan. The purpose of these changes was to make LAX rates and charges competitive to enable the reinstatement of lost air service due to the COVID-19 pandemic and attract new routes, avoid triggering increases in rates and charges tied to reduced activity, and equalize rates and charges throughout LAX for common use facilities. To accomplish the desired rate reductions, the Board approved amendments to the rate making methodology, changes to the Airport Terminal Tariff effective July 1, 2021 through June 30, 2022, and a corresponding amendment to the Rate Agreement. The term of the newly amended Rate Agreement (incorporating the new rate making methodology) was extended from December 31, 2032 to June 30, 2033. Among other changes, the amended Rate Agreement provides for a transition from calendar year to fiscal year terminal rates and charges for ease of administration, both in establishing the rates and in reconciling at fiscal year-end; in the terminal rate calculations, the use of the budgeted operating and maintenance expenses for the same fiscal year that the rates are set for rather than the actual operating and maintenance expenses for the preceding fiscal year (a change that is consistent with the existing calculations of the landing and apron fee rates); and a revised common-use hold room charge cap to ensure consistency and equity in charging for use of common-use facilities.

## Initiatives and Developments

LAX is undertaking a multi-billion dollar capital program. Projects include various terminal, airfield and apron, access, and other projects designed to, among other things, modernize terminals, make long-term improvements to passenger access, and accommodate existing and future aircraft designs, all to address growth in passenger activity levels that is projected to occur with or without these projects. LAWA is employing various strategies to design, build and finance multiple facilities concurrently, including, among others, the design-build-finance-operate-maintain arrangements; design-bid-build arrangements; design-build arrangements; and terminal improvement acquisitions.

The Capital Program consists of the Existing Capital Program and the Next Capital Program. The Existing Capital Program, which is estimated to cost approximately \$11.7 billion between fiscal year 2023 and 2026, commenced in fiscal year 2016 and is expected to be completed by the end of fiscal year 2026. The Existing Capital Program consists of various terminal, airfield and apron projects and the LAMP projects, among others. In addition to the Existing Capital Program, LAWA has begun focusing on identifying and prioritizing future capital improvements at LAX that are not included in the Existing Capital Program but are expected to be completed through fiscal year

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2029. From airside to landside, a transformation like no other is underway as LAX and the City of Los Angeles prepare to welcome the world to the 2028 Olympic and Paralympic Games.

To continue the extensive upgrading and modernization of LAX and to address increasing levels of traffic congestion at and around LAX, LAWA is redeveloping the ground access system to LAX. As part of the overall modernization of LAX, LAWA is implementing components of the LAMP to, among other things, improve access options and the travel experience for passengers; shift the location where different modes of traffic operate within the Central Terminal Area (CTA) and on the surrounding street network; and provide direct connections to the rail and transit systems of the Los Angeles County Metropolitan Transportation Authority (Metro). By implementing LAMP, LAWA seeks to provide more travel time certainty, reduce traffic congestion, and improve air quality in and around LAX. LAMP includes several individual components, including, among others, the Automated People Mover System (APM), Intermodal Transportation Facilities (ITF), the Consolidated Rental Car Facility (ConRAC), pedestrian walkway connections to the passenger terminals within the CTA, and roadway improvements. The first component of the LAMP – the \$294 million LAX Economy Parking facility – made its public debut in October 2021.

On October 5, 2022, the new concourse at Terminal 3 was opened, marking the completion of the third phase of construction on terminal 3. Eight out of nine gates have been completed, with the ninth scheduled to be ready by early next year. The project is ahead of schedule by 18 months. The new Terminal 3 concourse includes best-in-class passenger amenities and technology, and showcases LAWA's vision for a fully modernized airport.

## Outlook for the Future

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.

The fiscal year 2023 budget is based on a conservative forecast of operating revenues and operating expenses that reflect management's expectation of the LAX passenger traffic of 38 million enplanements, approximately 25% higher than the fiscal year 2022 level of 30 million; down by approximately 14% from actual fiscal year 2019 level. The budget allows LAWA to achieve targeted key financial metrics and meet all LAX Bond Indenture covenants.

The fiscal year 2023 budget is aligned with LAWA's long-term plan of finance to maintain LAWA's positive financial position while it provides resources for initiatives supporting the goals and objectives outlined in LAWA's Strategic Plan:

- Foster Equitable Economic Growth and Sustainability in Our Region.
- Build and Operate Facilities to Meet Evolving Demand.
- Develop Workforce and Organizational Capabilities for the Future.
- Provide Exceptional Guest Experiences.
- Enhance Financial Capacity.
- Ensure Safety and Security for Guests and Employees.



Justin Erbacci  
Chief Executive Officer  
October 27, 2022

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# FINANCIAL SECTION

2022 ANNUAL FINANCIAL REPORT  
LOS ANGELES INTERNATIONAL AIRPORT





# FINANCIAL SECTION

Report of Independent Auditors

Management's Discussion and Analysis

Financial Statements

Required Supplementary Information





MOSSADAMS

## Report of Independent Auditors

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

### Report on the Audit of the Financial Statements

#### *Opinion*

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 statements of net position as of June 30, 2022 and 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of LAX as of June 30, 2022 and 2021, 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.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of LAX and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Financial Reporting Entity*

As discussed in Note 1, the financial statements present only LAX's net position, the changes in net position, and cash flows, and do not purport to, and do not, present fairly the net position of the City of Los Angeles as of June 30, 2022 and 2021, the changes in City's net position, or, where applicable, City's cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### *Emphasis of Matter*

As discussed in Note 2 of the financial statements, LAX adopted the provisions of GASB Statement No. 87, *Leases*, effective July 1, 2020. The financial statements have been retroactively restated in accordance with the requirements of the new accounting standard. Our opinion is not modified with respect to this matter.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 LAX's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of LAX's proportionate share of the net pension liability, the schedule of contributions – pension, the schedule of LAX's proportionate share of the net other postemployment benefit (OPEB) liability, and the schedule of contributions – OPEB 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***

Management is responsible for the other information included in the annual report. The other information comprises the introductory section, supplemental information, statistical section, and compliance section, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2022, 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, and 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.



El Segundo, California  
October 27, 2022



The background of the entire page is a photograph of the Los Angeles International Airport at night. The image shows the airport's modern architecture with large glass windows and illuminated interiors. In the foreground, there are airport ground support equipment, including baggage carts and fuel trucks, and a construction area with orange and white safety barriers and a single orange traffic cone. A teal-colored rectangular overlay covers the upper portion of the image, containing the title and subtitle.

# MANAGEMENT'S DISCUSSION & ANALYSIS

*(UNAUDITED)*

2022 ANNUAL FINANCIAL REPORT  
LOS ANGELES INTERNATIONAL AIRPORT



**MANAGEMENT'S  
DISCUSSION &  
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, 2022 and 2021

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, 2022 and 2021. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 43.

### 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, 2022 and 2021. The difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources is 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, 2022 and 2021. These statements can, among other things, be useful indicators of how LAX recovered its costs through rates and charges. All changes in net position are reported when the underlying events occurred, regardless of the timing of the related cash flows. Thus, revenues and expenses are 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 are 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, 2022 and 2021

(continued)

### Passenger and Other Traffic Activity Highlights

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

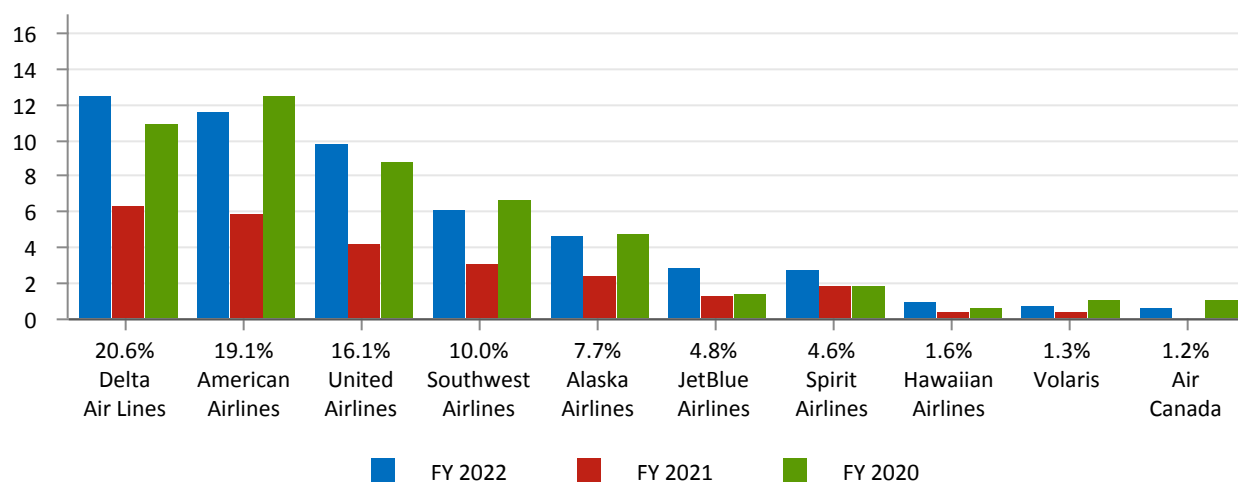
	FY 2022	FY 2021	FY 2020	% Change	
				FY 2022	FY 2021
Total passengers	60,688,248	29,050,631	62,715,070	108.9%	-53.7%
Domestic passengers	48,485,050	24,688,871	44,801,765	96.4%	-44.9%
International passengers	12,203,198	4,361,760	17,913,305	179.8%	-75.7%
Departing passengers	30,253,056	14,593,791	31,429,457	107.3%	-53.6%
Arriving passengers	30,405,450	14,456,840	31,285,613	110.3%	-53.8%
Passenger flight operations					
Departures	236,681	152,896	245,003	54.8%	-37.6%
Arrivals	237,206	152,702	244,825	55.3%	-37.6%
Landing weight (thousand lbs)	54,384,879	40,055,175	53,270,947	35.8%	-24.8%
Air cargo (tons)					
Mail	125,346	130,952	134,515	-4.3%	-2.6%
Freight	2,819,405	2,686,358	2,150,930	5.0%	24.9%

*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 2022 and the comparative passengers for fiscal years 2021 and 2020.

### FY 2022 Top Ten Carriers and FY 2022 Percentage of Market Share (passengers in millions)





## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

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### Passenger Traffic, Fiscal Year 2022

Passenger traffic at LAX increased by 108.9% in fiscal year 2022 as compared to fiscal year 2021. Of the 60.7 million passengers that moved in and out of LAX, domestic passengers accounted for 79.9%, while international passengers accounted for 20.1%. Delta Air Lines ferried the largest number of passengers at 12.5 million with a 95.3% increase in passenger traffic. American Airlines, ranked second with 11.6 million passengers posted a 96.6% increase in passenger traffic. United Airlines, ranked third with 9.8 million passengers posted a 127.9% increase in passenger traffic. Southwest Airlines (6.1 million) and Alaska Airlines (4.7 million) complete the top five air carriers operating at LAX. Volaris was the top foreign flag carrier with 0.8 million passengers and was ranked ninth overall.

### Passenger Traffic, Fiscal Year 2021

Passenger traffic at LAX decreased by 53.7% in fiscal year 2021 as compared to fiscal year 2020. Of the 29.1 million passengers that moved in and out of LAX, domestic passengers accounted for 85.0%, while international passengers accounted for 15.0%. Delta Air Lines ferried the largest number of passengers at 6.4 million with a 41.8% decrease in passenger traffic. American Airlines, ranked second with 5.9 million passengers posted a 52.8% decrease in passenger traffic. United Airlines, ranked third with 4.3 million passengers posted a 51.1% decrease in passenger traffic. Southwest Airlines (3.1 million) and Alaska Airlines (2.5 million) complete the top five air carriers operating at LAX. Volaris was the top foreign flag carrier with 0.5 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 continued to cause significant disruptions to domestic and international passenger travel at LAX. Restrictions imposed by governments around the world, including, but not limited to, mandatory 14-day quarantine periods, proof of a negative COVID-19 test, or bans on non-essential travel have more severely curtailed international travel than domestic travel.

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### **Passenger Flight Operations, Fiscal Year 2022**

Departures and arrivals at LAX increased by 168,289 flights or 55.1% during fiscal year 2022 when compared to fiscal year 2021. Revenue landing pounds were up 35.8%. The top three carriers in terms of landing pounds were American Airlines, Delta Airlines and United Airlines. In total, these three airlines contributed 38.9% of the total revenue pounds at LAX.

### **Passenger Flight Operations, Fiscal Year 2021**

Departures and arrivals at LAX decreased by 184,230 flights or 37.6% during fiscal year 2021 when compared to fiscal year 2020. Revenue landing pounds were down 24.8%. The top three carriers in terms of landing pounds were Delta Airlines, American Airlines and United Airlines. In total, these three airlines contributed 36.6% of the total revenue pounds at LAX.

### **Air Cargo (tons), Fiscal Year 2022**

Freight and mail cargo at LAX increased by 4.5% in fiscal year 2022 as compared to fiscal year 2021. Freight was up by 133,047 tons, and mail was down by 5,606 tons. Domestic cargo was up by 31,220 tons or 3.0% and international cargo was up by 96,221 tons or 5.5%. Federal Express was the top air freight carrier accounting for 12.0% of total freight cargo, followed by Kalitta Air LLC with 8.5%. Kalitta Air LLC was the top mail carrier accounting for 43.4% of total mail cargo.

### **Air Cargo (tons), Fiscal Year 2021**

Freight and mail cargo at LAX increased by 23.3% in fiscal year 2021 as compared to fiscal year 2020. Freight was up by 535,428 tons, and mail was down by 3,563 tons. Domestic cargo was up by 199,245 tons or 23.3% and international cargo was up by 332,620 tons or 23.3%. Federal Express was the top air freight carrier accounting for 13.7% of total freight cargo, followed by Kalitta Air LLC with 9.9%. Kalitta Air LLC was the top mail carrier accounting for 42.9% of total mail cargo.

## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

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### Overview of LAX's Financial Statements

#### Financial Highlights, Fiscal Year 2022

- LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5.6 billion.
- Bonded debt had a net increase of \$2.1 billion.
- Operating revenue totaled \$1.4 billion.
- Operating expenses (including depreciation and amortization of \$621.9 million) totaled \$1.3 billion.
- Net nonoperating expenses totaled \$244.8 million.
- Federal and other government capital grants totaled \$31.9 million.
- Net position decreased by \$176.3 million.

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**Financial Highlights, Fiscal Year 2021<sup>4</sup>**

- 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 \$1.5 billion.
- Operating revenue totaled \$1.0 billion.
- Operating expenses (including depreciation and amortization of \$451.9 million) totaled \$1.2 billion.
- Net nonoperating expenses totaled \$208.6 million.
- Federal and other government capital grants totaled \$313.0 million (including CARES Act grant of \$271.2 million).
- Net position decreased by \$59.4 million.

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<sup>4</sup> The fiscal year 2021 financial statements have been restated for the adoption of GASB 87, Leases, effective July 1, 2020.



## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

### Net Position Summary

A condensed summary of net position for fiscal years as of June 30, 2022, 2021, and 2020 is presented below. The fiscal year 2021 financial statements have been restated for the adoption of GASB 87, *Leases*, effective July 1, 2020. The fiscal year 2020 financial statements were not restated because all of the information available to restate prior year amount was not readily available.

### Condensed Net Position (amounts in thousands)

		As Restated*		FY 2022	FY 2021
	FY 2022	FY 2021	FY 2020	increase (decrease)	increase (decrease)
<b>Assets</b>					
Unrestricted current assets	\$ 1,571,949	\$ 1,636,406	\$ 1,228,523	\$ (64,457)	\$ 407,883
Restricted current assets	2,479,757	1,316,887	2,110,235	1,162,870	(793,348)
Capital assets, net	14,757,607	14,320,374	12,086,167	437,233	2,234,207
Noncurrent assets	164,415	196,403	21,204	(31,988)	175,199
Net OPEB asset	30,042	—	—	30,042	—
<b>Total assets</b>	<b>19,003,770</b>	<b>17,470,070</b>	<b>15,446,129</b>	<b>1,533,700</b>	<b>2,023,941</b>
<b>Deferred outflows of resources</b>					
Loss on debt refundings	41,885	33,681	35,732	8,204	(2,051)
Pension and OPEB	185,975	320,967	181,271	(134,992)	139,696
<b>Total deferred outflows of resources</b>	<b>227,860</b>	<b>354,648</b>	<b>217,003</b>	<b>(126,788)</b>	<b>137,645</b>
<b>Liabilities</b>					
Current liabilities payable from unrestricted assets	490,324	783,776	577,838	(293,452)	205,938
Current liabilities payable from restricted assets	214,886	232,619	209,432	(17,733)	23,187
Noncurrent liabilities	11,732,676	9,651,754	8,105,706	2,080,922	1,546,048
Net pension liability	536,500	1,006,766	807,685	(470,266)	199,081
Net OPEB liability	—	80,411	68,484	(80,411)	11,927
<b>Total liabilities</b>	<b>12,974,386</b>	<b>11,755,326</b>	<b>9,769,145</b>	<b>1,219,060</b>	<b>1,986,181</b>
<b>Deferred inflows of resources</b>					
Gain on debt refundings	53,326	40,508	24,271	12,818	16,237
Pension and OPEB	440,465	55,399	67,305	385,066	(11,906)
Leases	196,777	230,461	—	(33,684)	230,461
<b>Total deferred inflows of resources</b>	<b>690,568</b>	<b>326,368</b>	<b>91,576</b>	<b>364,200</b>	<b>234,792</b>
<b>Net Position</b>					
Net investment in capital assets	4,822,725	5,270,607	4,940,094	(447,882)	330,513
Restricted for capital projects	267,664	335,431	788,862	(67,767)	(453,431)
Restricted for operations and maintenance reserve	223,815	236,443	240,776	(12,628)	(4,333)
Restricted for federally forfeited property & protested funds	2,233	2,242	1,978	(9)	264
Unrestricted	250,239	(101,699)	(169,299)	351,938	67,600
<b>Total net position</b>	<b>\$ 5,566,676</b>	<b>\$ 5,743,024</b>	<b>\$ 5,802,411</b>	<b>\$ (176,348)</b>	<b>\$ (59,387)</b>

\* The fiscal year 2021 financial statements have been restated for the adoption of GASB 87, *Leases*, effective July 1, 2020.

## Net Position, Fiscal Year 2022<sup>5</sup>

As noted earlier, net position may serve as a useful indicator of LAX's financial condition. At the close of fiscal years 2022 and 2021, LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5.6 billion and \$5.7 billion, respectively, representing a decrease of 3.1% or \$176.3 million.

The largest portion of LAX's net position (\$4.8 billion or 86.6%) 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 (\$493.7 million or 8.9%) represents resources that are subject to various restrictions on how they may be used. Unrestricted net position increased by \$351.9 million from \$(101.7) million in fiscal year 2021 to \$250.2 million in fiscal year 2022.

Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2022) 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.

Unrestricted current assets decreased by \$64.5 million or 3.9%, from \$1.64 billion at June 30, 2021 to \$1.57 billion at June 30, 2022. The decrease was primarily driven by an increase in accounts receivable of \$12.3 million or 130.3%, an increase in grants receivable of \$15.1 million or 375.5%, and an increase in lease receivable of \$7.8 million or 19.4%, offset by a decrease in cash and pool investments held in City Treasury of \$69.4 million or 4.7%, and a decrease in unbilled receivables of \$34.2 million or 95.2% in fiscal year 2022.

The increase in accounts receivable of \$12.3 million at June 30, 2022 was a result of LAWA's mitigation measures in response to COVID-19 in fiscal year 2021. LAWA provided temporary relief to airlines and concessionaires and service providers at LAX. A temporary terminal and airfield fee relief program with respect to passenger airlines serving LAX (Passenger Airline Temporary Relief Program) permitted eligible passenger air carriers subject to a terminal lease or the Airport Terminal Tariff to apply for relief, which relief included deferral of terminal and airfield fees payable from April through May 2020. The increase in lease receivable of \$7.8 million at June 30, 2022 was a result of the adoption of GASB Statement No. 87, *Leases* in fiscal year 2021. The decrease in cash and pooled investments held in City Treasury of \$69.4 million was primarily due to the year-end recognition of \$70.0 million net loss in fair market valuation/securities lending transactions as of June 30, 2022, offset by \$0.6 million higher cash inflows than outflows in fiscal year 2022. Unbilled receivables, which represented the year-end accrual for unbilled revenue, decreased by \$34.2 million, or 95.2%. The decrease was mainly driven by a higher terminal and landing fee credit adjustment from \$15.2 million in fiscal year 2021 to \$77.4 million in fiscal year 2022 caused by a change in reconciliation basis from calendar year to fiscal year. As a result, fiscal year 2022 covered 18 months of reconciliation from January 2021 to June 2022. The decrease was offset by an increase of \$28.0 million in various unbilled receivables due primarily to increased passenger traffic in fiscal year 2022.

<sup>5</sup> For the comparison between fiscal year 2022 with 2021, the fiscal year 2021 financial statements have been restated for the adoption of GASB 87, *Leases*, effective July 1, 2020.

## Management's Discussion and Analysis (Unaudited)

**June 30, 2022 and 2021**

(continued)

LAWA implemented a fee relief program for LAX concessionaires and service providers at LAX (Concessionaires and Services Temporary Relief Program), which provided for the waiver of the minimum annual guarantees (MAGs), lower fees and deferrals. The Concessionaires and Services Temporary Relief Program ended on June 30, 2021, and was subsequently extended through June 30, 2022. LAWA may provide additional relief in the future as it deems reasonably necessary to address the impacts of the COVID-19 pandemic on the Department and its operations and its airlines, concessionaires and service providers. On October 21, 2021, the Board approved to amend concession agreements at LAX to revise payment terms due to the continuing impacts of COVID-19. For concessions that are open and conducting business at LAX, the Board approved to extend the revised rent payment terms, require payment of percentage rents instead of MAG rent for the period July 1, 2021 through June 30, 2022, and establish new MAG rents effective July 1, 2022. LAWA used ARPA grant funds to offset the revenue LAWA forgone by continuing to suspend MAG payments through June 30, 2022.

Restricted current assets include cash and investments (including reinvested cash collateral in 2022) 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 at LAX and for bond principal and interest payments.

Restricted current assets increased by \$1.2 billion or 88.3%, from \$1.3 billion at June 30, 2021 to \$2.5 billion at June 30, 2022. The increase was primarily driven by an increase in year-end investment portfolio held by fiscal agents of \$1.3 billion, or 197.0%, offset by a decrease in restricted cash and pooled investments held in City Treasury of \$144.3 million, or 23.0%.

The increase in year-end investment portfolio held by fiscal agents of \$1.3 billion, or 197.0% from \$0.7 billion in fiscal year 2021 to \$2.0 billion in fiscal year 2022 was mainly due to higher unspent bond proceeds at LAX in fiscal year 2022. The decrease in restricted cash and pooled investments held in City Treasury of \$144.3 million, or 23.0% from \$0.6 billion in fiscal year 2021 to \$0.5 billion in fiscal year 2022 was primarily due to the year-end recognition of \$23.7 million net loss in fair market valuation/securities lending transactions as of June 30, 2022, in addition to \$120.6 million higher cash outflows than inflows in fiscal year 2022.

LAX's capital assets additions are financed through the 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 \$437.2 million, or 3.1%. Ongoing construction and improvements to modernize LAX terminals and facilities, and the Landside Access Modernization Program (LAMP) including construction of the Automated People Mover System (APM) and Consolidated Rental Car Facility (ConRAC), together with the completed Terminal 1.5 and Bradley West Gates (formerly known as Midfield Satellite Concourse) were the primary reasons for the increase.

Other noncurrent assets decreased by \$1.9 million or 1.0% primarily due to the decrease in lease receivable, net of current portion, of \$36.7 million, or 18.7%, offset by an increase in prepaid bond insurance premium of \$4.7 million from none in fiscal year 2021, and an increase in net OPEB asset of \$30.0 million from none in fiscal year 2021. The decrease in lease receivable, net of current portion, of \$36.7 million was due to the annual amortization recognized under GASB Statement No. 87 in fiscal year 2022. The increase in prepaid bond insurance premium of \$4.7 million was a result of the issuance of the LAX CFC 2022 Series A green bonds in fiscal year 2022. The net OPEB asset (a surplus of assets over liabilities) of \$30.0 million as of June 30, 2022 was mainly due to an investment gain from actual returns of about 34.0% compared to an expected return of 7.0%, and 2021/2022 premium and subsidy levels lower than expected from favorable premium renewal experience for calendar year 2022, offset to some degree by an updated trend assumption for projecting medical premiums after 2020/2021.

Current liabilities payable from unrestricted assets decreased by \$293.5 million or 37.4%. This was mainly due to a decrease of \$349.0 million or 58.7% in contracts and accounts payable, a decrease of \$5.0 million or 39.6% in lease liabilities, a decrease of \$14.7 million or 34.9% in other current liabilities, offset by an increase of \$5.0 million or 57.1% in accrued salaries, an increase of \$55.6 million or 56.5% in commercial paper, an increase of \$5.2 million in accrued interest payable, and an increase of \$9.0 million or 77.6% in obligations under securities lending transactions.

The decrease in contracts and accounts payable was primarily due to higher year-end accruals of capital expenditures for the on-going construction projects including the APM milestones accrued payables of \$149.6 million made in fiscal year 2021, whereas more payments were made before June 2022 thus resulting in less contracts and accounts payable balance. The decrease in lease liabilities was a result of the annual amortization in accordance with GASB Statement No. 87. The decrease in other current liabilities was primarily a result of the decrease in LAWA's share of the City Treasury's year-end pending investment trade of \$14.2 million in fiscal year 2022. The increase in accrued salaries was primarily a result of more number of working days for accrual in fiscal year 2022 as compared to fiscal year 2021. The increase in commercial paper notes was primarily due to the increase in interim financing for the on-going construction projects. The increase in accrued interest payable was due to the accrual of estimated interest expenses related to a capital project which are still under mediation.

Current liabilities payable from restricted assets decreased by \$17.7 million or 7.6%. This was mainly due to a decrease in contracts and accounts payable of \$14.1 million, or 95.1%, and a decrease of \$0.4 million in accrued interest payable, a decrease in LAWA's share of the City Treasury's year-end pending investment trade of \$5.3 million, and a decrease of \$0.9 million in current maturities of bonded debt, offset by an increase of \$2.7 million or 65.1% in obligations under securities lending transactions in fiscal year 2022. The decrease in contracts and accounts payable was primarily due to more year-end accruals in fiscal year 2021, whereas more payments were made before June 2022 thus resulting in less contracts and accounts payable balance.

The increase in noncurrent liabilities was \$1.5 billion or 14.2%. This was primarily a result of bond issuances of \$2.4 billion with net change in premium of \$220.0 million, offset by refunding and defease all of the outstanding Series 2012A senior revenue bonds, Series 2012B senior revenue bonds and a portion of Series 2016A subordinate revenue bonds and 2016C senior refunding revenue bonds in the amount of \$50.7 million, \$116.9 million, \$217.7 million and \$13.4 million, respectively; in addition to the recognition of \$143.4 million as current bonded debt in fiscal year 2022. The increase was also offset by the reduction of the proportionate share of net pension liability (NPL) of \$470.3 million or 46.7%, and reduction of net OPEB liability (NOL) of \$80.4 million in fiscal year 2022. The decrease in NPL was mainly due to the return on the market value of retirement plan assets of 28.5% during 2020/2021 that was more than the assumption of 7.0% used in the valuation. The decrease in NOL was mainly due to an investment gain from actual returns of about 34.0% compared to an expected return of 7.0%, and 2021/2022 premium and subsidy levels lower than expected from favorable premium renewal experience for calendar year 2022, offset to some degree by an updated trend assumption for projecting medical premiums after 2020/2021, resulting in net OPEB asset (a surplus of assets over liabilities) of \$30.0 million as described above under other noncurrent assets.



## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

### Net Position, Fiscal Year 2021<sup>6</sup>

As noted earlier, net position may serve as a useful indicator of LAX's financial condition. At the close of fiscal years 2021 and 2020, LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5.7 billion and \$5.8 billion, respectively, representing a decrease of 1.1% or \$64.8 million.

The largest portion of LAX's net position (\$5.2 billion or 90.7%) 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 (\$574.1 million or 10.0%) represents resources that are subject to various restrictions on how they may be used. Unrestricted net position increased by \$126.9 million from \$(169.3) million in fiscal year 2020 to \$(42.4) million in fiscal year 2021.

Unrestricted current assets increased by \$367.0 million or 29.9%, from \$1.2 billion at June 30, 2020 to \$1.6 billion at June 30, 2021. The increase was primarily driven by an increase in cash and pooled investments held in City Treasury of \$501.6 million or 50.9%, and an increase in unbilled receivables of \$35.9 million, offset by a decrease in accounts receivable balance of \$91.9 million or 90.7%, and a decrease in grants receivable of \$69.2 million or 94.5%, in fiscal year 2021.

Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2021) 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 \$501.6 million was due to higher cash inflows than outflows in fiscal year 2021. The decrease in accounts receivable of \$91.9 million at June 30, 2021 was a result of LAX's mitigation measures in response to COVID-19. Unbilled receivables, which represented the year-end accrual for unbilled revenue, increased as a result of higher passenger level in June 2021 as compared to June 2020. Also, accrual activities were minimal at June 30, 2020 due to LAWA's mitigation measures in response to COVID-19.

In response to the COVID-19 pandemic, LAWA has implemented measures intended to mitigate operational and financial impacts, including: hiring limits, except for specific critical positions; 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; collaborating with the 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 COVID-19 pandemic. LAWA also implemented a Separation Incentive Program (SIP) as part of the fiscal year 2021 budget plan to manage headcount. Under the SIP, cash payments were provided for eligible LAWA employees who chose to voluntarily retire from the City of Los Angeles. A total of 334 employees chose to participate in the program to voluntarily terminate their employment with LAWA, and departed by the end of April 2021.

<sup>6</sup> For the comparison between fiscal year 2021 with 2020, the fiscal year 2021 financial statements have not been restated in order to remain comparable with the prior year's reported information.

LAWA provided temporary relief to airlines and concessionaires and service providers at LAX. A temporary terminal and airfield fee relief program with respect to passenger airlines serving LAX (Passenger Airline Temporary Relief Program) permitted eligible passenger air carriers subject to a terminal lease or the Airport Terminal Tariff to apply for relief, which relief included deferral of terminal and airfield fees payable from April through May 2020. All airlines that received a deferral of terminal and airfield fees have repaid the same in accordance with the requirements of the Passenger Airline Temporary Relief Program.

LAWA also implemented a fee relief program for LAX concessionaires and service providers at LAX (Concessionaires and Services Temporary Relief Program), which provided for the waiver of the MAGs, lower fees and deferrals. The Concessionaires and Services Temporary Relief Program ended on June 30, 2021. On October 21, 2021, the Board approved to amend concession agreements at LAX to revise payment terms due to the continuing impacts of COVID-19. For concessions that are open and conducting business at LAX, the Board approved to extend the revised rent payment terms, require payment of percentage rents instead of MAG rent for the period July 1, 2021 through June 30, 2022, and establish new MAG rents effective July 1, 2022. LAWLA plans to use ARPA grant funds to offset the revenue LAWLA will forgo by continuing to suspend MAG payments through June 30, 2022.

The decrease in grants receivable of \$69.2 million at June 30, 2021 was primarily a result of the fully drawdown of 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 \$323.6 million, payable on a reimbursement basis. In LAX, the amount of \$271.2 million was fully drawn in fiscal year 2021 whereas the amount of \$52.4 million was recognized as grants receivable in fiscal year 2020.

Restricted current assets include cash and investments (including reinvested cash collateral in 2021) 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 at LAX and for bond principal and interest payments.

Restricted current assets decreased by \$793.3 million or 37.6%, from \$2.1 billion at June 30, 2020 to \$1.3 billion at June 30, 2021. The decrease was primarily driven by a decrease in restricted cash and pooled investments held in City Treasury of \$423.6 million, or 40.3%, and a decrease in year-end investment portfolio held by fiscal agents of \$390.0 million, or 37.0%.

The decrease in restricted cash and pooled investments held in City Treasury of \$423.6 million, or 40.3% from \$1.1 billion in fiscal year 2020 to \$627.5 million in fiscal year 2021 was due to higher cash outflows than inflows in fiscal year 2021. The decrease in year-end investment portfolio held by fiscal agents of \$390.0 million, or 37.0% from \$1.1 billion in fiscal year 2020 to \$664.8 million in fiscal year 2021 was mainly due to higher drawdown to reimburse on-going construction activities at LAX in fiscal year 2021.

## Management's Discussion and Analysis (Unaudited)

**June 30, 2022 and 2021**

(continued)

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 \$2.2 billion, or 18.0%. Ongoing construction and improvements to modernize LAX terminals and facilities, and the Landside Access Modernization Program (LAMP) including the construction of Automated People Mover System (APM) and Consolidated Rental Car Facility (ConRAC), together with the completed Bradley West Gates (formerly known as Midfield Satellite Concourse) were the primary reasons for the increase.

Other noncurrent assets decreased by \$21.2 million or 100.0% primarily due to the early payoff of the receivable from Ontario International Airport Authority (OIAA) in fiscal year 2021. Based on the Ontario International Airport (ONT) Settlement Agreement in 2016, LAX was 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 \$30.6 million as of June 30, 2020.

Current liabilities payable from unrestricted assets increased by \$193.4 million or 33.5%. This was mainly due to an increase of \$170.0 million or 40.1% in contracts and accounts payable, and an increase of \$35.1 million or 55.6% in commercial paper, an increase of \$11.5 million or 37.5% in other current liabilities, and an increase of \$5.3 million or 83.3% in obligations under securities lending transactions, offset by a decrease of \$29.8 million or 77.2% in accrued salaries. The increase in contracts and accounts payable was primarily due to the year-end accruals of capital expenditures for the on-going construction projects including the APM milestones payment of \$149.6 million made in July 2021. The increase in commercial paper notes was primarily due to the increase in interim financing for the on-going construction projects. The increase in other current liabilities was primarily a result of the settlement 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 \$22.8 million in fiscal year 2021. The decrease in accrued salaries was primarily a result of lower number of working days for accrual in fiscal year 2021, in addition to the accruals of \$17.0 million incentive payment for the SIP in fiscal year 2020 and none in fiscal year 2021.

Current liabilities payable from restricted assets increased by \$23.2 million or 11.1%. This was mainly due to an increase of \$15.9 million in accrued interest payable, an increase in LAWA's share of the City Treasury's year-end pending investment trade of \$6.5 million, and an increase of \$3.2 million in current maturities of bonded debt, offset by a decrease of \$2.4 million or 37.0% in obligations under securities lending transactions in fiscal year 2021. The increase in accrued interest payable was primarily due to the \$2.0 billion bond issuances in fiscal year 2021.

The increase in noncurrent liabilities was \$1.7 billion or 19.0%. This was primarily a result of bond issuances of \$2.0 billion with net change in premium of \$433.1 million, offset by partial refunding and defease all of the outstanding Series 2010A senior revenue bonds, Series 2010B subordinate revenue bonds and Series 2010D senior revenue bonds in the amount of \$316.9 million, \$134.7 million and \$315.8 million, respectively; in addition to the recognition of \$144.2 million as current bonded debt in fiscal year 2021. The increase was also attributable to the recognition of additional proportionate share of net pension liability (NPL) of \$199.1 million or 24.6%, and net OPEB liability (NOL) of \$11.9 million or 17.4% in fiscal year 2021. The increase in additional proportionate share of NPL and NOL was primarily due to a return on the market value of retirement plan assets of 2.05% during fiscal year 2020 that was less than the assumption of 7.25% used in the June 30, 2019 valuation, and changes in the actuarial assumptions from 7.25% to 7.00% along with a reduction of inflation rate from 3.00% to 2.75% in fiscal year 2021.

## Changes in Net Position Summary

A condensed summary of LAX's changes in net position for fiscal years ended June 30, 2022, 2021, and 2020 is presented below.

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

	As Restated*			FY 2022	FY 2021
	FY 2022	FY 2021	FY 2020	increase (decrease)	increase (decrease)
Operating revenue	\$ 1,382,446	\$ 1,045,520	\$ 1,340,723	\$ 336,926	\$ (295,203)
Less- Operating expenses	723,951	757,498	887,668	(33,547)	(130,170)
Operating income before depreciation and amortization	658,495	288,022	453,055	370,473	(165,033)
Less- Depreciation and amortization	621,904	451,888	445,887	170,016	6,001
Operating income (loss)	36,591	(163,866)	7,168	200,457	(171,034)
Other nonoperating expenses, net	(244,803)	(208,553)	(6,448)	(36,250)	(202,105)
Federal and other government grants	31,864	313,032	85,978	(281,168)	227,054
Changes in net position	(176,348)	(59,387)	86,698	(116,961)	(146,085)
Net position, beginning of year	5,743,024	5,802,411	5,715,713	(59,387)	86,698
Net position, end of year	<u>\$ 5,566,676</u>	<u>\$ 5,743,024</u>	<u>\$ 5,802,411</u>	<u>\$ (176,348)</u>	<u>\$ (59,387)</u>



## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

### Operating Revenue

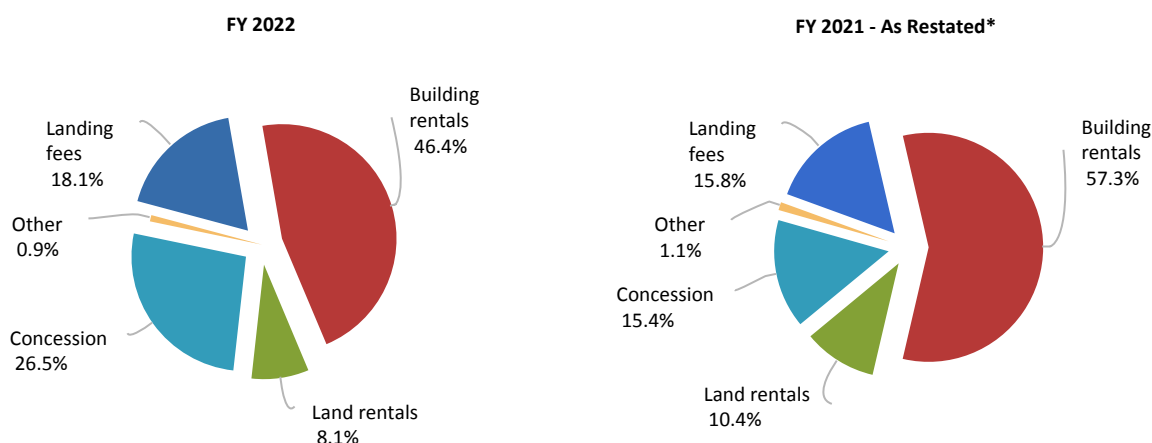
LAX derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2022, 2021, and 2020:

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

				FY 2022	FY 2021
				increase	increase
				(decrease)	(decrease)
	FY 2022	As Restated*	FY 2021	FY 2020	
Aviation revenue					
Landing fees	\$ 250,171	\$ 164,693	\$ 259,185	\$ 85,478	\$ (94,492)
Building rentals	641,360	599,974	571,478	41,386	28,496
Land rentals	112,040	108,531	115,523	3,509	(6,992)
Other aviation revenue	5,590	7,746	7,334	(2,156)	412
Total aviation revenue	1,009,161	880,944	953,520	128,217	(72,576)
Concession revenue	366,312	161,185	380,331	205,127	(219,146)
Other operating revenue	6,973	4,647	8,044	2,326	(3,397)
Total operating revenue before reliever fee	1,382,446	1,046,776	1,341,895	335,670	(295,119)
Reliever airport fee (landing fees offset)	—	(1,256)	(1,172)	1,256	(84)
Total operating revenue	\$ 1,382,446	\$ 1,045,520	\$ 1,340,723	\$ 336,926	\$ (295,203)

## Operating Revenue, Fiscal Year 2022<sup>7</sup>

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2022 and 2021. Other aviation and other operating revenue were added and labeled "Other."



For the fiscal year ended June 30, 2022, total operating revenue before reliever airport fees was \$1.4 billion, an increase of \$335.7 million or 32.1% from the prior fiscal year. Aviation related revenue increased by \$128.2 million or 14.6%. Non-aviation revenue increased by \$207.5 million or 125.1%, including an increase in concession of \$205.1 million or 127.3%, and an increase in other operating revenue of \$2.3 million, or 50.1%. The increase in total operating revenue was mainly a result of the 108.9% increase in passenger traffic in fiscal year 2022 to 60.7 million as compared to the passenger traffic of 29.1 million in fiscal year 2021. In fiscal year 2021, 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 in fiscal year 2021.

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, 2022 increased by \$85.5 million, or 51.9%. The increase in landing fees was primarily due to 35.8% increase in landed weights in fiscal year 2022 as a result of the 108.9% increase in passenger traffic in fiscal year 2022 to 60.7 million and an increase in permitted cargo rate from \$3.76 to \$3.98 at LAX, offset by the decrease in permitted passenger rate from \$5.74 to \$5.42.

<sup>7</sup> For the comparison between fiscal year 2022 with 2021, the fiscal year 2021 financial statements have been restated for the adoption of GASB 87, Leases, effective July 1, 2020.

## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

Building rental increased by \$41.4 million or 6.9% from \$600.0 million in fiscal year 2021 to \$641.4 million in fiscal year 2022. At LAX, the increase in building rentals was primarily attributable to increased costs of \$46.2 million or 8.6% due to the increased costs in improvements and refurbishments in the terminals recovered under the Terminal Rate Agreement, offset by decreases in terminal use fees of \$4.8 million or 7.5% as a result of the reversal of the over-accrued 2021 terminal use fees in fiscal year 2022.

Land rental revenue increased by \$3.5 million or 3.2% from \$108.5 million in fiscal year 2021 to \$112.0 million in fiscal year 2022. The increase in land rental revenue was primarily due to 5-year fair market rate adjustments in fiscal year 2022, offset by an overall decrease in leased areas in fiscal year 2022.

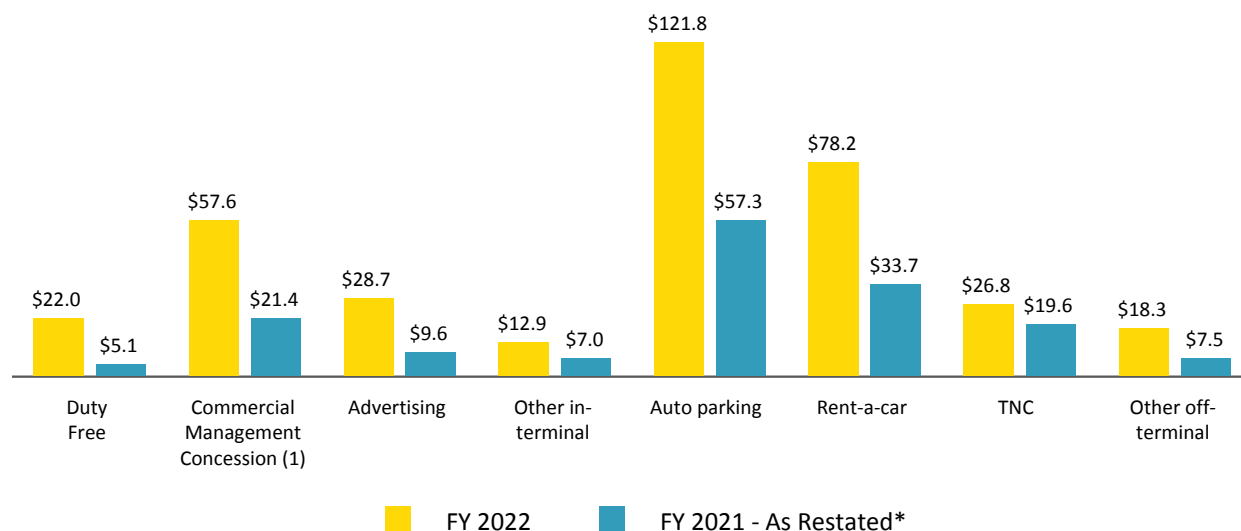
Total revenue from concessions was \$366.3 million in fiscal year 2022, a 127.3% increase from \$161.2 million in fiscal year 2021. In-terminal concession revenue includes rentals collected from commercial management concessionaires, food and beverage concessionaires; duty free and retail merchants (gifts, 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 2022 had a net increase of \$78.1 million or 181.2% as compared to fiscal year 2021. Duty free revenues increased by \$16.9 million, or 331.4%; commercial management concession revenue<sup>8</sup> increased by \$36.2 million or 169.2%; other in-terminal revenue increased by \$5.9 million or 84.3%; and advertising revenue increased by \$19.1 million or 199.0%. The increases in concession revenue were mainly a result of the 108.9% increase in passenger traffic in fiscal year 2022 to 60.7 million as compared to the passenger traffic of 29.1 million in fiscal year 2021.

Off-terminal concession revenue at LAX in fiscal year 2022 was \$245.1 million as compared to \$118.1 million in fiscal year 2021, an increase of \$127.0 million or 107.5%. The increase was primarily caused by an increase in TNC revenue of \$7.2 million or 36.7% from fiscal year 2021, an increase in auto parking of \$64.5 million, or 112.6% from fiscal year 2021, and an increase in rent-a-car revenue of \$44.5 million, or 132.0%. The increase in TNC revenue was primarily due to the increase in ridership caused by the higher passenger traffic in fiscal year 2022. The increase in auto parking revenue was primarily attributed to the opening of the LAX Economy Parking Lot in October 2021, in addition to the increase in passenger traffic. The increase in rent-a-car revenue was primarily due to the increase in passenger traffic in fiscal year 2022. Also, in fiscal year 2021, there was a waiver of minimum annual guarantees (MAGs) and a decrease in percentage rents based on sales due to passenger traffic reduction as impacted by the COVID-19 pandemic. In fiscal year 2022, MAG billings were restated and revenue was charged on the greater of the concession fee or MAG.

<sup>8</sup> Commercial Management Concession revenue includes total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires.

Comparative concession revenue by type for fiscal years 2022 and 2021 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, increased by 2.3 million or 50.1% at LAX in fiscal year 2022. The increase was primarily due to \$2.0 million increase in Certified Service Provider License Agreement (CSPLA) revenue and application fees.

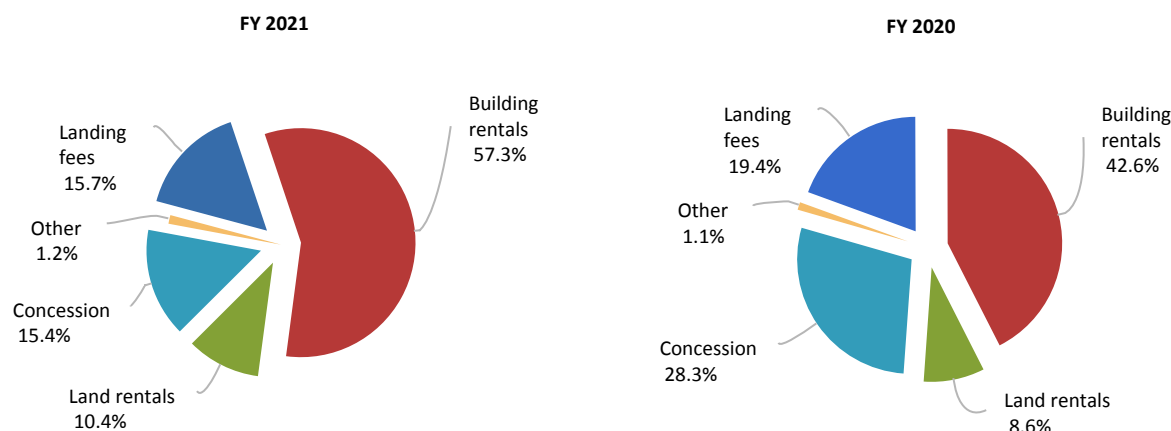
## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

### Operating Revenue, Fiscal Year 2021<sup>9</sup>

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2021 and 2020. Other aviation and other operating revenue were added and labeled "Other."



For the fiscal year ended June 30, 2021, total operating revenue before reliever airport fees was \$1.0 billion, a decrease of \$293.4 million or 21.9% from the prior fiscal year. Aviation related revenue decreased by \$71.1 million or 7.5%. Non-aviation revenue decreased by \$222.3 million or 57.2%, including a decrease in concession of \$218.9 million or 57.6%, and a decrease in other operating revenue of \$3.4 million, or 42.2%. 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, 2021 decreased by \$94.5 million, or 36.5%. The decrease in landing fees was primarily due to 24.8% reduction in landed weights in fiscal year 2021 as impacted by COVID-19 described above, offset by the application of federal funds to the landing fee cost centers at LAX.

Building rental increased by \$28.9 million or 5.1% from \$571.5 million in fiscal year 2020 to \$600.4 million in fiscal year 2021. The increase in building rentals was primarily attributable to increased costs of \$49.9 million or 10.2% primarily attributable to the increased costs in improvements and refurbishments in the terminals recovered under the Terminal Rate Agreement, offset by decreases in terminal use fees of \$21.0 million or

<sup>9</sup> For the comparison between fiscal year 2021 with 2020, the fiscal year 2021 financial statements have not been restated in order to remain comparable with the prior year's reported information.



24.7% as a result of the drop in passenger traffic as impacted by COVID-19 in fiscal year 2021, and reduction in common use activity.

Land rental revenue decreased by \$6.0 million or 5.2% from \$115.5 million in fiscal year 2020 to \$109.6 million in fiscal year 2021. The decrease in land rental revenue was primarily due to an overall decrease in leased areas in fiscal year 2021 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 November 2019 .

Total revenue from concessions was \$161.4 million in fiscal year 2021, a 57.6% reduction from \$380.3 million in fiscal year 2020. 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 2021 had a net decrease of \$125.7 million or 74.4% as compared to fiscal year 2020. Duty free revenues decreased by \$50.6 million, or 90.8%; commercial management concession revenue decreased by \$46.4 million or 68.4%; other in-terminal revenue decreased by \$10.5 million or 59.7%; and advertising revenue decreased by \$18.2 million or 65.2%. The decreases in concession revenue were due to a waiver of MAGs and a decrease in percentage rents based on concessionaires' sales due to passenger traffic reduction as impacted by the COVID-19 pandemic.

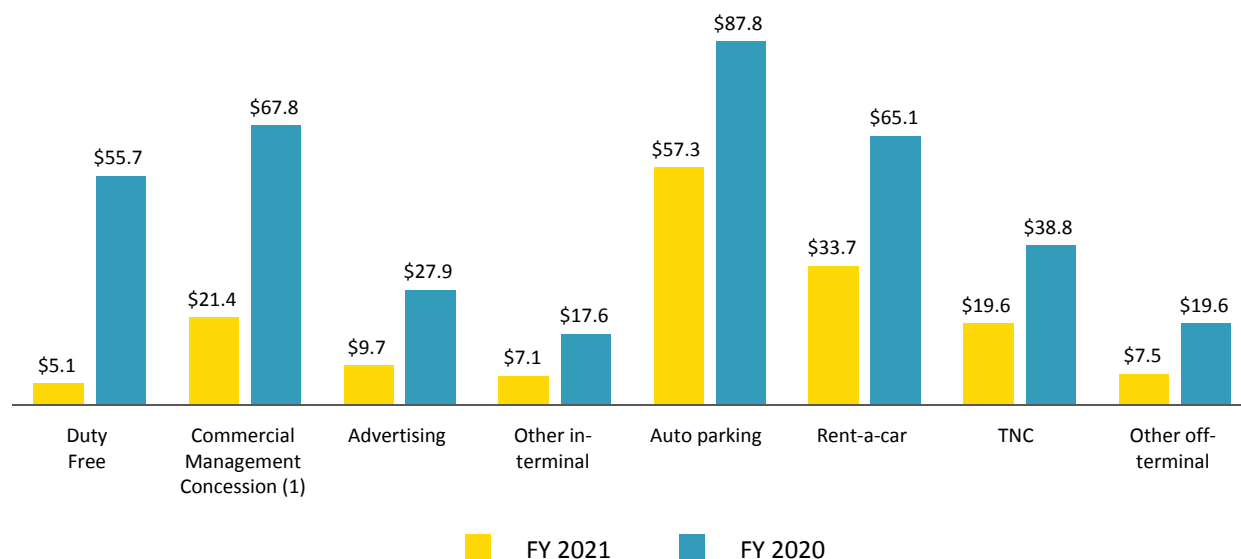
Off-terminal concession revenue at LAX in fiscal year 2021 was \$118.1 million as compared to \$211.3 million in fiscal year 2020, a decrease of \$93.2 million or 44.1%. The decrease was primarily caused by a decrease in TNC revenue of \$19.2 million or 49.5% from fiscal year 2020, a decrease in auto parking of \$30.5 million, or 34.7% from fiscal year 2020, and a decrease in rent-a-car revenue of \$31.4 million, or 48.2%. The decrease in TNC revenue was primarily due to the decline in ridership caused by the drop in passenger traffic as impacted by COVID-19. The decrease in auto parking revenue was primarily attributed to the decrease in passenger traffic. 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 impacted by the COVID-19 pandemic.

## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

Comparative concession revenue by type for fiscal years 2021 and 2020 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 \$3.4 million or 42.2% in fiscal year 2021. The decrease was primarily due to \$2.1 million reduction in U.S. Customs and Border Protection (CBP) reimbursements caused by a lower passenger level as impacted by the COVID-19 pandemic.

## Operating Expenses

The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2022, 2021, and 2020. 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)

	As Restated*			FY 2022	FY 2021
	FY 2022	FY 2021	FY 2020	increase (decrease)	increase (decrease)
Salaries and benefits	\$ 358,445	\$ 484,581	\$ 532,563	\$ (126,136)	\$ (47,982)
Contractual services	250,716	181,815	230,647	68,901	(48,832)
Materials and supplies	48,235	42,191	55,493	6,044	(13,302)
Utilities	48,985	39,007	47,334	9,978	(8,327)
Other operating expenses	20,669	12,813	24,719	7,856	(11,906)
Operating expenses before depreciation	727,050	760,407	890,756	(33,357)	(130,349)
Depreciation	621,904	451,888	445,887	170,016	6,001
Total operating expenses	1,348,954	1,212,295	1,336,643	136,659	(124,348)
Less- allocation to VNY and PMD	3,099	2,909	3,088	190	(179)
Net operating expenses	\$ 1,345,855	\$ 1,209,386	\$ 1,333,555	\$ 136,469	\$ (124,169)

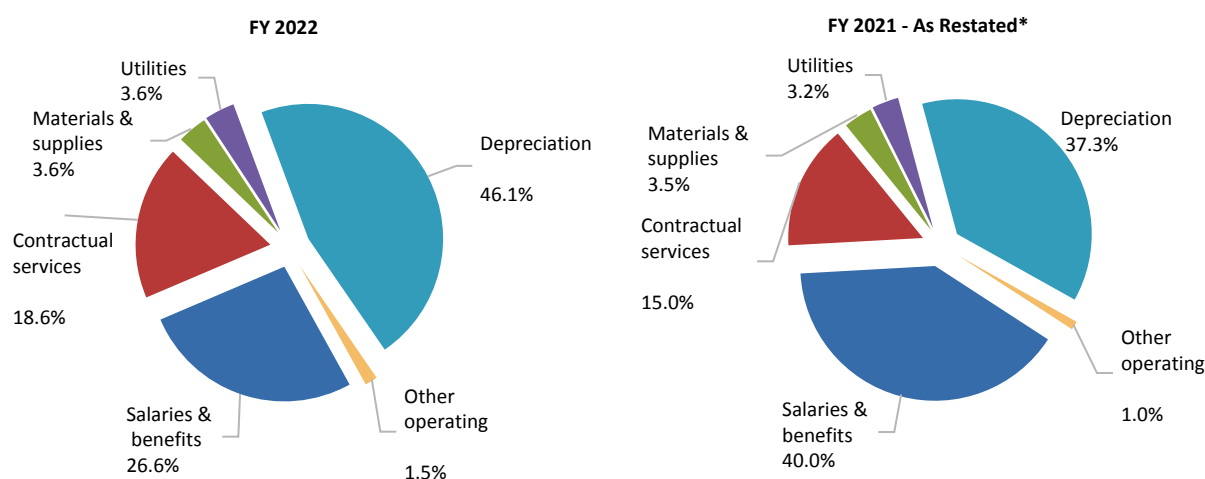
## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

### Operating Expenses, Fiscal Year 2022<sup>10</sup>

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2022 and 2021.



For the fiscal year ended June 30, 2022, operating expenses before allocation to other airports were \$1.3 billion, a \$136.7 million or 11.3% increase from the prior fiscal year. Almost all expense categories experienced notable increases except salaries and benefits, which experienced a decrease of \$126.1 million or 26.0%. There was an increase in contractual services of \$68.9 million or 37.9%, increase in materials and supplies of \$6.0 million or 14.3%, increase in utilities of \$10.0 million or 25.6%, increase in other operating expenses of \$7.8 million or 61.3%, and increase in depreciation of \$170.0 million or 37.6%.

Salaries and benefits expenses decreased by \$126.1 million or 26.0%. The decrease was mainly driven by a reduction in employer non-cash pension expense of \$100.3 million or 168.3% and non-cash OPEB expense of \$19.8 million or 9,784.4%. The primary cause of the decrease in employer pension expense was a result of the 28.5% return on the market value of assets for the year ended June 30, 2021 that was more than the assumption of 7.0% used in the June 30, 2020 valuation. The decrease in employer OPEB expense was mainly due to an investment gain from actual returns of about 34.0% compared to an expected return of 7.0%, and 2021/2022 premium and subsidy levels lower than expected from favorable premium renewal experience for calendar year 2022, offset to some degree by an updated trend assumption for projecting medical premiums after 2020/2021. Salaries and overtime had an increase of \$4.6 million or 1.7% mainly driven by higher overtime with reduction in headcount from 3,031 in fiscal year 2021 to 2,946 in fiscal year 2022. As a result of the reduction in headcount, the related benefits expenses were decreased. Retirement contributions decreased by \$6.0 million or 6.1%; healthcare subsidy decreased by \$2.1 million or 4.6%, and workers' compensation decreased by \$2.5 million or 22.9%.

<sup>10</sup> For the comparison between fiscal year 2022 with 2021, the fiscal year 2021 financial statements have been restated for the adoption of GASB 87, Leases, effective July 1, 2020.

Contractual services increased by \$68.9 million or 37.9%. The increase was primarily across the board among all contractual expenses, including an increase of \$46.3 million in Common Use Services, an increase of \$10.3 million in Operation Strategic Plan for LAXit Parking Management, an increase of \$10.0 million for management fees and shuttle services for landside parking, an increase of \$1.2 million for bond advisory services, and an increase of \$1.1 million for US Customs and Border Protection services.

Materials and supplies expenses were \$48.2 million and \$42.2 million in fiscal year 2022 and 2021, respectively. Major materials and supplies expenses experienced notable increases include an increase of \$2.1 million in computer software supplies, an increase of \$0.8 million in custodial supplies and services, an increase of \$1.3 million in fuel and petroleum services, an increase of \$1.0 million in street cleaning supplies and services, and an increase of \$1.1 million in recycling, trash and waste disposal services in fiscal year 2022.

Utilities expenses were \$49.0 million and \$39.0 million in fiscal year 2022 and 2021, respectively. The increase in utilities was primarily driven by an increase of \$6.3 million in electricity, an increase of \$2.5 million in gas expenses, and an increase of \$2.1 million in water charges, offset by an increase in utilities capitalization of \$1.0 million. The increase in utilities was primarily a result of the 108.9% increase in passenger traffic in fiscal year 2022.

Other operating expenses were \$20.7 million and \$12.8 million in fiscal year 2022 and 2021, respectively. Major other operating expenses experienced notable increases include an increase in insurance expenses of \$4.5 million due to rate hike and higher insured coverage value for property insurance, and an increase in bad debt expense of \$2.1 million as a result of the reversal of \$1.8 million bad debt expense in fiscal year 2021 to an expense of \$0.3 million in fiscal year 2022. The reversal of bad debt expense in fiscal year 2021 was due to lower bad debt allowance driven by lower account receivable balance at year-end.

Depreciation charges increased from \$451.9 million to \$621.9 million in fiscal year 2022. The increase in depreciation charges was primarily due to capitalization of approximately \$2.1 billion capital assets resulting in addition of about \$104.5 million in depreciation of newly capitalized assets in fiscal year 2022. Depreciation of the major newly capitalized assets include T2 and T3 Modernization (\$51.8 million), Terminal 1.5 (\$19.2 million), T5 Interiors and Gate Realignment (\$7.8 million), Intermodal Transportation Facility (\$5.6 million), TBITEC Baggage Optimization (\$5.1 million), Airport Police Facility (\$4.9 million), Taxiway C14 (\$2.8 million), and MSC/Bradley West Gates (\$2.7 million).

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.



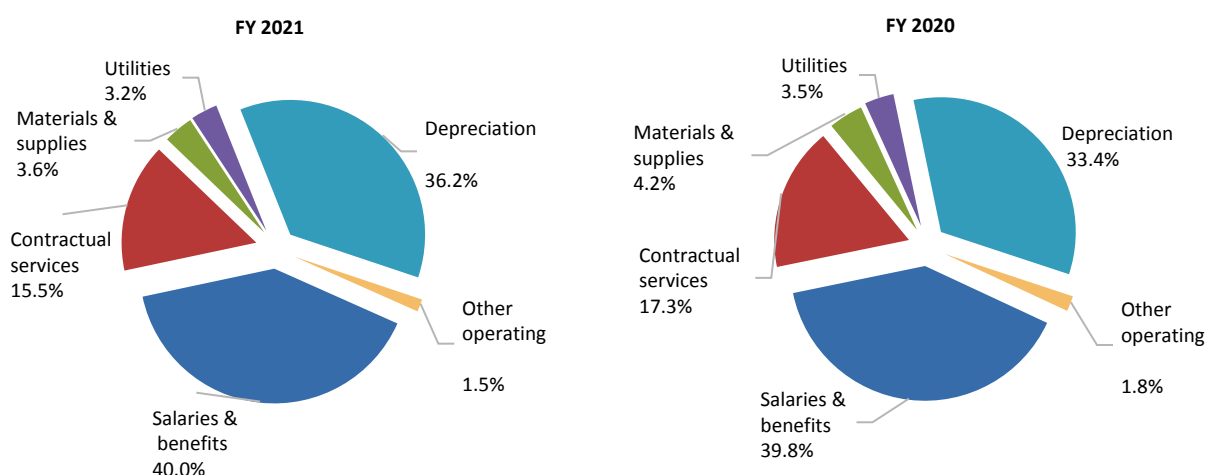
## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

### Operating Expenses, Fiscal Year 2021<sup>11</sup>

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2021 and 2020.



For the fiscal year ended June 30, 2021, operating expenses before allocation to other airports were \$1.2 billion, a \$123.6 million or 9.2% decrease from the prior fiscal year. All expense categories experienced notable reduction including decrease in salaries and benefits of \$48.0 million or 9.0%, decrease in contractual services of \$42.5 million or 18.4%, decrease in materials and supplies of \$12.0 million or 21.5%; decrease in utilities of \$8.3 million or 17.6%; decrease in other operating expenses of \$6.3 million or 25.3%, and decrease in depreciation of \$6.5 million or 1.5%.

Salaries and benefits expenses decreased by \$48.0 million or 9.0%. Within this category, salaries and overtime had a decrease of \$64.5 million or 19.3%. The decrease was mainly due to reduction in headcount from 3,499 in fiscal year 2020 to 3,031 in fiscal year 2021 primarily driven by the SIP, in addition to the recognition of approximately \$17.3 million under the SIP in fiscal year 2020. As a result of the reduction in headcount, the related benefits expenses were decreased. Retirement contributions decreased by \$2.3 million or 2.3%; healthcare subsidy decreased by \$3.2 million or 6.6%, and workers' compensation decreased by \$4.0 million or 27.0%. Non-cash pension and OPEB expenses increased by \$26.0 million to \$59.4 million in fiscal year 2021.

Contractual services decreased by \$42.5 million or 18.4%. The decrease was primarily across the board among all contractual expenses, with the exception of an increase in City services of \$6.4 million caused by higher services provided by L.A. Fire Department and L.A. Police Department. Major contractual expenses experienced notable reduction include a decrease of \$12.7 million in landside parking and shuttle services, a decrease of \$6.8 million in ground transportation services for LAX-it (an auxiliary curb to provide a pickup area for taxis and ride apps), a decrease of \$6.0 million in IT airport system services, a decrease of \$4.1 million in merchant fees, a decrease of \$3.7 million in operations and emergency consulting services, a decrease of \$3.2 million in luggage carts and janitorial services, and a decrease of \$3.1 million in Flyaway bus services in fiscal year 2021.

<sup>11</sup> For the comparison between fiscal year 2021 with 2020, the fiscal year 2021 financial statements have not been restated in order to remain comparable with the prior year's reported information.

Materials and supplies expenses were \$43.5 million and \$55.5 million in fiscal year 2021 and 2020, respectively. Major materials and supplies expenses experienced notable reduction include a decrease of \$2.2 million in automotive equipment expenses, a decrease of \$1.6 million in recycling, trash and waste disposal, and a decrease of \$1.7 million in fuel and petroleum services in fiscal year 2021.

Utilities expenses were \$39.0 million and \$47.3 million in fiscal year 2021 and 2020, respectively. The decrease in utilities was primarily driven by a decrease of \$4.9 million in water expenses and \$2.8 million in electricity as a result of lower passenger volume as impacted by COVID-19 and the shutdown of T3 for construction, in addition to a decrease of \$1.4 million in telephone expenses as a result of cost-saving measures including the cancellation of duplicate phone lines in fiscal year 2021.

Other operating expenses were \$18.5 million and \$24.7 million in fiscal year 2021 and 2020, respectively. Major other operating expenses experienced notable reduction include a decrease of \$3.9 million in bad debt expenses due to lower bad debt allowance driven by lower account receivable balance at year-end, a decrease of \$2.0 million in advertising and public relations expenses due to lower level of advertising and marketing activities as impacted by COVID-19, and a decrease of approximately \$1.0 million in property taxes due to the change of property usage to accommodate LAX-it. Within the other operating expenses categories, insurance expense increased by \$1.1 million; and lease expense increased by \$1.6 million primarily a result of a new lease of approximately \$0.8 million to relocate staff, and Skyview leasing commissions was higher by \$0.5 million in fiscal year 2021.

Depreciation charges decreased from \$445.9 million to \$439.3 million in fiscal year 2021. The decrease in depreciation charges was primarily due to a reduction of \$20.9 million as a result of fully depreciated and retired assets including the City of Inglewood residential sound insulation program, County of Los Angeles sound insulation program, and Inglewood Unified School District Program, offset by an addition of \$14.3 million in depreciation of newly capitalized assets including the Bradley West Gates (formerly known as Midfield Satellite Concourse) in fiscal year 2021.

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, 2022 and 2021

(continued)

### 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 2022, 2021, and 2020.

#### Summary of Nonoperating Transactions (amounts in thousands)

	As Restated*			FY 2022	FY 2021
	FY 2022	FY 2021	FY 2020	increase (decrease)	increase (decrease)
Nonoperating revenue					
Passenger facility charges	\$ 124,856	\$ 68,748	\$ 118,023	\$ 56,108	\$ (49,275)
Customer facility charges	60,991	32,606	65,621	28,385	(33,015)
Interest and investment income (loss)	(78,791)	(6,167)	119,938	(72,624)	(126,105)
Interest income from leases	6,715	8,469	—	(1,754)	8,469
Other nonoperating revenue	10,687	10,265	14,286	422	(4,021)
	<u>\$ 124,458</u>	<u>\$ 113,921</u>	<u>\$ 317,868</u>	<u>\$ 10,537</u>	<u>\$ (203,947)</u>
Nonoperating expenses					
Interest expense	\$ 360,842	\$ 313,797	\$ 320,892	\$ 47,045	\$ (7,095)
Other nonoperating expenses	8,419	8,677	3,424	(258)	5,253
	<u>\$ 369,261</u>	<u>\$ 322,474</u>	<u>\$ 324,316</u>	<u>\$ 46,787</u>	<u>\$ (1,842)</u>
Federal and other government grants	<u>\$ 31,864</u>	<u>\$ 313,032</u>	<u>\$ 85,978</u>	<u>\$ (281,168)</u>	<u>\$ 227,054</u>

## Nonoperating Transactions, Fiscal Year 2022<sup>12</sup>

PFCs increased by \$56.1 million or 81.6% from \$68.7 million to \$124.8 million as a result of the increase of 108.9% passenger traffic in fiscal year 2022. CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX, increased by \$28.4 million or 87.1% from \$32.6 million to \$61.0 million in fiscal year 2022. The increase was primarily due to the increase in passenger traffic in fiscal year 2022.

Interest and investment income decreased by \$72.6 million from \$(6.2) million to \$(78.8) million in fiscal year 2022. This was mainly due to the lower interest rate and average balance of cash and pooled investments held in City Treasury, in addition to the decrease in net year-end adjustment to the fair value of investment securities. Interest expenses increased by \$47.0 million or 15.0% from \$313.8 million to \$360.8 million in fiscal year 2022. The increase was mainly due to an increase of \$62.1 million bond interest expenses due to the net additional issuances of \$2.0 billion revenue bonds (after refunding) to finance capital improvement projects at LAX, offset by additional amortization of bond premium in the amount of \$20.2 million.

Other nonoperating revenue increased by \$0.4 million or 4.1% from \$10.3 million to \$10.7 million in fiscal year 2022.

Other nonoperating expenses decreased by \$0.3 million or 3.0% from \$8.7 million to \$8.4 million in fiscal year 2022. The decrease was primarily due to the recognition of \$2.5 million loss in discount due to the early payoff of the OIAA receivable balance in fiscal year 2021, offset by an increase of \$2.2 million in bond issuance expenses in fiscal year 2022.

Federal and other government grants decreased by \$281.2 million, or 89.8% from \$313.0 million to \$31.9 million. The decrease was primarily due to the recognition of \$271.2 million as grants revenue to stabilize cost increases in airline rates at LAX in fiscal year 2021.

<sup>12</sup> For the comparison between fiscal year 2022 with 2021, the fiscal year 2021 financial statements have been restated for the adoption of GASB 87, Leases, effective July 1, 2020.

## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

### Nonoperating Transactions, Fiscal Year 2021<sup>13</sup>

PFCs decreased by \$49.3 million or 41.8% from \$118.0 million to \$68.7 million as a result of the decrease of 53.7% passenger traffic in fiscal year 2021 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 \$33.0 million or 50.3% from \$65.6 million to \$32.6 million in fiscal year 2021. The decrease was primarily due to the decrease of passenger traffic as impacted by COVID-19.

Interest and investment income decreased by \$126.1 million from \$119.9 million to \$(6.2) million in fiscal year 2021. This was mainly due to the lower interest rate and average balance of cash and pooled investments held in City Treasury, as well as the decrease driven by the downward year-end net adjustment to the fair value of investment securities. Interest expenses decreased by \$9.2 million or 2.9% from \$320.9 million to \$311.7 million in fiscal year 2021. The decrease was mainly due to additional amortization of bond premium in the amount of \$29.6 million, offset by an increase of \$20.4 million bond interest expenses due to the net additional issuances of \$1.2 billion revenue bonds (after refunding) to finance capital improvement projects at LAX.

Other nonoperating revenue decreased by \$4.0 million or 28.1% from \$14.3 million to \$10.3 million in fiscal year 2021 primarily due to \$2.9 million reimbursement billing for USO tenant improvement project in fiscal year 2020.

Other nonoperating expenses increased by \$5.3 million or 153.4% from \$3.4 million to \$8.7 million in fiscal year 2021. The increase was primarily due to an increase of \$2.8 million in bond issuance expenses in addition to the recognition of \$2.5 million loss in discount due to the early payoff of the OIAA receivable balance in fiscal year 2021.

Federal and other government grants increased by \$227.1 million, or 264.1% from \$86.0 million to \$313.0 million. LAX was awarded CARES Act grants in the amount of approximately \$323.6 million, payable on a reimbursement basis. The drawn amounts of \$271.2 million and \$52.4 million in LAX were recognized as grants revenue to stabilize cost increases in airline rates at LAX for fiscal year 2021 and 2020, respectively.

<sup>13</sup> For the comparison between fiscal year 2021 with 2020, the fiscal year 2021 financial statements have not been restated in order to remain comparable with the prior year's reported information.



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## Long-Term Debt

As of June 30, 2022, LAX's outstanding long-term debt before unamortized premium was \$10.1 billion. Issuances during the year amounted to \$2.4 billion, redemption and refunding totaled \$398.6 million, and payments for scheduled maturities were \$130.9 million. Together with the unamortized premium, bonded debt of LAX increased by \$2.1 billion to a total of \$11.7 billion.

As of June 30, 2021, LAX's outstanding long-term debt before unamortized premium was \$8.2 billion. Issuances during the year amounted to \$2.0 billion, redemption and refunding totaled \$767.4 million, and payments for scheduled maturities were \$123.2 million. Together with the unamortized premium, bonded debt of LAX increased by \$1.5 billion to a total of \$9.6 billion.

As of June 30, 2022 and 2021, LAX had \$944.9 million and \$630.6 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 AA- on its subordinate revenue bonds from Fitch Ratings (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's Global Ratings (S&P), respectively. In August 2021, Fitch revised the rating outlook, from negative to stable, and affirmed the ratings with respect to LAWA's outstanding senior bonds and subordinate bonds. Moody's and S&P maintain a stable rating outlook. In December 2021, S&P raised its long-term rating to 'AA' from 'AA-' on its senior revenue bonds and to 'AA-' from 'A+' on its subordinate revenue bonds.

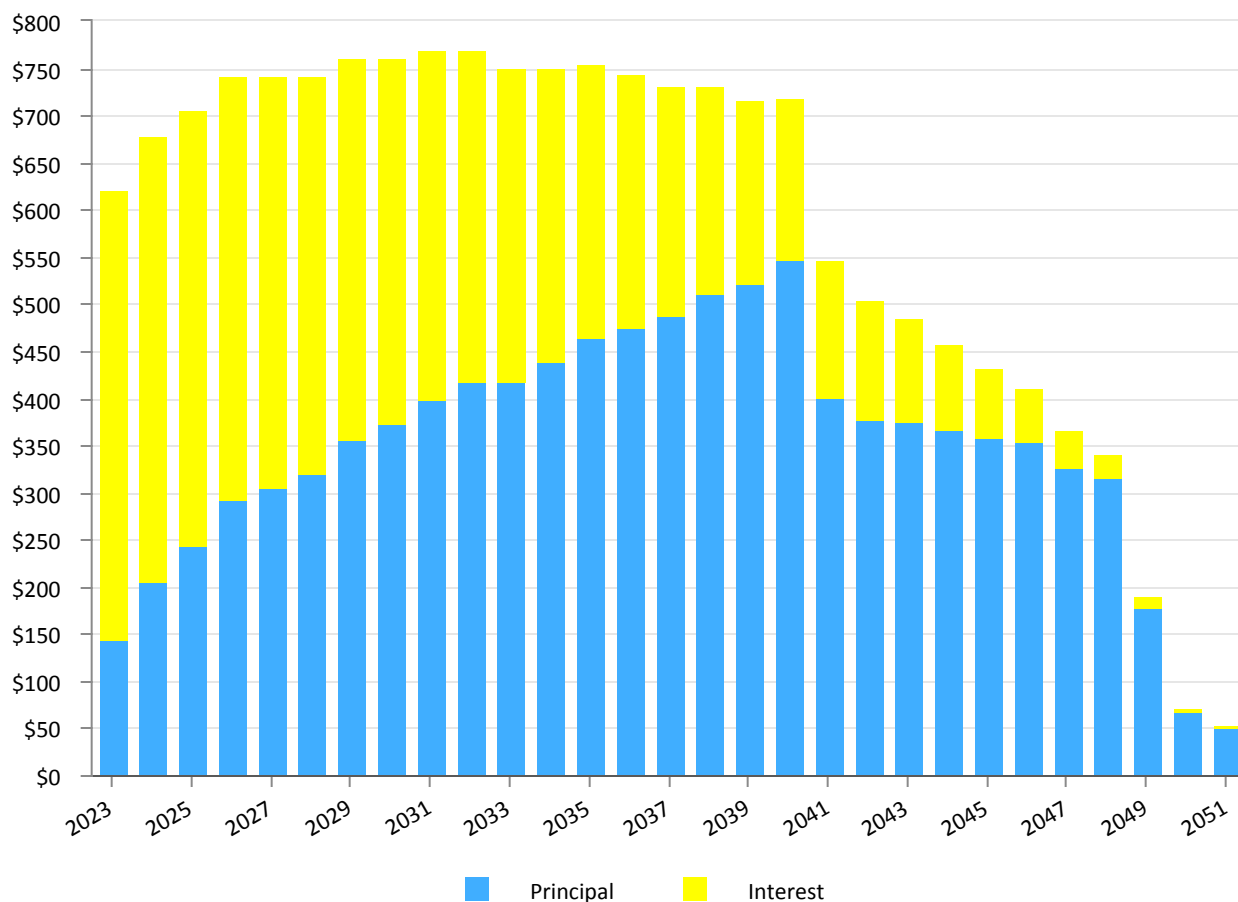
Additional information regarding LAX's bonded debt can be found in Note 6 of the notes to the financial statements.

## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

Outstanding principal, plus scheduled interest as of June 30, 2022, is scheduled to mature as shown in the following chart (amounts in millions).



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## Capital Assets

LAX's investment in capital assets, net of accumulated depreciation, as of June 30, 2022 and 2021 were \$14.8 billion and \$14.3 billion, respectively. This investment, which accounts for 77.7% and 82.0% of LAX's total assets as of June 30, 2022 and 2021, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress. LAX adopted GASB Statement No. 87, Leases, and recognized net right-of-use assets of \$52.3 million and \$64.7 million in fiscal years 2022 and 2021, respectively.

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 2022

Major capital expenditure activities during fiscal year 2022 included:

- \$280.7 million renovations at Terminals 1 to 8
- \$220.1 million construction of Automated People Mover System (APM)
- \$225.5 million construction of Consolidated Rental Car Facility (ConRAC)
- \$98.7 million construction of runways and taxiways
- \$73.9 million Baggage Optimization Project
- \$67.2 million interior improvements and security upgrades at Tom Bradley International Terminal (TBIT) and Bradley West
- \$64.3 million Receiving Station Project (RS-X)

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

## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

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### Capital Assets, Fiscal Year 2021

Major capital expenditure activities during fiscal year 2021 included:

- \$827.6 million renovations at Terminals 1 to 8
- \$477.7 million construction of APM
- \$404.1 million construction of ConRAC
- \$187.4 million construction of Bradley West Gates (formerly known as Midfield Satellite Concourse)
- \$166.2 million construction of Intermodal Transportation Facility - West
- \$108.6 million construction of Airport Police Facility
- \$105.9 million construction of runways and taxiways
- \$103.5 million Baggage Optimization Project
- \$78.7 million interior improvements and security upgrades at TBIT and Bradley West
- \$43.5 million RS-X
- \$43.4 million construction of Secured Area Access Post - Westside
- \$28.4 million IT network and system projects

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

## Landing Fees

The airline landing fees for fiscal year 2023, as approved by the LAWA Board of Commissioners on June 2, 2022 and became effective as of July 1, 2022, 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	\$76.00	\$95.00
For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds	146.00	183.00
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	4.24	5.30
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	5.83	7.29

The airline landing fees for fiscal year 2022, as approved by the LAWA Board of Commissioners on June 3, 2021 and became effective as of July 1, 2021, 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	\$70.00	\$88.00
For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds	136.00	170.00
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	3.98	4.98
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	5.42	6.78

Due to the financial impact of COVID-19 and as part of LAX's Airline Cost Stability and Recovery Plan, the landing fee rates charged from July 1, 2020 to December 31, 2020 were increased effective from January 1, 2021 to June 30, 2021. These rates are subject to a final fiscal year-end reconciliation, based on all actual costs and reported landing weights by air carriers.



## Management's Discussion and Analysis (Unaudited)

June 30, 2022 and 2021

(continued)

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### 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

2022 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, 2022 and 2021

(amounts in thousands)

	As Restated *	
	2022	2021
<b>ASSETS</b>		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	\$ 1,417,043	\$ 1,486,486
Investments with fiscal agents	2,086	1,843
Accounts receivable, net of allowance for uncollectible accounts: 2022 - \$467 ; 2021 - \$193	21,688	9,416
Unbilled receivables	1,708	35,918
Accrued interest receivable	6,182	5,376
Grants receivable	19,074	4,011
Lease receivable	48,045	40,251
Due from other agencies	45,661	46,636
Prepaid expenses	8,932	5,094
Inventories	1,530	1,375
Total unrestricted current assets	1,571,949	1,636,406
Restricted current assets		
Cash and pooled investments held in City Treasury	483,196	627,517
Investments with fiscal agents, includes cash and cash equivalents, related to bonded debt: 2022 - \$1,974,742; 2021 - \$664,843	1,974,742	664,843
Accrued interest receivable	686	779
Passenger facility charges receivable	14,467	19,169
Customer facility charges receivable	6,666	4,579
Total restricted current assets	2,479,757	1,316,887
Total current assets	4,051,706	2,953,293
Noncurrent Assets		
Capital assets		
Not depreciated	4,765,477	5,808,273
Depreciated, net	9,939,821	8,447,373
Amortized, net	52,309	64,728
Total capital assets	14,757,607	14,320,374
Other noncurrent assets		
Prepaid bond insurance premium	4,697	—
Lease receivable, net of current portion	159,718	196,403
Net OPEB asset	30,042	—
Total other noncurrent assets	194,457	196,403
Total noncurrent assets	14,952,064	14,516,777
<b>TOTAL ASSETS</b>	<b>19,003,770</b>	<b>17,470,070</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Loss on debt refundings	41,885	33,681
Pension and OPEB	185,975	320,967
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>227,860</b>	<b>354,648</b>

\* The fiscal year 2021 financial statements have been restated for the adoption of GASB 87, Leases, effective July 1, 2020.

# Statements of Net Position (continued)

## June 30, 2022 and 2021

(amounts in thousands)

	2022	As Restated * 2021
<b>LIABILITIES</b>		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	\$ 245,479	\$ 594,473
Accrued salaries	13,819	8,796
Accrued employee benefits	6,421	6,235
Estimated claims payable	9,850	9,643
Lease liabilities	7,568	12,536
Commercial paper	153,916	98,341
Accrued interest payable	5,179	—
Obligations under securities lending transactions	20,703	11,654
Other current liabilities	27,389	42,098
Total current liabilities payable from unrestricted assets	490,324	783,776
Current liabilities payable from restricted assets		
Contracts and accounts payable	717	14,776
Current maturities of bonded debt	143,365	144,245
Accrued interest payable	60,113	60,530
Obligations under securities lending transactions	6,809	4,125
Other current liabilities	3,882	8,943
Total current liabilities payable from restricted assets	214,886	232,619
Total current liabilities	705,210	1,016,395
Noncurrent Liabilities		
Bonded debt, net of current portion	11,545,992	9,454,707
Accrued employee benefits, net of current portion	50,911	52,035
Estimated claims payable, net of current portion	88,204	90,584
Lease liabilities, net of current portion	46,684	53,543
Net pension liability	536,500	1,006,766
Net OPEB liability	—	80,411
Other long-term liabilities	885	885
Total noncurrent liabilities	12,269,176	10,738,931
<b>TOTAL LIABILITIES</b>	12,974,386	11,755,326
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Gain on debt refundings	53,326	40,508
Pension and OPEB	440,465	55,399
Leases	196,777	230,461
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	690,568	326,368
<b>NET POSITION</b>		
Net investment in capital assets	4,822,725	5,270,607
Restricted for:		
Passenger facility charges eligible projects	256,261	238,703
Customer facility charges eligible projects	11,403	96,728
Operations and maintenance reserve	223,815	236,443
Federally forfeited property and protested funds	2,233	2,242
Unrestricted	250,239	(101,699)
<b>TOTAL NET POSITION</b>	\$ 5,566,676	\$ 5,743,024

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, 2022 and 2021

(amounts in thousands)

	As Restated *	
	2022	2021
<b>OPERATING REVENUE</b>		
Aviation revenue		
Landing fees	\$ 250,171	\$ 164,693
Reliever airport fee	—	(1,256)
Building rentals	641,360	599,974
Land rentals	112,040	108,531
Other aviation revenue	5,590	7,746
Total aviation revenue	1,009,161	879,688
Concession revenue	366,312	161,185
Other operating revenue	6,973	4,647
Total operating revenue	1,382,446	1,045,520
<b>OPERATING EXPENSES</b>		
Salaries and benefits	358,445	484,581
Contractual services	250,716	181,815
Materials and supplies	48,235	42,191
Utilities	48,985	39,007
Other operating expenses	20,669	12,813
Allocated administrative charges	(3,099)	(2,909)
Total operating expenses before depreciation and amortization	723,951	757,498
Operating income before depreciation and amortization	658,495	288,022
Depreciation and amortization	621,904	451,888
<b>OPERATING INCOME (LOSS)</b>	36,591	(163,866)
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Passenger facility charges	124,856	68,748
Customer facility charges	60,991	32,606
Interest and investment loss	(78,791)	(6,167)
Interest income from leases	6,715	8,469
Interest expense	(360,842)	(313,797)
Other nonoperating revenue	10,687	10,265
Other nonoperating expenses	(8,419)	(8,677)
Total nonoperating expenses, net	(244,803)	(208,553)
<b>INCOME (LOSS) BEFORE CAPITAL GRANTS</b>	(208,212)	(372,419)
Federal and other government grants	31,864	313,032
<b>CHANGE IN NET POSITION</b>	(176,348)	(59,387)
<b>NET POSITION, BEGINNING OF YEAR</b>	5,743,024	5,802,411
<b>NET POSITION, END OF YEAR</b>	\$ 5,566,676	\$ 5,743,024

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, 2022 and 2021

(amounts in thousands)

	As Restated *	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,398,871	\$ 1,123,914
Payments to suppliers	(280,615)	(154,712)
Payments for employee salaries and benefits	(420,946)	(451,635)
Payments for City services	(121,446)	(114,858)
Inter-agency receipts for services, net	3,099	2,909
Net cash provided by operating activities	578,963	405,618
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants received	10,386	10,129
Inter-agency transfers in	975	216
Net cash provided by noncapital financing activities	11,361	10,345
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of revenue bonds and commercial paper notes	2,588,291	1,807,435
Principal paid on revenue bonds and commercial paper notes	(354,772)	(190,696)
Interest paid on revenue bonds and commercial paper notes	(447,451)	(368,932)
Principal paid on leases	(13,096)	(11,190)
Interest paid on leases	(2,007)	(2,096)
Interest received on leases	6,724	7,880
Revenue bonds issuance costs	(2,490)	(2,292)
Acquisition and construction of capital assets	(1,387,163)	(2,456,019)
Proceeds from passenger facility charges	129,558	50,991
Proceeds from customer facility charges	58,904	29,747
Capital contributed by federal agencies	16,801	382,251
Net cash provided (used) for capital and related financing activities	593,299	(752,921)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	25,941	29,386
Net change in fair value of investments	(105,454)	(35,706)
Cash collateral received (paid) under securities lending transactions	11,733	2,873
Sales (purchases) of investments	(19,465)	29,305
Sales of investments held by fiscal agents	—	7,269
Net cash provided (used) by investing activities	(87,245)	33,127
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,096,378	(303,831)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	2,780,689	3,084,520
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,877,067</u>	<u>\$ 2,780,689</u>

	As Restated *	
	2022	2021
<b>CASH AND CASH EQUIVALENTS COMPONENTS</b>		
Cash and pooled investments held in City Treasury- unrestricted	\$ 1,417,043	\$ 1,486,486
Investments with fiscal agents- unrestricted	2,086	1,843
Cash and pooled investments held in City Treasury- restricted	483,196	627,517
Investments with fiscal agents- restricted	1,974,742	664,843
Total cash and cash equivalents	<u>\$ 3,877,067</u>	<u>\$ 2,780,689</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	<u>\$ 36,591</u>	<u>\$ (163,866)</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	621,904	451,888
Change in provision for uncollectible accounts	274	(1,876)
Other nonoperating revenues (expenses), net	336	(1,701)
Changes in operating assets and liabilities and deferred outflows and inflows of resources		
Accounts receivable	(12,546)	93,766
Unbilled receivables	34,210	(35,918)
Lease receivable	28,891	(236,654)
Prepaid expenses and inventories	(3,937)	800
Net OPEB asset	(30,042)	—
Notes receivable	—	30,565
Contracts and accounts payable	(33,793)	7,865
Accrued salaries	5,023	(29,848)
Accrued employee benefits	(938)	1,623
Other liabilities	(2,707)	(893)
Deferred outflows/inflows related to Net Pension and OPEB liability	(30,619)	59,406
Deferred inflows related to leases	(33,684)	230,461
Total adjustments	<u>542,372</u>	<u>569,484</u>
Net cash provided by operating activities	<u>\$ 578,963</u>	<u>\$ 405,618</u>
<b>SIGNIFICANT NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES</b>		
Acquisition of capital assets included in contracts and accounts payable	\$ 102,205	\$ 431,465
Revenue bonds proceeds received in escrow trust fund	435,936	679,895
Debt defeased and related costs paid through escrow trust fund with revenue bonds	(435,936)	(679,895)
Net change in grants receivable	(15,063)	69,219

See accompanying notes to the financial statements.

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## Index to the Notes to the Financial Statements

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

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# Los Angeles World Airports

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

## Los Angeles International Airport

### Notes to the Financial Statements

June 30, 2022 and 2021

## 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 (US GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each of the two airports referred to above, and the Palmdale property.



## Notes to the Financial Statements

**June 30, 2022 and 2021**

(continued)

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### **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.

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**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.

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 land, 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 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, 2022 and 2021

(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, and the reconciled differences are recognized in Unbilled Receivables at the 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.

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.

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 response to the COVID-19 pandemic, LAX is proactively implementing measures intended to mitigate operational and financial impacts. Among those measures were the April 2020 approvals of the Passenger Airline Temporary Relief Program and the Concessionaires and Services Temporary Relief Program. On October 21, 2021, the Board approved to amend concession agreements at LAX to revise payment terms due to the continuing impacts of COVID-19. For concessions that are open and conducting business at LAX, the Board approved to extend the revised rent payment terms, require payment of percentage rents instead of Minimum Annual Guarantee (MAG) rent for the period July 1, 2021 through June 30, 2022, and establish new MAG rents effective July 1, 2022. LAWA plans to use ARPA grant funds to offset the revenue LAWA will forgo by continuing to suspend MAG payments through June 30, 2022.

In addition, LAX developed an Airline Cost Stability and Recovery Plan (ACSRP) aimed at managing rates and charges at LAX through fiscal year 2023. The key objectives of this plan are to: 1) make LAX rates and charges more competitive; 2) mitigate the increase in rates and charges for airlines due to reduced activity; 3) harmonize common use costs across the airport; and 4) achieve stability in LAX financial operations. As part of the ACSR, LAX has completed taking over the operations and maintenance and rate setting responsibilities for the common use facilities from the Tom Bradley International Terminal Equipment Company, an airline consortium. LAX completed the following actions according to the Plan: (1) amended the methodology for establishing rates and charges for the use of terminal facilities and equipment (Amended Rate Methodology); (2) amended and restated the Amended and Restated Rate Agreement (Further Amended and Restated Rate Agreement or FARRA); (3) revised terminal rates and charges to include costs previously collected by the consortium and cost reduction and deferral measures per the ACSR; (4) revised landing and apron fees to include cost deferrals, per the ACSR.

In June 2021, the Board adopted the Amended Rate Methodology and the FARRA. The FARRA, which extends the current Agreement to fiscal year 2033, implements the Amended Rate Methodology and streamlines LAX's common use rate structure. Passenger airlines and approved airline consortiums that are party to the current Amended and Restated Rate Agreement must execute and deliver the FARRA to LAX by September 30, 2021. Majority of the airlines have executed the FARRA.

#### **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 typically based on negotiated agreements with these parties to remit amounts based on either a MAG or on gross receipts.

## Notes to the Financial Statements

**June 30, 2022 and 2021**

(continued)

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 were the April 2020 approvals of the Passenger Airline Temporary Relief Program and the Concessionaires and Services Temporary Relief Program. On October 21, 2021, the Board approved to amend concession agreements at LAX to revise payment terms due to the continuing impacts of COVID-19. For concessions that are open and conducting business at LAX, the Board approved to extend the revised rent payment terms, require payment of percentage rents instead of MAG rent for the period July 1, 2021 through June 30, 2022, and establish new MAG rents effective July 1, 2022.

### **l. Unearned Revenue**

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

### **m. Accrued Employee Benefits**

Accrued employee benefits include estimated liability for vacation and sick leave. LAX employees accumulate annual vacation and sick leave in varying amounts based on length of service. Vacation and sick leave are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave. Accrued employee benefits as of June 30, 2022 and 2021 are as follows (amounts in thousands):

Type of benefit	2022	2021
Accrued vacation leave	\$ 37,139	\$ 36,417
Accrued sick leave	20,193	21,853
Sub-total	57,332	58,270
Current portion	(6,421)	(6,235)
Noncurrent portion	<u>\$ 50,911</u>	<u>\$ 52,035</u>

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 334 employees have chosen to participate in the program to voluntarily terminate their employment with LAWA, with SIP departures beginning on June 6, 2020. LAX made cash payments totaling \$17.3 million under the SIP through June 30, 2021. There was no other SIP in fiscal years 2021 and 2022.

## 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 assets 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 net assets that applies 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, deferred outflows/inflows of resources related to pensions and other postemployment benefit (OPEB), and deferred inflows of resources related to leases.

For fiscal years ended June 30, 2022 and 2021, LAX reported total DO/DI related to pensions/OPEB as below (amounts in thousands):

	2022	2021
<b>Deferred outflows of resources related to pensions</b>		
LACERS - proportionate shares	\$ 154,843	\$ 274,376
LAFPP - proportionate shares	3,049	3,340
Total	<u>\$ 157,892</u>	<u>\$ 277,716</u>
<b>Deferred outflows of resources related to OPEB</b>		
LACERS - proportionate shares	\$ 26,830	\$ 42,018
LAFPP - proportionate shares	1,253	1,233
Total	<u>\$ 28,083</u>	<u>\$ 43,251</u>
<b>Total deferred outflows of resources related to pensions/OPEB</b>	<u>\$ 185,975</u>	<u>\$ 320,967</u>
<b>Deferred inflows of resources related to pensions</b>		
LACERS - proportionate shares	\$ 331,999	\$ 24,280
LAFPP - proportionate shares	2,034	11
Total	<u>\$ 334,033</u>	<u>\$ 24,291</u>
<b>Deferred inflows of resources related to OPEB</b>		
LACERS - proportionate shares	\$ 105,645	\$ 30,746
LAFPP - proportionate shares	787	362
Total	<u>\$ 106,432</u>	<u>\$ 31,108</u>
<b>Total deferred inflows of resources related to pensions/OPEB</b>	<u>\$ 440,465</u>	<u>\$ 55,399</u>



## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

### 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. Leases

#### LAX as Lessee

LAX, as a lessee, recognizes a lease liability and an intangible right-of-use asset at the commencement of a lease, unless the lease is considered a short-term lease or transfer ownership of the underlying assets. Right-of-use lease asset is measured based on the net present value of the payment, using LAX's weighted average cost of capital, which approximates LAX's incremental borrowing rate. Remeasurement of lease liability occurs when there is a change in the lease term and/or other changes that are likely to have a significant impact on the lease liability.

LAX calculates amortization of the discount on the lease liability and report that amount as outflow of resources in that period. Payments are allocated first to accrued interest liability and then to the lease liability. Variable lease payments based on the usage of the underlying assets are not included in the lease liability calculations and are recognized as outflows of resources in the periods in which the obligation for the payments are incurred.

#### LAX as Lessor

LAX, as a lessor, recognizes a lease receivable, measured using a present value of the lease payments (based on LAX's weighted average cost of capital, which approximates a discount rate that LAX charges the lessee) expected to be received for the lease term, and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for regulated leases and short-term leases. The deferred inflow of resources is measured as the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods.

Periodic amortization of the discount on the receivable are reported as interest revenue for that period. Deferred inflows of resources are recognized as inflows on a straight-line basis over the term of the lease. Any initial direct costs are reported as an outflow of resources for that period. Remeasurement of lease receivable occurs when there are modifications, including but not limited to changes in the lease charges, lease term and adding or removing an underlying asset to the lease agreements. In the case of a partial or full lease termination, LAX will reduce the carrying value of the lease receivable and the related deferred inflow of resources and include a gain or loss for the difference.

For lease agreements that are short-term, LAX recognizes lease payments as inflows of resources (revenues) based on the payment provisions of the lease agreement. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

#### **Regulated Leases**

The leases between LAX and air carriers and other aeronautical users are subject to external laws and regulations. As permitted by GASB Statement No. 87, LAWA recognizes inflows of resources based on the payment provisions of the lease agreement, and the accounting policies under 'LAX as Lessor' do not apply to regulated leases. Additional disclosures regarding regulated leases are in Note 8.

#### **r. 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.

#### **s. 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.

#### **t. 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

## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

### u. Restatement of Net Position

LAX adopted GASB Statement No. 87, *Leases*, as of July 1, 2020, and accordingly the fiscal year 2021 financial statements have been restated as summarized below (amounts in thousands):

	<b>FY2021 As Previously Reported</b>	<b>Restatement related to adoption of GASB 87</b>	<b>FY2021 As Restated</b>
<b><u>Statement of Net Position</u></b>			
Accrued interest receivable	\$ 4,788	\$ 588	\$ 5,376
Lease receivable		40,251	40,251
Capital assets amortized, net	—	64,728	64,728
Lease receivable, net of current portion	—	196,403	196,403
Lease liabilities	—	12,536	12,536
Lease liabilities, net of current portion	—	53,543	53,543
Deferred inflows of resources related to Leases	—	230,461	230,461
Net investment in capital assets	5,205,879	64,728	5,270,607
Unrestricted net position (deficit)	(42,401)	(59,298)	(101,699)
Net position	5,737,594	5,430	5,743,024
<b><u>Statement of Revenues, Expenses and Changes in Net Position</u></b>			
Building rentals	600,399	(425)	599,974
Land rentals	109,556	(1,025)	108,531
Concession revenue	161,423	(238)	161,185
Contractual services	188,105	(6,290)	181,815
Materials and supplies	43,536	(1,345)	42,191
Other operating expenses	18,465	(5,652)	12,813
Depreciation and amortization	439,347	12,541	451,888
Interest income from leases	—	8,469	8,469
Interest expense	(311,701)	(2,096)	(313,797)
Change in net position	(64,817)	5,430	(59,387)

## 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 prior fiscal years:

- 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*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 93, *Replacement of Interbank Offered Rates* (Non-LIBOR provisions)

LAX has elected to implement the following GASB Statements included within GASB 95 as below:

- Statement No. 87, *Leases* (Implemented in fiscal year 2022)
- Statement No. 91, *Conduit Debt Obligations* (To be implemented in fiscal year 2023)
- Statement No. 92, *Omnibus 2020* (Implemented in fiscal year 2022)
- Statement No. 93, *Replacement of Interbank Offered Rates* (LIBOR provisions implemented in fiscal year 2022)

Implementation of the following GASB statement is effective fiscal year 2022.

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. Additional disclosure information can be found in Notes 1 and 8 of the notes to financial statements.

## Notes to the Financial Statements

**June 30, 2022 and 2021**

(continued)

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*. LAX implemented this statement without material impact.

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. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. LAX implemented the non-LIBOR portion in fiscal year 2021 and LIBOR portion in fiscal year 2022 without material impact.

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. 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 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 in fiscal year 2023.

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 in fiscal year 2023.

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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 in fiscal year 2023.

Issued in April 2022, GASB Statement No. 99, *Omnibus 2022* aims to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Consistent authoritative literature enables governments and other stakeholders to more easily locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied. The requirements related to extension of the use of London Interbank Offered Rate (LIBOR), accounting for the Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, and terminology updates related to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources*, are effective in April 2022. The requirements related to leases, public-public partnerships (PPPs), and subscription-based information technology arrangements (SBITAs) are effective for fiscal year 2023. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53 are effective in fiscal year 2024.

Issued in June 2022, GASB Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*, is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Implementation of this statement is effective in fiscal year 2024.

Issued in June 2022, GASB Statement No. 101, *Compensated Absences* is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In



## Notes to the Financial Statements

**June 30, 2022 and 2021**

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estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Implementation of this statement is effective in fiscal year 2025.

### 3. Cash and Investments

#### a. Pooled Investments

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

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

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). LAX's share of \$1.9 billion and \$2.1 billion in the Pool as of June 30, 2022 and 2021 represented approximately 14.1% and 17.6% , 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 2022 and 2021 were \$14.5 million and \$33.9 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, 2022 and 2021**

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Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the fair 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, 2022, LAX's portion of the cash collateral and the related obligation in the City's program was \$27.5 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2022 was \$27.5 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, 2022 was \$140.2 million. At June 30, 2021, LAX's portion of the cash collateral and the related obligation in the City's program was \$15.8 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2021 was \$15.8 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, 2021 was \$41.2 million.

During the fiscal years, collateralizations on all loaned securities were within the required 102.0% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the years. There was no credit risk exposure to the City at June 30, 2022 and 2021 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):

	2022	2021
Unrestricted, current		
Commercial paper and cash at bank	\$ 2,086	\$ 1,843
Restricted, current and noncurrent		
Bond security funds	944,900	630,567
Construction funds	1,029,842	34,276
Subtotal	1,974,742	664,843
Total	\$ 1,976,828	\$ 666,686

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, 2022, the investments and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities	
		1 to 60 days	61 to 365 days
Money market mutual funds	\$ 1,841,748	\$ 1,841,748	\$ —
State of California LAIF	131,939	—	131,939
Subtotal	1,973,687	\$ 1,841,748	\$ 131,939
Bank deposit accounts	3,141		
Total	\$ 1,976,828		

## Notes to the Financial Statements

**June 30, 2022 and 2021**

(continued)

At June 30, 2021, 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	\$ 516,224	\$ 516,224	\$ —
State of California LAIF	148,619	—	148,619
Subtotal	664,843	\$ 516,224	\$ 148,619
Bank deposit accounts	1,843		
Total	\$ 666,686		

### 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, 2022, the investments by fair value level are as follows (amounts in thousands):

	Amount	Fair Value Measurements Using Level 1
Money Market Funds	\$ 1,841,748	\$ 1,841,748
Total investments by fair value level	1,841,748	\$ 1,841,748
Investments not subject to fair value hierarchy		
State of California LAIF	131,939	
Bank deposit accounts	3,141	
Total	\$ 1,976,828	

At June 30, 2021, 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	\$ 516,224	\$ 516,224
Total investments by fair value level	516,224	<u>\$ 516,224</u>
Investments not subject to fair value hierarchy		
State of California LAIF	148,619	
Bank deposit accounts	<u>1,843</u>	
Total	<u>\$ 666,686</u>	

*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, 2022 and 2021, 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, 2022, LAX's investments in the LAIF held by fiscal agents totaled \$131.9 million. The total amount invested by all public agencies in LAIF at that date was \$35.8 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2022, the investments in the PMIA totaled \$231.9 billion, of which 98.1% is invested in non-derivative financial products and 1.9% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 311 days as of June 30, 2022. LAIF is not rated. As of June 30, 2021, LAX's investments in the LAIF held by fiscal agents totaled \$148.6 million. The total amount invested by all public agencies in LAIF at that date was \$37.1 billion. The LAIF is part of the State's PMIA. As of June 30, 2021, the investments in the PMIA totaled \$193.5 billion, of which 97.7% is invested in non-derivative financial products and 2.3% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 291 days as of June 30, 2021.



## Notes to the Financial Statements

**June 30, 2022 and 2021**

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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 2022 (amounts in thousands):

	As Restated* Balance at July 1, 2021	Additions	Retirements & disposals	Transfers	Balance at June 30, 2022
<b>Capital assets not depreciated</b>					
Land and land clearance	\$ 1,168,314	\$ —	\$ —	\$ —	\$ 1,168,314
Air easements	44,346	—	—	—	44,346
Emission reduction credits	2,772	—	—	—	2,772
Construction work in progress	4,592,841	1,058,035		(2,100,831)	3,550,045
Total capital assets not depreciated	5,808,273	1,058,035	—	(2,100,831)	4,765,477
<b>Capital assets depreciated</b>					
Buildings	5,269,176	(4,052)	—	1,027,846	6,292,970
Improvements	6,546,368	(7)	—	1,040,110	7,586,471
Equipment and vehicles	346,183	3,927	(300)	32,875	382,685
Intangible assets	64,062	—	—	—	64,062
Total capital assets depreciated	12,225,789	(132)	(300)	2,100,831	14,326,188
<b>Accumulated depreciation</b>					
Buildings	(1,058,499)	(196,336)	—	—	(1,254,835)
Improvements	(2,481,125)	(383,970)	—	—	(2,865,095)
Equipment and vehicles	(191,085)	(22,330)	265	—	(213,150)
Intangible assets	(47,707)	(5,580)	—	—	(53,287)
Total accumulated depreciation	(3,778,416)	(608,216)	265	—	(4,386,367)
Capital assets depreciated, net	8,447,373	(608,348)	(35)	2,100,831	9,939,821
<b>Capital assets - right to use</b>					
Land	45,911	—	—	—	45,911
Buildings	8,688	—	—	—	8,688
Equipment	6,689	1,269	—	—	7,958
Vehicles	15,981	—	—	—	15,981
Total amortized assets	77,269	1,269	—	—	78,538
<b>Accumulated amortization</b>					
Land	(2,828)	(2,828)	—	—	(5,656)
Buildings	(1,370)	(1,478)	—	—	(2,848)
Equipment	(1,286)	(2,422)	—	—	(3,708)
Vehicles	(7,057)	(6,960)	—	—	(14,017)
Total accumulated amortization	(12,541)	(13,688)	—	—	(26,229)
Assets amortized, net	64,728	(12,419)	—	—	52,309
<b>Total</b>	<b>\$ 14,320,374</b>	<b>\$ 437,268</b>	<b>\$ (35)</b>	<b>\$ —</b>	<b>\$ 14,757,607</b>

# Notes to the Financial Statements

## June 30, 2022 and 2021

(continued)

LAX had the following activities in capital assets during fiscal year 2021 (amounts in thousands):

	As Restated* Balance at July 1, 2020	Additions	Retirements & disposals	Transfers	As Restated* Balance at June 30, 2021
<b>Capital assets not depreciated</b>					
Land and land clearance	\$ 1,169,294	\$ —	\$ —	\$ (980)	\$ 1,168,314
Air easements	44,346	—	—	—	44,346
Emission reduction credits	2,772	—	—	—	2,772
Construction work in progress	3,707,716	2,600,905	(220)	(1,715,560)	4,592,841
Total capital assets not depreciated	4,924,128	2,600,905	(220)	(1,716,540)	5,808,273
<b>Capital assets depreciated</b>					
Buildings	3,571,813	—	—	1,697,363	5,269,176
Improvements	6,526,293	2,273	—	17,802	6,546,368
Equipment and vehicles	341,797	5,870	(2,859)	1,375	346,183
Intangible assets	64,062	—	—	—	64,062
Total capital assets depreciated	10,503,965	8,143	(2,859)	1,716,540	12,225,789
<b>Accumulated depreciation</b>					
Buildings	(939,787)	(118,712)	—	—	(1,058,499)
Improvements	(2,189,675)	(291,450)	—	—	(2,481,125)
Equipment and vehicles	(170,337)	(23,269)	2,521	—	(191,085)
Intangible assets	(42,127)	(5,580)	—	—	(47,707)
Total accumulated depreciation	(3,341,926)	(439,011)	2,521	—	(3,778,416)
Capital assets depreciated, net	7,162,039	(430,868)	(338)	1,716,540	8,447,373
<b>Capital assets - right to use</b>					
Land	45,911	—	—	—	45,911
Buildings	8,688	—	—	—	8,688
Equipment	6,689	—	—	—	6,689
Vehicles	15,981	—	—	—	15,981
Total amortized assets	77,269	—	—	—	77,269
<b>Accumulated amortization</b>					
Land	—	(2,828)	—	—	(2,828)
Buildings	—	(1,370)	—	—	(1,370)
Equipment	—	(1,286)	—	—	(1,286)
Vehicles	—	(7,057)	—	—	(7,057)
Total accumulated amortization	—	(12,541)	—	—	(12,541)
Assets amortized, net	77,269	(12,541)	—	—	64,728
<b>Total</b>	<b>\$ 12,163,436</b>	<b>\$ 2,157,496</b>	<b>\$ (558)</b>	<b>\$ —</b>	<b>\$ 14,320,374</b>

## 5. Commercial Paper

As of June 30, 2022 and 2021, LAX had outstanding commercial paper (CP) notes of \$153.9 million and \$98.3 million, respectively. The respective average interest rates in effect as of June 30, 2022 and 2021 were 1.06% and 0.11%. 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.

As of June 30, 2022, LAX had letters of credit (LOC) and reimbursement agreements with the following institutions to provide 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 (Sumitomo) for \$218.0 million, to expire on September 9, 2022; and Bank of America, N.A. (Bank of America) for \$98.1 million, to expire on September 6, 2024.

On August 25, 2022, LAX entered into reimbursement agreements with the following institutions to provide credit support for the CP program: Barclays for \$327.0 million, to expire on August 24, 2026 (a replacement for the prior Barclays LOC); Bank of America for \$109.0 million, to expire on August 24, 2026 (a replacement for the prior Bank of America LOC); and PNC Bank, National Association (PNC) for \$109.0 million, to expire on August 24, 2027 (a substitution for the prior Sumitomo LOC).

As of June 30, 2022, LAX had undrawn LOC balances of \$228.9 million from Barclays, \$176.4 million from Sumitomo Mitsui Banking Corporation. As of June 30, 2021, LAX had undrawn LOC balances of \$228.9 million from Barclays, \$203.0 million from Sumitomo Mitsui Banking Corporation, and \$14.8 million from Bank of America.

In fiscal year 2022, LAX paid the LOC banks an annual commitment fee ranging from 0.39% and 0.85% on the stated amount of the LOC. In fiscal year 2021, LAWA paid the LOC banks an annual commitment fee ranging from 0.80% and 0.85% on the stated amount of the LOC. LOC fees of \$4.3 million and \$3.7 million were paid for fiscal years 2022 and 2021, respectively.

## Notes to the Financial Statements

### June 30, 2022 and 2021

(continued)

LAX had the following CP activity during fiscal year 2022 (amounts in thousands):

	Balance at July 1, 2021	Additions	Reductions	Balance at June 30, 2022
Series A	\$ 52,175	\$ 44,337	\$ (16,636)	\$ 79,876
Series B	18,125	34,714	(1,912)	50,927
Series C	28,041	200,416	(205,344)	23,113
Total	<u>\$ 98,341</u>	<u>\$ 279,467</u>	<u>\$ (223,892)</u>	<u>\$ 153,916</u>

LAX had the following CP activity during fiscal year 2021 (amounts in thousands):

	Balance at July 1, 2020	Additions	Reductions	Balance at June 30, 2021
Series A	\$ 25,749	\$ 26,426	\$ —	\$ 52,175
Series B	4,562	40,226	(26,663)	18,125
Series C	32,886	36,038	(40,883)	28,041
Total	<u>\$ 63,197</u>	<u>\$ 102,690</u>	<u>\$ (67,546)</u>	<u>\$ 98,341</u>

## 6. Bonded Debt

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

### a. Outstanding Debt

Outstanding revenue and revenue refunding bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 2022 and 2021 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	FY of last scheduled maturity	Original principal	Outstanding principal	
					2022	2021
Issue of 2009, Series C	12/3/09	5.175% - 6.582%	2039	\$ 307,350	\$ 242,720	\$ 252,970
Issue of 2010, Series C	11/4/10	7.053%	2040	59,360	59,360	59,360
Issue of 2012, Series A	12/18/12	3.000% - 5.000%	2022	105,610	—	54,560
Issue of 2012, Series B	12/18/12	2.000% - 5.000%	2022	145,630	—	120,545
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	57,180	59,480
Issue of 2015, Series A	2/24/15	2.000% - 5.000%	2045	267,525	237,705	243,185
Issue of 2015, Series B	2/24/15	3.000% - 5.000%	2045	47,925	42,375	43,385
Issue of 2015, Series C	2/24/15	2.000% - 5.000%	2038	181,805	156,070	163,855
Issue of 2015, Series D	11/24/15	5.000%	2041	296,475	257,785	265,050
Issue of 2015, Series E	11/24/15	2.000% - 5.000%	2041	27,850	22,325	23,330
Issue of 2016, Series A	6/1/16	3.000% - 5.000%	2042	289,210	34,885	260,275
Issue of 2016, Series B	1/19/17	4.000% - 5.000%	2046	451,170	426,570	434,445
Issue of 2016, Series C	12/6/16	1.425% - 3.887%	2038	226,410	167,455	186,410
Issue of 2017, Series A	7/26/17	5.000%	2047	260,610	250,040	253,820
Issue of 2017, Series B	7/26/17	5.000%	2042	88,730	80,130	82,440
Issue of 2018, Series A	3/15/18	4.000% - 5.250%	2048	426,475	415,545	419,965
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	398,965	409,280
Issue of 2018, Series D	11/14/18	5.000%	2048	418,390	383,500	396,070
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	189,750	193,975
Issue of 2019, Series B	3/12/19	4.000% - 5.000%	2049	49,410	47,515	48,530
Issue of 2019, Series C	3/12/19	5.000%	2039	189,095	156,000	165,320
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	264,875	265,190
Issue of 2019, Series F	12/17/19	2.250% - 5.000%	2049	411,575	405,820	411,575
Issue of 2020, Series A	3/11/20	5.000%	2040	738,575	721,410	734,495
Issue of 2020, Series B	8/27/20	4.000% - 5.000%	2040	558,500	558,500	558,500
Issue of 2020, Series C	8/27/20	5.000%	2050	380,000	380,000	380,000
Issue of 2020, Series D	8/27/20	4.000% - 5.000%	2048	120,000	120,000	120,000
Issue of 2021, Series A	2/17/21	5.000%	2051	405,405	405,405	405,405
Issue of 2021, Series B	2/17/21	5.000%	2048	395,005	395,005	395,005



## Notes to the Financial Statements

### June 30, 2022 and 2021

(continued)

Bond issues	Issue date	Interest rate	FY of last scheduled maturity	Original principal	Outstanding principal	
					2022	2021
Issue of 2021, Series C	2/17/21	0.698% - 2.213%	2036	92,945	92,945	92,945
Issue of 2021, Series D	10/6/21	3.000% - 5.000%	2051	753,195	753,195	—
Issue of 2021, Series E	10/6/21	0.264% - 2.626%	2051	125,815	125,815	—
Issue of 2022, Series A	1/20/22	4.000% - 5.000%	2049	347,415	347,415	—
Issue of 2022, Series B	1/20/22	4.000% - 5.000%	2048	157,625	157,625	—
Issue of 2022, Series C	2/15/22	3.250% - 5.000%	2049	307,070	307,070	—
Issue of 2022, Series D	2/15/22	4.000% - 5.000%	2036	101,545	101,545	—
Issue of 2022, Series E	2/15/22	2.750% - 5.000%	2039	20,225	20,225	—
Issue of 2022, Series F	2/15/22	2.040% - 3.450%	2042	40,985	40,985	—
Issue of 2022 CFC, Series A	3/16/22	3.158% - 4.242%	2048	546,015	546,015	—
Total principal				<u>\$ 11,027,240</u>	10,094,845	8,224,485
Unamortized premium					<u>1,594,512</u>	<u>1,374,467</u>
Net revenue bonds					11,689,357	9,598,952
Current portion of debt					<u>(143,365)</u>	<u>(144,245)</u>
Net noncurrent debt					<u>\$ 11,545,992</u>	<u>\$ 9,454,707</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 \$97.5 million and \$73.5 million were used for debt service in fiscal years 2022 and 2021, respectively. In fiscal year 2022, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) grants in the amount of \$8.5 million was used to apply against LAX maintenance and operation expenses. In fiscal year 2021, CARES Act grants in the amount of \$21.9 million was used to apply against debt service payments, and \$249.3 million was used to apply against LAX maintenance and operation expenses.

The total principal and interest remaining to be paid on the bonds is \$17.1 billion as of June 30, 2022. Principal and interest paid during fiscal year 2022 and the net pledged revenues on US GAAP basis (as defined in the master senior and subordinate indentures, after application of the \$97.5 million PFCs funds and \$8.5 million CRRSAA grants were \$567.3 million and \$644.5 million, respectively. Principal and interest paid during fiscal year 2021 and the net pledged revenues on US GAAP basis (as defined in the master senior and subordinate indentures, after application of the \$73.5 million PFCs funds and \$271.2 million CARES Act grants discussed in the preceding paragraph), were \$487.7 million and \$706.0 million, respectively.

## c. Bond Issuances

### Fiscal Year 2022

On October 6, 2021, LAX issued \$753.2 million of subordinate revenue bonds Series 2021D with a premium of \$178.4 million and \$125.8 million of subordinate refunding revenue bonds Series 2021E. The Series 2021D bonds were issued to fund certain capital projects at LAX, refund a portion of the outstanding Commercial Paper Notes and refund and defease a portion of the subordinate revenue bonds Series 2016A and a portion of the senior refunding revenue bonds Series 2016C in the amount of \$217.7 million and \$13.4 million respectively. The Series 2021E bonds were issued to pay a portion of the interest due on November 15, 2021 of certain existing bonds and refund and defease a portion of the refunded Series 2016A and 2016C. These transactions resulted in cash flow savings of \$18.9 million, an economic gain of \$18.8 million; and a net loss for accounting purposes of \$(13.2) million, which is included in deferred outflows of resources and is being amortized over the life of the bonds.

On January 20, 2022, LAX issued \$347.4 million of subordinate revenue bonds Series 2022A with a premium of \$77.4 million and \$157.6 million of subordinate revenue bonds Series 2022B with a premium of \$39.4 million. The bonds were issued to fund certain capital projects at LAX and refund a portion of the outstanding commercial paper notes.

## Notes to the Financial Statements

**June 30, 2022 and 2021**

(continued)

On February 15, 2022, LAX issued \$307.1 million of subordinate revenue and refunding revenue bonds Series 2022C with a premium of \$42.2 million, \$101.5 million subordinate refunding bonds Series 2022D with a premium of \$23.2 million, \$20.2 million subordinate refunding revenue bonds Series 2022E with a premium of \$4.1 million and \$41.0 million of subordinate revenue bonds Series 2022F. The bonds were issued to fund certain capital projects at LAX, refund a portion of the senior revenue bonds Series 2012A and Series 2012B in the amount of \$50.7 million and \$116.9 million respectively. This transaction resulted in cash flow savings of \$40.9 million, an economic gain of \$30.0 million; and a net gain for accounting purposes of \$15.5 million, which is included in deferred inflows of resources and is being amortized over the life of the bonds.

On March 16, 2022, LAX issued \$546.0 million of LAX CFC revenue bonds Series 2022A. The bonds were issued to pay and reimburse a portion of the Consolidated Rental Car Facility (ConRAC) project, fund the bond interest expense through June 30, 2023, fund deposits to the Senior Reserve Fund, the Rolling Coverage Fund and the Common Transportation System (CTS) Payment Account, and refund a portion of commercial paper notes which were previously used to finance a portion of ConRAC project.

### **Fiscal Year 2021**

On August 27, 2020, LAX issued \$558.5 million of senior refunding revenue bonds Series 2020B with a premium of \$147.4 million, \$380.0 million senior revenue bonds Series 2020C with a premium of \$90.6 million, and \$120.0 million senior revenue bonds Series 2020D with a premium of \$29.1 million. The bonds were issued to fund certain capital projects at LAX, and to refund and defease all of the outstanding Series 2010A senior revenue bonds, Series 2010B subordinate revenue bonds and Series 2010D senior revenue bonds in the amount of \$316.9 million, \$134.7 million and \$315.8 million, respectively. This transaction resulted in cash flow savings of \$388.6 million, economic gain of \$265.1 million; and a net gain for accounting purposes of \$18.2 million, which is included in deferred inflows of resources and is being amortized over the remaining life of the bonds through May 2040.

On February 17, 2021, LAX issued \$405.4 million of subordinate revenue and refunding revenue bonds Series 2021A with a premium of \$123.8 million, \$395.0 million of subordinate revenue and refunding revenue bonds Series 2021B with a premium of \$133.7 million, and \$92.9 million of subordinate refunding revenue bonds Series 2021C with no premium. The bonds were issued to fund certain capital projects at LAX, and to refund a portion of outstanding bonds and subordinate commercial paper notes maturing in fiscal year 2021.

**d. Principal Maturities and Interest**

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

Fiscal year(s) ending	Principal	Interest	Total
2023	\$ 143,365	\$ 479,214	\$ 622,579
2024	206,255	472,422	678,677
2025	244,670	462,087	706,757
2026	292,405	450,149	742,554
2027	306,585	435,994	742,579
2028 - 2032	1,865,035	1,941,302	3,806,337
2033 - 2037	2,286,025	1,446,085	3,732,110
2038 - 2042	2,358,300	864,063	3,222,363
2043 - 2047	1,781,045	372,559	2,153,604
2048 - 2052	611,160	46,210	657,370
Total	<u>\$ 10,094,845</u>	<u>\$ 6,970,085</u>	<u>\$ 17,064,930</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, 2022 and September 30, 2021 reduced the subsidy. The interest subsidy on the BABs were \$7.1 million and \$7.2 million for fiscal years 2022 and 2021, respectively. The BABs sequestration rate was 5.7% for both fiscal years 2022 and 2021. The subsidy is recorded as a non-capital grant, a component of other nonoperating revenue.

## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

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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:

#### **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, 2022 (amounts in thousands):

	Balance at			Balance at	Current
	July 1, 2021	Additions	Reductions	June 30, 2022	Portion
Revenue bonds	\$ 8,224,485	\$ 2,399,890	\$ (529,530)	\$ 10,094,845	\$ 143,365
Unamortized premium	1,374,467	364,750	(144,705)	1,594,512	—
Net revenue bonds	9,598,952	2,764,640	(674,235)	11,689,357	143,365
Accrued employee benefits	58,270	5,297	(6,235)	57,332	6,421
Estimated claims payable	100,227	7,470	(9,643)	98,054	9,850
Lease liabilities	66,079	709	(12,536)	54,252	7,568
Net pension liability	1,006,766	—	(470,266)	536,500	—
Net OPEB liability	80,411	—	(80,411)	—	—
Other long-term liabilities	885	—	—	885	—
Total	<u>\$ 10,911,590</u>	<u>\$ 2,778,116</u>	<u>\$ (1,253,326)</u>	<u>\$ 12,436,380</u>	<u>\$ 167,204</u>

## Notes to the Financial Statements

### June 30, 2022 and 2021

(continued)

LAX had the following long-term liabilities activities for fiscal year ended June 30, 2021 (amounts in thousands):

	Balance at July 1, 2020	Additions	Reduction	Balance at June 30, 2021	Current Portion
Revenue bonds	\$ 7,163,170	\$ 1,951,855	\$ (890,540)	\$ 8,224,485	\$ 144,245
Add unamortized premium	941,378	524,614	(91,525)	1,374,467	—
Net revenue bonds	8,104,548	2,476,469	(982,065)	9,598,952	144,245
Accrued employee benefits	56,647	7,288	(5,665)	58,270	6,235
Estimated claims payable	99,227	9,912	(8,912)	100,227	9,643
Lease liabilities	—	66,079	—	66,079	12,536
Net pension liability	807,686	199,080	—	1,006,766	—
Net OPEB liability	68,484	11,927	—	80,411	—
Other long-term liabilities	886	—	(1)	885	—
Total	<u>\$ 9,137,478</u>	<u>\$ 2,770,755</u>	<u>\$ (996,643)</u>	<u>\$ 10,911,590</u>	<u>\$ 172,659</u>



## 8. Leases

LAX has adopted the following policies to account for agreements in accordance with the requirements of GASB 87 (unless otherwise specified, the following policies pertain to agreements in which LAX is lessee, and agreements in which LAX is lessor):

### Basis of lease classification

In accordance with GASB No. 87, LAX does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. LAX, being a lessee and lessor, recognizes short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

### Term

At the time of lease commencement or conversion, the term of the lease will include possible extension periods that are deemed to be reasonably certain given all available information, regarding the likelihood of renewal. For extension periods without explicit rent payment amounts in the lease agreement, LAX assumed an increase of 2.19% and 2.00% for fiscal years 2022 and 2021, respectively, to prior rent payment amounts on an annual basis.

### Discount rate

Unless explicitly stated in the lease agreement, known by LAX, or LAX is able to determine the rate implicit within the lease, the discount rate used to calculate lease right-of-use assets and liabilities and related lease receivable is LAX's incremental borrowing rate at the end of each fiscal year. The incremental borrowing rate was 3.22% as of June 30, 2022, and was the discount rate utilized for applicable leases beginning in fiscal year 2022. The incremental borrowing rate was 3.35% as of June 30, 2021, and was the discount rate utilized for applicable leases beginning in fiscal year 2021.

### Variable payments

Variable payments based on the future performance of the lessee or lessor or usage of the underlying asset are not included in the measurement of lease assets or liabilities. For the fiscal years ended June 30, 2022 and 2021, all leases are based on fixed payments and do not have variable payment components.

### Remeasurement

For the fiscal years ended June 30, 2022 and 2021, LAX did not have to remeasure any lease liabilities due to (1) early termination of leases, (2) reduction in monthly lease payment, and (3) change in borrowing rate.

## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

### LAX as Lessee

LAX, as lessee, has entered into various agreements for land, buildings, equipment, and vehicles with lease terms expiring between 2022 and 2042, with some leases containing options to renew. The terms and conditions for these leases vary by the type of underlying asset. All these agreements have fixed, periodic payments over the lease term, and do not contain variable payments or guaranteed residual values in the lease agreements. For those agreements that are cancellable by the lessors or LAX with an advance notice, they are considered as non-cancellable in accordance with GASB Statement No. 87.

Lease related right-of-use assets by major class of underlying assets consist of the following (amounts in thousands):

	FY 2022	As Restated* FY 2021
Right to use assets	\$ 78,538	\$ 77,269
Accumulated amortization	(26,229)	(12,541)
Total lease related assets	<u>52,309</u>	<u>64,728</u>

Total lease related assets consist of the following (amounts in thousands):

	FY 2022	As Restated* FY 2021
Land	\$ 45,911	\$ 45,911
Buildings	8,688	8,688
Equipment	7,958	6,689
Vehicles	15,981	15,981
Total right to use assets	<u>\$ 78,538</u>	<u>\$ 77,269</u>

In accordance with GASB No. 87, as lessee, LAX recognized \$13.7 million and \$12.5 million of amortization expense in the years ended June 30, 2022 and 2021, respectively. LAX also recognized \$2.0 million and \$2.1 million of interest expense in the years ended June 30, 2022 and 2021, respectively.

Principal and interest payments to be made, under these leases for each of the next five years and in five-year increments thereafter are as follows (amounts in thousands):

Fiscal year(s) ending	Principal	Interest	Total
2023	\$ 7,568	\$ 1,682	\$ 9,250
2024	4,990	1,482	6,472
2025	3,782	1,340	5,122
2026	3,223	1,215	4,438
2027	2,595	1,123	3,718
2028 - 2032	14,457	4,204	18,661
2033 - 2037	6,898	2,422	9,320
2038 - 2042	9,765	1,040	10,805
2043	974	8	982
Total	<u>\$ 54,252</u>	<u>\$ 14,516</u>	<u>\$ 68,768</u>

## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

### **LAX as Lessor**

LAX leases terminal space (except for regulated leases as described below), aircraft maintenance and overhaul facilities, cargo facilities, hangars, and other building facilities and ancillary land facilities at LAX to air carriers and other tenants under various agreements, majority of which is non-cancellable and terminate no later than fiscal year 2050. Certain provisions of the leases provide for fixed and variable rental payments, and all are generally designed to allow LAWA to meet its debt service requirements and recover certain operating and maintenance costs.

LAX, as a lessor, recognizes a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for regulated leases and short-term leases. As lessor, the asset underlying the lease is not derecognized. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. The leases typically include provisions for rent changes based on the consumer price index or other market indexes, resulting in additional variable lease revenues that are not included in the measurement of the lease receivables. These variable payments based on index are considered to be 'fixed in substance' and are included in the calculation of the lease receivable. The deferred inflow of resources is measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods.

### **Building and Land Leases**

LAX leases terminal space, aircraft maintenance and overhaul facilities, cargo facilities, hangars, and other building facilities and ancillary land facilities at LAX to air carriers and other tenants under various agreements. The terms of these long-term leases range from more than one to forty years and generally expire between fiscal years 2023 and 2050. The building and lease agreements (except for regulated leases as described below) are accounted for as agreements under GASB Statement No. 87.

LAX also leases office spaces in Skyview Center to air carriers and other tenants under various agreements. The terms of these long-term leases range from two to ten years and generally expire between fiscal years 2023 and 2030. The building and lease agreements (except for regulated leases as described below) are accounted for as agreements under GASB Statement No. 87.

### **Concessions Leases**

LAX operates a comprehensive concessions program at LAX that includes advertising and sponsorship, duty free merchandise, food and beverage, retail, and services operators in the terminal facilities. Contractually, concessionaires pay rent to LAX in an amount equal to the greater of a percentage of gross sales or a Minimum Annual Guarantee (MAG). The decline in passenger traffic due to COVID-19 significantly reduced concession sales and prompted the Board of Airport Commissioners (Board) to temporarily authorize revised payment terms to suspend MAGs through June 30, 2021, and require concessionaires to pay rent only in the amount of the percentage of gross sales defined in each agreement. The ongoing impacts of COVID-19 on travel have slowed the recovery of concession sales. The Board approved to extend the temporary suspension of MAG rent from July 1, 2021 through June 30, 2022, and required payment of rent based on percentage of gross sales if the concession units are open and operational. Due to the variable nature of the above revenues from year-to-year, expected future minimum payments are indeterminable. Accordingly, these concession agreements with MAG waiver are not recognized as agreements under GASB Statement No. 87 in fiscal years 2021 and 2022. These leases will be recognized as agreements under GASB Statement No. 87 when the MAG is reinstated.

Expected future payments, which are included in the measurement of the lease receivable, at June 30, 2022, are as follows (in thousands):

Fiscal year(s) ending	<b>Building Rentals</b>		
	Principal	Interest	Total
2023	\$ 20,678	\$ 2,715	\$ 23,393
2024	12,654	2,121	14,775
2025	7,755	1,799	9,554
2026	6,767	1,556	8,323
2027	6,288	1,337	7,625
2028 - 2032	27,233	3,611	30,844
2033 - 2037	9,357	339	9,696
Total	<u>\$ 90,732</u>	<u>\$ 13,478</u>	<u>\$ 104,210</u>

Fiscal year(s) ending	<b>Skyview - Building Rentals</b>		
	Principal	Interest	Total
2023	\$ 3,057	\$ 443	\$ 3,500
2024	2,340	351	2,691
2025	1,581	270	1,851
2026	1,632	234	1,866
2027	1,659	170	1,829
2028 - 2030	4,480	190	4,670
Total	<u>\$ 14,749</u>	<u>\$ 1,658</u>	<u>\$ 16,407</u>

Fiscal year(s) ending	<b>Land Rentals</b>		
	Principal	Interest	Total
2023	\$ 21,401	\$ 2,895	\$ 24,296
2024	17,231	2,242	19,473
2025	6,565	1,831	8,396
2026	6,814	1,608	8,422
2027	5,898	1,393	7,291
2028 - 2032	31,035	3,811	34,846
2033 - 2037	3,989	910	4,899
2038 - 2042	2,297	291	2,588
2043 - 2047	657	126	783
2048 - 2050	404	18	422
Total	<u>\$ 96,291</u>	<u>\$ 15,125</u>	<u>\$ 111,416</u>

## Notes to the Financial Statements

### June 30, 2022 and 2021

(continued)

	<u>Concessions</u>		
Fiscal year(s) ending	Principal	Interest	Total
2023	\$ 2,909	\$ 142	\$ 3,051
2024	913	89	1,002
2025	944	58	1,002
2026	976	26	1,002
2027	249	2	251
Total	<u>\$ 5,991</u>	<u>\$ 317</u>	<u>\$ 6,308</u>

	<u>Total</u>		
Fiscal year(s) ending	Principal	Interest	Total
2023	\$ 48,045	\$ 6,195	\$ 54,240
2024	33,138	4,803	37,941
2025	16,845	3,958	20,803
2026	16,189	3,424	19,613
2027	14,094	2,902	16,996
2028 - 2032	62,748	7,612	70,360
2033 - 2037	13,346	1,249	14,595
2038 - 2042	2,297	291	2,588
2043 - 2047	657	126	783
2048 - 2050	404	18	422
Total	<u>\$ 207,763</u>	<u>\$ 30,578</u>	<u>\$ 238,341</u>

For fiscal year ended June 30, 2022, LAX recognized the following balances related to the leases as lessor (amounts in thousands):

	Fixed Payments	Variable Payments
Building Rentals	\$ 21,267	\$ —
Land Rentals	16,398	—
Concession Revenue	4,304	634
Interest Income	6,715	—

For fiscal year ended June 30, 2021, LAX recognized the following balances related to the leases as lessor (amounts in thousands):

	Fixed Payments	Variable Payments
Building Rentals	\$ 19,678	\$ —
Land Rentals	19,177	—
Concession Revenue	4,089	447
Interest Income	8,469	—

#### **Airport Facilities Use Leases**

LAWA has issued Airport Facilities Use Terms and Conditions (UTC) permits for various facility users using non-terminal airport facility space at LAX. These UTCs are not subject to a lease or the Airport Terminal Tariff, and have no term or expiration date and can be cancelled by either party at any time. The use of the facility does not create a property right, and they are being charged based on a square footage rental rate charge subject to annual and 5-year periodic market rent adjustments as approved by the Board. As there is no term or expiration date, expected future minimum payments are indeterminable. Accordingly, these agreements are not recognized under GASB Statement No. 87.



## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

### Regulated Leases

LAX entered into various Rate Agreements with airlines as described in Note 1j for usage of LAX facilities for the purpose of conducting business as air transportation businesses. The 2021 Rate Agreement Amendment was executed with a term that extends through December 2032. Under the terms of these agreements, airlines pay LAX monthly fees based on an approved methodology of calculating rates and charges for airlines and airline consortia.

In accordance with GASB Statement No. 87, LAX does not recognize a lease receivable and a deferred inflow of resources for regulated leases. Regulated leases are certain leases that are subject to external laws, regulations, or legal rulings, e.g. the U.S. Department of Transportation and the Federal Aviation Administration, regulated aviation leases between airports and air carriers and other aeronautical users.

For the fiscal year ended June 30, 2022, LAX recognized the following balances related to regulated leases (in thousands):

	Fixed Payments	Variable Payments
Building Rentals	\$ 375,179	\$ —
Land Rentals	29,628	—

For the fiscal year ended June 30, 2021, LAX recognized the following balances related to regulated leases (in thousands):

	Fixed Payments	Variable Payments
Building Rentals	\$ 304,030	\$ —
Land Rentals	26,599	—

Expected future minimum lease payments from regulated leases at June 30, 2022 based on the assumption that current agreements are carried to contractual termination, without considering the potential effect of the ongoing COVID-19 pandemic, and without considering future expansion and changes in operations by LAWA or the signatory airlines, are as follows (amounts in thousands):

Fiscal year(s) ending	Total
2023	\$ 431,244
2024	411,245
2025	360,770
2026	303,503
2027	262,372
2028 - 2032	1,294,386
2033 - 2037	171,479
2038	5,542
Total	<u>\$ 3,240,541</u>

LAX's outstanding revenue and revenue refunding bonds are secured by net revenues earned from the airlines. Additional information can be found in Note 6b of the notes to the financial statements.

Under the agreements with the airlines, they may have preferential and exclusive use of certain space and facilities of the terminals and gates in LAX as summarized below:

Terminal	Total Terminal Area (SQFT)	Non-exclusively Used Terminal Area (SQFT)	Exclusively Used Terminal Area (SQFT)	Airlines using the Terminal Area Exclusively
T1 & T1.5	197,490	28,179	169,311	Southwest Airlines
T2	152,877	3,078	149,799	Delta Air Lines
T3	328,849	1,589	327,260	Delta Air Lines
T4	302,156	1,490	300,666	American Airlines
T5	470,131	33,673	436,458	American Airlines
T6	133,970	30,632	103,338	Alaska Airlines
T7	335,087	4,081	331,006	United Airlines
T8	17,278	583	16,695	United Airlines
TBIT/MSC	207,280	207,280	—	
Total	2,145,118	310,585	1,834,533	

Note: The information above is based on June 2022 billing.

	Total no. of Gates	Common Use Gates	Preferential Use Gates	Airlines using the Gates Preferentially
T1 & T1.5	13	0	13	Southwest Airlines
T2	12	2	10	Delta Air Lines
T3	14	0	14	Delta Air Lines
T4	15	0	15	American Airlines
T5	13	0	6	American Airlines
T5	0	0	4	Jetblue Airlines
T5	0	0	3	Spirit Airlines
T6	13	3	8	Alaska Airlines
T6	0	0	2	Air Canada
T7	15	0	15	United Airlines
T8	8	0	8	United Airlines
TBIT	37	36	1	Delta Air Lines
MSC	9	0	9	Various airlines
Commuter	9	9	0	
Total	158	50	108	

Note: According to the lease agreements, the above airlines are entitled to use the gates on a preferential basis in accordance with the scheduling protocols. LAWA has the rights to schedule aircraft operations of other airlines on the preferential-use gates if such scheduling will not interfere with the above airlines' operation.

## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

### 9. Passenger Facility Charges

Passenger Facility Charges (PFCs) are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers. Both the fee and the intended projects are reviewed and approved by the Federal Aviation Administration (FAA). Airlines operating at LAX have been collecting PFCs on behalf of LAX. PFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. The current PFCs is \$4.50 per enplaned passenger. PFCs collection authorities approved by FAA were \$6.0 billion as of June 30, 2022 and 2021. 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 \$97.5 million and \$73.5 million were used for debt service in fiscal years 2022 and 2021, respectively.

The following is a summary of projects approved by FAA as of June 30, 2022 and 2021 (amounts in thousands):

	2022	2021
Terminal development	\$ 4,891,679	\$ 4,891,679
Noise mitigation	1,064,015	1,064,015
Airfield development and equipment	83,620	83,620
Total	<u>\$ 6,039,314</u>	<u>\$ 6,039,314</u>

PFCs collected and the related interest earnings through June 30, 2022 and 2021 were as follows (amounts in thousands):

	2022	2021
Amount collected	\$ 2,938,532	2,813,676
Interest earnings	235,382	232,703
Total	<u>\$ 3,173,914</u>	<u>\$ 3,046,379</u>

Cumulative expenditures on approved PFCs projects totaled \$2.9 billion and \$2.8 billion for fiscal years 2022 and 2021, respectively.

## 10. Customer Facility Charges

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

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

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

	2022	2021
Amount collected	\$ 561,894	\$ 500,903
Interest earnings	41,010	40,275
Subtotal	602,904	541,178
Expenditures		
ConRAC planning, design and construction	593,677	448,200
Unexpended CFCs revenue and interest earnings	<u>\$ 9,227</u>	<u>\$ 92,978</u>

LAX is in the 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 Design-Build-Finance- Operate-Maintain (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 \$145.5 million and \$364.5 million in fiscal years 2022 and 2021, respectively. LAX's cumulative expenditures on approved CFCs projects totaled \$593.7 million and \$448.2 million for fiscal years 2022 and 2021, respectively.

## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

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### 11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled \$31.9 million and \$313.0 million in fiscal years 2022 and 2021, respectively. Capital grant funds are primarily provided by the FAA Airport Improvement Program and Transportation Security Administration.

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 intended 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. In fiscal year 2022, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) grants in the amount of \$8.5 million was used to apply against LAX maintenance and operation expenses. In fiscal year 2021, CARES Act grants in the amount of \$21.9 million was used to apply against debt service payments, and \$249.3 million was used to apply against LAX maintenance and operation expenses.

## 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, 2022 and 2021 were \$123.5 million and \$113.5 million, respectively.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2022 and 2021 were \$13.0 million and \$5.5 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 \$1.3 million for both fiscal years 2022 and 2021. The details are as follows (amounts in thousands):

	2022	2021
Allocated administrative costs		
VNY	\$ 2,656	2,495
PMD	443	414
Total	3,099	2,909
Land rental	(1,286)	(1,260)
Net	<u>\$ 1,813</u>	<u>\$ 1,649</u>

## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

### 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.



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.

## Notes to the Financial Statements

**June 30, 2022 and 2021**

(continued)

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, 2021 and June 30, 2020, respectively, were as follows: (Note: information for fiscal year 2022 is not yet available as of this report issue date.)

	2021	2020
Active		
Vested	16,684	17,722
Non-vested	8,492	9,768
	<u>25,176</u>	<u>27,490</u>
Inactive		
Non-vested	7,124	6,728
Terminated entitled to benefits, not yet receiving benefits	2,523	2,479
Retired	22,012	20,423
	<u>29,659</u>	<u>29,630</u>
Total	<u><u>56,835</u></u>	<u><u>57,120</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.

### ***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 24.63% and 24.75% of compensation as of June 30, 2021 (based on the June 30, 2019 valuation) and June 30, 2020 (based on the June 30, 2018 valuation), respectively. (Note: information for fiscal year 2022 is not yet available as of this report issue date).

The total City contributions to LACERS of \$837.2 million and \$814.2 million for the years ended June 30, 2022 and June 30, 2021, respectively, consisted of the following (amounts in thousands):

	2022	2021
Required contributions - Retirement Plan	\$ 591,234	\$ 554,856
Family death benefit Plan	71	98
Total City contributions	591,305	554,954
Member contributions - Retirement Plan	245,879	259,284
Total	<u>\$ 837,184</u>	<u>\$ 814,238</u>

The required City contribution of \$591.2 million was equal to 100% of the actuarially determined employer contribution. Member contributions of \$245.9 million were made toward the retirement and voluntary family death benefits for fiscal year 2021.

The required City contribution of \$554.9 million was equal to 100% of the actuarially determined employer contribution. Member contributions of \$259.3 million were made toward the retirement and voluntary family death benefits for fiscal year 2020.

### ***LAX's Contributions to the Pension Plan***

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

	2022	2021
LAX's required contributions to the Pension Plan	<u>\$ 72,808</u>	<u>\$ 68,312</u>

The LAX contributions made to the Pension Plan under the required contribution category in the amounts of \$72.8 million and \$68.3 million for fiscal years 2022 and 2021, respectively, were equal to 100% of the actuarially determined contribution of the employer.

## Notes to the Financial Statements

### June 30, 2022 and 2021

(continued)

#### 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 2022 was measured as of June 30, 2021 and determined based upon the Plan Fiduciary Net Position (FNP) and Total Pension Liability (TPL) from actuarial valuation as of June 30, 2021.

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 dates June 30, 2022 (measurement date of June 30, 2021) and June 30, 2021 (measurement date of June 30, 2020), LAX reported its proportionate shares of TPL, FNP and NPL as follows (amounts in thousands):

	Reporting date 6/30/22 Measurement date 6/30/21	Reporting date 6/30/21 Measurement date 6/30/20
<b>LAX's proportionate share:</b>		
Total Pension Liability	\$ 2,862,947	\$ 2,979,337
Plan Fiduciary Net Position	(2,326,341)	(1,974,887)
Net Pension Liability	<u>\$ 536,606</u>	<u>\$ 1,004,450</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	81.26%	66.29%

Change in LAX's proportionate share of the NPL as of June 30, 2022 (measurement date June 30, 2021) and 2021 (measurement date June 30, 2020) was as follows (amounts in thousands):

	NPL	Proportion
Proportion - Reporting date June 30, 2022 (measurement date June 30, 2021)	\$ 536,606	12.30%
Proportion - Reporting date June 30, 2021 (measurement date June 30, 2020)	\$ 1,004,450	13.23%
Change - (decrease)	\$ (467,844)	(0.93)%

For the year ended June 30, 2022, LAX recognized pension expense of \$32.2 million. At June 30, 2022, 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	\$ 72,808	\$ —
Differences between expected and actual experience	26,935	21,536
Changes of assumptions	54,457	—
Net difference between projected and actual earnings on pension plan investments	—	255,155
Changes in proportion and differences between employer contributions and proportionate share of contributions	643	55,308
Total	<u>\$ 154,843</u>	<u>\$ 331,999</u>

\$72.8 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, 2023. 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
2023	\$ (45,064)
2024	(50,361)
2025	(58,631)
2026	(95,273)
2027	(635)

## Notes to the Financial Statements

### June 30, 2022 and 2021

(continued)

For the year ended June 30, 2021, LAX recognized pension expense of \$127.4 million. At June 30, 2021, 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	\$ 68,312	\$ —
Differences between expected and actual experience	40,773	9,829
Changes of assumptions	93,567	—
Net difference between projected and actual earnings on pension plan investments	70,564	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,160	14,451
Total	<u>\$ 274,376</u>	<u>\$ 24,280</u>

### ***Actuarial Assumptions***

The total pension liability as of June 30, 2022 was determined by actuarial valuation as of June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Date of Experience Study	June 30, 2019 (July 1, 2016 through June 30, 2019)
Long-Term Expected Rate of Return	7.00%
Inflation	2.75%
Projected Salary Increases	Ranges from 4.25% to 9.95% based on years of service, including inflation
Mortality Table for Healthy Retirees	Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Tables (separate tables for males and females) with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Mortality Table for Disabled Retirees	Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Mortality Table for Beneficiaries	Pub-2010 Contingent Survivor Amount-Weighted Above Meridian Mortality Tables with rates increased by 10% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Percent Married/Domestic Partner	76% of male and 52% 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, 2022 and 2021**

(continued)

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### ***Discount Rate***

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2021 and 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 rates 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 for 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 retirement 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 both June 30, 2021 and June 30, 2020.

The long-term expected rate of return on retirement plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of 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 and by 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, are summarized in the following table. These values were used in the derivation of the long-term expected investment rate of return assumption that was used in the actuarial valuation as of June 30, 2021. This information is subject to change every three years based on the actuarial experience study. The last experience study was for July 1, 2016 through June 30, 2019. The next experience study will be conducted in 2022.

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	15.01%	5.54%
U.S. Small Cap Equity	3.99	6.25
Developed International Large Cap Equity	17.01	6.61
Developed International Small Cap Equity	2.97	6.90
Emerging International Large Cap Equity	5.67	8.74
Emerging International Small Cap Equity	1.35	10.63
Core Bonds	13.75	1.19
High Yield Bonds	2.00	3.14
Bank Loans	2.00	3.70
Emerging Market Debt (External)	2.25	3.55
Emerging Market Debt (Local)	2.25	4.75
Private Debt	3.75	6.00
Core Real Estate	4.20	4.60
Real Estate Investment Trust	1.00	5.98
Treasury Inflation Protected Securities	4.00	0.86
Commodities	1.00	3.33
Non-Core Real Assets	2.80	5.76
Private Equity	14.00	8.97
Cash	1.00	0.03
Total	100.00%	

## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

### ***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, 2022, calculated using the discount rate of 7.00%, 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 (6.00%) or 1 percentage point higher (8.00%) than the current rate (amounts in thousands):

	June 30, 2022
1% decrease	6.00%
Net Pension Liability	\$918,666
Current discount rate	7.00%
Net Pension Liability	\$536,606
1% increase	8.00%
Net Pension Liability	\$220,598

## **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.

## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

### *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 2021 and 2020, the average employer contribution rates for pension benefits are 27.29% and 26.21%, 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 2022, LAX's contribution rate for the APO that are members of the LAFPP Tier 6 plan, as determined by the actuary was 28.14% of covered payroll. Based on LAX's reported covered payroll of \$10.1 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 \$2.8 million. In fiscal year 2021, LAX's contribution rate for the APO that are members of the LAFPP Tier 6 plan, as determined by the actuary was 28.30% of covered payroll. Based on LAX's reported covered payroll of \$7.9 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 \$2.2 million.

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

At June 30, 2022, LAX recognized its proportionate shares of Net Pension Asset of \$106.5 thousand and pension expense of \$1.9 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	\$ 1,987	\$ —
Differences between expected and actual experience	815	51
Changes of assumptions	247	—
Net difference between projected and actual earnings on pension plan investments	—	1,983
Total	<u>\$ 3,049</u>	<u>\$ 2,034</u>

\$2.0 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, 2023.

At June 30, 2021, LAX recognized its proportionate shares of NPL of \$2.3 million and pension expense of \$2.0 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	\$ 1,559	\$ —
Differences between expected and actual experience	1,259	11
Changes of assumptions	328	—
Net difference between projected and actual earnings on pension plan investments	194	—
Total	<u>\$ 3,340</u>	<u>\$ 11</u>

## Notes to the Financial Statements

June 30, 2022 and 2021

(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, 2021 and June 30, 2020, the components of membership, excluding non-participating retirees and surviving spouses of LACERS postemployment healthcare benefits were as follows: (Note: information for fiscal year 2022 is not yet available as of this report issue date.)

	2021	2020
Retirement members/Surviving spouses <sup>(1)</sup>	17,500	16,107
Vested terminated members entitled to, but not yet receiving benefits <sup>(2)</sup>	1,554	1,526
Retired members and surviving spouses not yet eligible for health benefits	141	142
Active members	25,176	27,490
Total	44,371	45,265

(1) Total participants including married dependents and dependent children receiving benefits were 23,579 and 21,572 as of June 30, 2021 and 2020, 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, 2021, was 4.49% of covered payroll, determined by the June 30, 2019 actuarial valuation. The required contribution rate for the Postemployment Health Care Plan for the fiscal year ended June 30, 2020, was 4.91% of covered payroll, determined by the June 30, 2018 actuarial valuation. (Note: information for fiscal year 2022 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, 2022 and 2021**

(continued)

The total OPEB contributions to LACERS for the years ended June 30, 2022 and 2021 was \$103.4 million and \$112.1 million, representing 100% of the Actuarially Determined Contribution (ADC) of the employer as defined by GASB Statement No. 74<sup>14</sup>. (Note: information for fiscal year 2022 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):

	2022	2021
LAX's required contributions to the Postemployment Health Care Plan	\$ 10,818	\$ 12,064

LAX's contributions made for the Postemployment Health Care Plan, in the amounts of \$10.8 million and \$12.1 million for fiscal years 2022 and 2021, respectively, represent 100% of the ADC as defined by GASB Statement No. 74. The Postemployment Health Care Plan is administered through a trust that meets the criteria of GASB Statement No. 75<sup>15</sup>.

<sup>14</sup> GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued in June 2015

<sup>15</sup> GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued in June 2015

**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 2022 was measured as of June 30, 2021 and determined based upon the Plan Fiduciary Net Position (FNP) and Total OPEB Liability (TOL) from actuarial valuation as of June 30, 2021.

As of the reporting dates June 30, 2022 (measurement date of June 30, 2021) and June 30, 2021 (measurement date of June 30, 2020), LAX reported its proportionate shares of TOL, FNP and NOL as follows (amounts in thousands):

	Reporting date 6/30/22 Measurement date 6/30/21	Reporting date 6/30/22 Measurement date 6/30/21
<b>LAX's proportionate share:</b>		
Total OPEB Liability	\$ 404,553	\$ 437,859
Plan Fiduciary Net Position	(434,615)	(358,071)
Plan's Net OPEB (Asset) Liability	<u>\$ (30,062)</u>	<u>\$ 79,788</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	107.43 %	81.78 %

LAX's NOL was measured as the proportionate share of the NOL based on the employer contributions made by LAWA during fiscal year 2021. The NOL was measured as of June 30, 2021 and determined based upon the Postemployment Health Care Plan's FNP (plan assets) and TOL from actuarial valuations as of June 30, 2021.

Change in LAX's proportionate share of the NOL as of June 30, 2022 (measurement date June 30, 2021) and 2021 (measurement date June 30, 2020) was as follows (amounts in thousands):

	NOL	Proportion
Proportion - Reporting date June 30, 2022 (measurement date June 30, 2021)	\$ (30,062)	11.49%
Proportion - Reporting date June 30, 2021 (measurement date June 30, 2020)	\$ 79,788	12.56%
Change - (Decrease)	\$ (109,850)	(1.07)%

## Notes to the Financial Statements

### June 30, 2022 and 2021

(continued)

For the year ended June 30, 2022, LAX recognized a Postemployment Health Care Plan's OPEB credit of (\$9.1 million). At June 30, 2022, 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	\$ 10,818	\$ —
Differences between expected and actual experience	1,526	18,945
Changes of assumptions	14,486	15,275
Net difference between projected and actual earnings on OPEB plan investments	—	62,611
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	8,814
Total	<u>\$ 26,830</u>	<u>\$ 105,645</u>

\$10.8 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, 2023. 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
2023	\$ (20,879)
2024	(19,294)
2025	(20,930)
2026	(23,280)
2027	(3,968)
2028	(1,282)

For the year ended June 30, 2021, LAX recognized the Postemployment Health Care Plan's OPEB expense of \$11.7 million. At June 30, 2021, 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	\$ 12,064	\$ —
Differences between expected and actual experience	923	26,249
Changes of assumptions	20,856	—
Net difference between projected and actual earnings on OPEB plan investments	8,175	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	4,497
Total	<u>\$ 42,018</u>	<u>\$ 30,746</u>

## Notes to the Financial Statements

### June 30, 2022 and 2021

(continued)

#### Actuarial Assumptions

The total OPEB liability as of June 30, 2022 was determined by actuarial valuation as of June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Date of Experience Study	June 30, 2019 (July 1, 2016 through June 30, 2019)
Long-Term Expected Rate of Return	7.00%
Inflation	2.75%
Projected Salary Increases	Range from 4.25% to 9.95% based on years of service, including inflation
Mortality Table for Retirees	Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Tables (separate tables for males and females) with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Mortality Table for Disabled Retirees	Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Mortality Table for Beneficiaries	Pub-2010 Contingent Survivor Amount-Weighted Above Meridian Mortality Tables with rates increased by 10% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2019.
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.
Surviving Spouse Coverage	With regard to Members who are currently alive, 100% of eligible spouses or domestic partners are assumed to elect continued health coverage after the Member's death.
Healthcare 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 2021 are:

First Fiscal Year (July 1, 2021 through June 30, 2022)

<u>Carrier</u>	<u>Under Age 65</u>	<u>Age 65 &amp; Over</u>
Kaiser HMO	6.52%	3.25%
Anthem Blue Cross HMO	3.72%	N/A
Anthem Blue Cross PPO	6.06%	(3.6)%
UHC Medicare HMO	N/A	3.99%

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

Medicare Part B Premium Trend is 4.50% for all years.

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### ***Discount Rate***

The discount rate used to measure the total OPEB liability was 7.00% as of June 30, 2021 and 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 rates 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 for 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 OPEB 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 OPEB Liability as of both June 30, 2021 and June 30, 2020.

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 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 and by 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, are summarized in the following table. These values were used in the derivation of the long-term expected investment rate of return assumption that was used in the actuarial valuation as of June 30, 2021. This information is subject to change every three years based on the actuarial experience study. The last experience study was for July 1, 2016 through June 30, 2019. The next experience study will be conducted in 2022.



## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	15.01%	5.54%
U.S. Small Cap Equity	3.99	6.25
Developed International Large Cap Equity	17.01	6.61
Developed International Small Cap Equity	2.97	6.90
Emerging International Large Cap Equity	5.67	8.74
Emerging International Small Cap Equity	1.35	10.63
Core Bonds	13.75	1.19
High Yield Bonds	2.00	3.14
Bank Loans	2.00	3.70
Emerging Market Debt (External)	2.25	3.55
Emerging Market Debt (Local)	2.25	4.75
Private Debt	3.75	6.00
Core Real Estate	4.20	4.60
Real Estate Investment Trust	1.00	5.98
Treasury Inflation Protected Securities	4.00	0.86
Commodities	1.00	3.33
Non-Core Real Assets	2.80	5.76
Private Equity	14.00	8.97
Cash	1.00	0.03
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, 2022.

### ***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/(asset) as of June 30, 2022, calculated using the discount rate of 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate (dollar in thousands):

	<u>June 30, 2022</u>
1% decrease	6.00%
Net OPEB Liability	\$26,584
Current discount rate	7.00%
Net OPEB (Asset) Liability	\$(30,062)
1% increase	8.00%
Net OPEB (Asset) Liability	\$(76,537)

### ***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 (asset)/liability as of June 30, 2022, 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 rate<sup>16</sup> (dollar in thousands):

	<u>June 30, 2022</u>
1% decrease	
Net OPEB (Asset) Liability	\$(80,920)
Current Healthcare Cost Trend Rates	
Net OPEB (Asset) Liability	\$(30,062)
1% increase	
Net OPEB Liability	\$33,295

<sup>16</sup> Current healthcare cost trend rates: 7.37% graded down to 4.50% over 12 years for Non-Medicare medical plan costs, and 6.37% graded down to 4.50% over 8 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.

## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

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

#### a. Benefits Provided by the LAFPP Plan - OPEB

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

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

At June 30, 2022, LAX recognized its proportionate shares of NOL of \$20.0 thousands and OPEB expense of \$0.7 million for the LAFPP plan. LAX also reported deferred outflows of resources and deferred inflows of resources related to OPEB for the LAFPP plan from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
OPEB contributions subsequent to measurement date	\$ 853	\$ —
Differences between expected and actual experience	315	247
Changes of assumptions	85	118
Net difference between projected and actual earnings on OPEB plan investments	—	422
Total	<u>\$ 1,253</u>	<u>\$ 787</u>

\$0.9 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the NOL in the year ending June 30, 2023.

At June 30, 2021, LAX recognized its proportionate shares of NOL of \$0.6 million and OPEB expense of \$0.7 million for the LAFPP plan. LAX also reported deferred outflows of resources and deferred inflows of resources related to OPEB for the LAFPP plan from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
OPEB contributions subsequent to measurement date	\$ 665	\$ —
Differences between expected and actual experience	411	303
Changes of assumptions	106	59
Net difference between projected and actual earnings on OPEB plan investments	51	—
Total	<u>\$ 1,233</u>	<u>\$ 362</u>

## 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 perils. Deductibles for these policies are \$10,000 per claim for bodily injury and property damage, with no aggregate for general liability losses, and \$100,000 per occurrence and no aggregate for general property casualty. 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 \$15.0 million for protection against cyber liability risks and technology errors and omissions. LAX maintains a self-insured retention of \$250,000 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 2022, 2021, and 2020, 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, 2022 and 2021 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, 2022 and 2021 were \$87.9 million and \$90.1 million, respectively.

## Notes to the Financial Statements

### June 30, 2022 and 2021

(continued)

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

	June 30		
	2022	2021	2020
Balance at beginning of year	\$ 100,227	\$ 99,227	\$ 93,471
Provision for current year's events and changes in provision for prior years' events	7,470	9,912	14,926
Claims payments	(9,643)	(8,912)	(9,170)
Balance at end of year	\$ 98,054	\$ 100,227	\$ 99,227
Current portion	(9,850)	(9,643)	(8,912)
Noncurrent portion	<u>\$ 88,204</u>	<u>\$ 90,584</u>	<u>\$ 90,315</u>

## 16. Commitments, Litigations, and Contingencies

### a. Commitments

LAX has commitments for open purchase orders of approximately \$176.1 million and \$202 million as of June 30, 2022 and 2021, respectively.

LAX has commitments to make a series of Milestone Payments according to the terms of contract for Automated People Mover (APM) totaling approximately \$1.2 billion during the construction, based upon the value of work performed and/or its completion of certain design and construction milestones. Total payments of \$957.8 million were made through fiscal year 2022. 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 \$800.1 million during the construction based upon the value of work performed and/or its completion of certain design and construction milestones. Total payments of \$737.9 million were made through fiscal year 2022. Additional commitments related to further Availability Payments are subject to project completion.

LAX has the following commitments on major construction contracts<sup>17</sup>:

Project	Amount (in millions)
Roadways, Utilities & Enabling Projects	\$ 241
TBIT Core & APM Interface	59
Total	<u>\$ 300</u>

LAX has the following commitments on major tenant based acquisitions:

Project	Amount (in millions)
Terminals 2/3 Improvement	\$ 1,207
Terminals 4/5 Improvement	1,168
Terminal 6 Improvement	178
Total	<u>\$ 2,553</u>

<sup>17</sup> Unpaid portion of total commitments.

## Notes to the Financial Statements

June 30, 2022 and 2021

(continued)

### b. Aviation Security

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

### c. Environmental Issues

LAX bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy. As property owner, LAX assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAX may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAX accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays.

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

- 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 inventory 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.

## 17. Subsequent Events

On July 21, 2022, the Board approved to award a three-year contract in the not-to-exceed amount of \$85.9 million to W.E. O'Neil Construction Co. of California, for construction of the Midfield Satellite Concourse South Project at LAX, and appropriate capital funds in the amount of \$105.9 million for this project, which includes Pre -Construction, Long -Lead Procurement, Enabling and Construction Services, and LAWA's costs.

On July 21, 2022, the Board approved the letters of credit (LOCs) to be provided by Barclays Bank PLC (Barclays), Bank of America, N.A. (Bank of America), and PNC Bank, National Association (PNC), which in aggregate provide credit support for up to \$500 million principal amount of Commercial Paper (CP) Notes outstanding at any one time, and authorizes documents associated with the LOCs and the Commercial Paper Offering Memorandum in order to provide continued access to short-term financing for LAWA's Strategic Capital Program Plan Goals and Objectives. The LAX CP Program is a short-term financing vehicle that allows Los Angeles World Airports (LAWA) to access up to \$500 million on short notice for a variety of financing needs. It is primarily used as interim financing for capital projects, and also can be used as an emergency line of credit.

On August 24, 2022, LAX issued \$602.8 million of senior revenue bonds Series 2022G with a premium of \$59.9 million; \$373.7 million of LAX senior revenue bonds Series 2022H with a premium of \$37.8 million and \$206.8 million of LAX senior refunding and revenue bonds Series 2022I with a premium of \$29.5 million. The Series 2022GHI bonds were issued to fund certain capital projects at LAX and refund a portion of the outstanding Commercial Paper Notes.

On September 1, 2022, the Board approved capital budget in the total amount of \$6.3 billion for various active projects in the Capital Improvement Plan and cancel appropriations previously authorized to be charged to the same projects, including all appropriations without a specified Work Breakdown Structure account, so that capital expenditures can be actively tracked in the financial systems to allow for improved financial controls.

In September 2022, LAX made a payment of \$507.6 million to Delta Airlines for the purchase of Terminals 2 and 3 SkyWay Program Asset Acquisition (Central Headhouse). On October 5, 2022, the new concourse at Terminal 3 was opened, marking the completion of the third phase of construction on terminal 3. Eight out of nine gates have been completed, with the ninth scheduled to be ready by early next year.

On October 20, 2022, the Board approved the actions associated with the issuance of LAX revenue bonds, notes, or other obligations, in one or more series, and LAX special facility obligations, in one or more series, in an aggregate principal amount not to exceed \$6.0 billion, which LAWA expects to issue from time to time from fiscal year 2023 through fiscal year 2027.



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# **REQUIRED SUPPLEMENTARY INFORMATION**

*(UNAUDITED)*

**2022 ANNUAL FINANCIAL REPORT  
LOS ANGELES INTERNATIONAL AIRPORT**



**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 %
2021	13.23 %	\$ 1,004,450	\$ 287,623	349.22 %	\$ 1,974,887	\$ 2,979,337	66.29 %
2022	12.30 %	\$ 536,606	\$ 266,130	201.63 %	\$ 2,326,341	\$ 2,862,947	81.26 %

## Required Supplementary Information (Unaudited) (continued)

### Last Ten Fiscal Years Ended June 30

(amounts in thousands)

#### Notes to schedule:

1. Changes of assumptions

The June 30, 2014 calculations reflected various assumption changes based on the triennial experience study for the period from July 1, 2011 through June 30, 2014. The increase of total pension liability for fiscal years ended on June 30, 2014 is primarily due to the lowered assumed investment rate of return from 7.75% to 7.50%, 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% to 7.25%. The June 30, 2018 calculations reflected changes in the actuarial assumptions adopted by the Board on August 14, 2018 based on the triennial experience study for the period from July 1, 2014 through June 30, 2017, including revising the mortality tables from static to generational to reflect future mortality improvement, contributing to increased total pension liability. The June 30, 2020 calculations reflected changes in the actuarial assumptions based on the actuarial experience study covering the period from July 1, 2016 to June 30, 2019, and adopted by the Board on June 23, 2020. The changes included lowered assumed investment rate of return from 7.25% to 7.00% along with an Inflation Rate reduction from 3.00% to 2.75%, changes in various demographic assumptions such as adjustments on retirement, termination, disability and mortality rates.

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.

## Schedule of Contributions - Pension

### *Los Angeles City Employees' Retirement System (LACERS)*

	2022	2021	2020	2019	2018
Contractually required contribution (actuarially determined)	\$ 72,808	\$ 68,312	\$ 73,229	\$ 64,737	\$ 60,948
contributions	72,808	68,312	73,229	64,737	60,948
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
LAX's covered payroll	\$ 251,757	\$ 266,130	\$ 287,623	\$ 275,892	\$ 274,167
LAX's contributions as a percentage of covered payroll	28.92 %	25.67 %	25.46 %	23.46 %	22.23 %

	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 61,197	\$ 55,972	\$ 49,043
contributions	61,197	55,972	49,043
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
LAX's covered payroll	\$ 266,780	\$ 256,833	\$ 235,176
LAX's contributions as a percentage of covered payroll	22.94 %	21.79 %	20.85 %

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

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**Notes to Schedules - Pension**

***Los Angeles City Employees' Retirement System (LACERS)***

Valuation Date	June 30, 2021
Actuarial Cost Method	Entry age actuarial cost method
Amortization Method	Level percent of payroll
Investment Rate of Return	7.00%
Inflation	2.75 %
Projected Salary Increases	Ranges from 4.25% to 9.95% based on years of service

## 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 (Asset) 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	\$ 275,892	24.61 %	\$ 365,588	\$ 433,477	84.34 %
2021	12.56 %	\$ 79,788	\$ 287,623	27.74 %	\$ 358,071	\$ 437,859	81.78 %
2022	11.49 %	\$ (30,062)	\$ 266,130	(11.30)%	\$ 434,615	\$ 404,553	107.43 %

#### Notes to schedule:

1. 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 - OPEB**

***Los Angeles City Employees' Retirement System (LACERS)***

	2022	2021	2020	2019	2018
Contractually required contribution (actuarially determined)	\$ 10,818	\$ 12,064	\$ 14,245	\$ 14,212	\$ 13,586
Contributions in relation to the actuarially determined contributions	10,818	12,064	14,245	14,212	13,586
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
LAX's covered payroll	\$ 251,757	\$ 266,130	\$ 287,623	\$ 275,892	\$ 274,167
LAX's contributions as a percentage of covered payroll	4.30 %	4.53 %	4.95 %	5.15 %	4.96 %

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**Notes to Schedules - OPEB*****Los Angeles City Employees' Retirement System (LACERS)***

Valuation Date	June 30, 2021
Actuarial Cost Method	Entry age actuarial cost method
Amortization Method	Level percent of payroll
Investment Rate of Return	7.00%
Inflation	2.75 %
Projected Salary Increases	Ranges from 4.25% to 9.95% based on years of service

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A person is walking away from the camera on a polished, reflective floor in a modern airport terminal. They are wearing a light-colored shirt, dark pants, and a jacket slung over their shoulder, and are pulling a brown suitcase. The terminal has large glass windows that offer a view of the airport's architecture, including a prominent white, curved structure. The scene is brightly lit with natural light from the windows.

# **COMPLIANCE SECTION**

**2022 ANNUAL FINANCIAL REPORT  
LOS ANGELES INTERNATIONAL AIRPORT**



# COMPLIANCE SECTION

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

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 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

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 Passenger Facility Charge Program**

***Opinion on PFC Program***

We have audited Los Angeles International Airport's ("LAX"), a department 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 the Passenger Facility Charge ("PFC") program for the year ended June 30, 2022.

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its PFC program for the year ended June 30, 2022.

***Basis for Opinion on the Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of LAX and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the PFC program. Our audit does not provide a legal determination of LAX's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with requirements of laws, statutes, regulations, and provisions of contracts or grant agreements applicable to the PFC program.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on LAX's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about LAX's compliance with the requirements of the PFC program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding LAX's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of LAX's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 LAX's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2022, and the related notes to the financial statements which collectively comprise LAX's basic financial statements, and have issued our report thereon dated October 27, 2022, 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.



El Segundo, California  
October 27, 2022



# 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, 2022 and 2021

(amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Under (over) expenditures on approved projects
<b>Program to date as of June 30, 2020</b>	\$ 2,744,928	\$ 228,129	\$ 2,973,057	\$ 2,630,595	\$ 342,462
<b>Fiscal year 2020-21 transactions</b>					
Quarter ended September 30, 2020	5,921	1,525	7,446	28,573	(21,127)
Quarter ended December 31, 2020	17,680	1,062	18,742	21,481	(2,739)
Quarter ended March 31, 2021	7,858	1,185	9,043	18,377	(9,334)
Quarter ended June 30, 2021	37,289	802	38,091	110,870	(72,779)
<b>Program to date as of June 30, 2021</b>	2,813,676	232,703	3,046,379	2,809,896	236,483
<b>Fiscal year 2021-22 transactions</b>					
Quarter ended September 30, 2021	36,438	657	37,095	24,375	12,720
Quarter ended December 31, 2021	23,067	685	23,752	24,375	(623)
Quarter ended March 31, 2022	22,967	651	23,618	24,375	(757)
Quarter ended June 30, 2022	42,384	686	43,070	24,382	18,688
<b>Unexpended passenger facility charge revenues and interest earned June 30, 2022</b>	<u>\$ 2,938,532</u>	<u>\$ 235,382</u>	<u>\$ 3,173,914</u>	<u>\$ 2,907,403</u>	<u>\$ 266,511</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, 2022 and 2021

#### 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 were \$6.0 billion as of June 30, 2022 and 2021.

The details are as follows (amounts in thousands):

Application number	Charge effective date*	2022 Amount approved for use	2021 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	1/1/2029	1,771,936	1,771,936
Total		<u>\$ 6,039,314</u>	<u>\$ 6,039,314</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 Bradley West Gates (formerly known as Midfield Satellite Concourse) - Phase 1, Inglewood High School Soundproofing Program, and PFC consulting fees.

**Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures**  
**For the Fiscal Years Ended June 30, 2022 and 2021**  
**(continued)**

- d. In April 2021, FAA approved LAWA's amendment request that increased application number 20-12-C-01-LAX by \$6.5 million for the Inglewood High School Soundproofing Program.

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	
		2022	2021
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	562,849
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	178,334	178,335	178,335
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	373,289	364,738
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	50,000	50,000
Bradley West	1,848,284	759,299	724,513
Lennox Schools Soundproofing Program	27,801	23,946	23,946
Inglewood USD Soundproofing Program	44,379	40,000	40,000
Terminal 6 Improvements	210,131	114,089	100,609
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	40,690	—
PFC Consulting Fees	250	245	245
Inglewood High School Soundproofing Program	21,686	—	—
Total	<u>\$ 6,039,314</u>	<u>\$ 2,907,403</u>	<u>\$ 2,809,896</u>

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## **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 Customer Facility Charge Program**

***Opinion on CFC 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 the Customer Facility Charge ("CFC") program for the year ended June 30, 2022.

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its CFC programs for the year ended June 30, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the Code. Our responsibilities under those standards and the Code are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of LAX and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the CFC program. Our audit does not provide a legal determination of LAX's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with requirements of laws, statutes, regulations, and provisions of contracts or grant agreements applicable to the CFC program.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on LAX's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Code will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about LAX's compliance with the requirements of the CFC program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Code, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding LAX's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of LAX's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 LAX's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, an Enterprise Fund of the City of Los Angeles, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise LAX's basic financial statements, and have issued our report thereon dated October 27, 2021<sup>2</sup> 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.



El Segundo, California  
October 27, 2022

# 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, 2022 and 2021

(amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Under (over) expenditures on approved projects
<b>Program to date as of as of July 1, 2020</b>	\$ 468,297	\$ 36,639	\$ 504,936	\$ 83,683	\$ 421,253
<b>Fiscal year 2020-21 transactions</b>					
Quarter ended September 30, 2020	7,329	1,950	9,279	77,747	(68,468)
Quarter ended December 31, 2020	7,332	1,033	8,365	94,597	(86,232)
Quarter ended March 31, 2021	4,830	480	5,310	92,219	(86,909)
Quarter ended June 30, 2021	13,115	173	13,288	99,954	(86,666)
<b>Program to date as of as of June 30, 2021</b>	500,903	40,275	541,178	448,200	92,978
<b>Fiscal year 2021-22 transactions</b>					
Quarter ended September 30, 2021	16,142	111	16,253	35,187	(18,934)
Quarter ended December 31, 2021	14,233	165	14,398	—	14,398
Quarter ended March 31, 2022	12,119	117	12,236	94,899	(82,663)
Quarter ended June 30, 2022	18,497	342	18,839	15,391	3,448
<b>Unexpended customer facility charge revenues and interest earned June 30, 2022</b>	<u>\$ 561,894</u>	<u>\$ 41,010</u>	<u>\$ 602,904</u>	<u>\$ 593,677</u>	<u>\$ 9,227</u>

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



# Los Angeles World Airports

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

## Los Angeles International Airport

### Notes to the Schedule of Customer Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2022 and 2021

#### 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):

	2022	2021
Amount collected	\$ 561,894	\$ 500,903
Interest earnings	41,010	40,275
Subtotal	602,904	541,178
Expenditures		
ConRAC planning, design and construction	593,677	448,200
Unexpended CFCs revenue and interest earnings	<u>\$ 9,227</u>	<u>\$ 92,978</u>

LAX is in the 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 Design-Build-Finance- Operate-Maintain (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 \$145.5 million and \$364.5 million in fiscal years 2022 and 2021, respectively. LAX's cumulative expenditures on approved CFCs projects totaled \$593.7 million and \$448.2 million for fiscal years 2022 and 2021, respectively.

## 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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