



Initial Disclosure

Municipal Debt Essentials

February 12-14, 2019

Riverside Convention Center

Riverside, California

Presented by:



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Why is Disclosure Necessary?

- Government entities issue securities in the public capital markets
- The efficient market theory posits that securities prices reflect available information to the securities market
- Market efficiency requires that investors have access to all material information regarding their investments
- Generally, Federal and state securities laws require issuers to provide investors material information regarding the securities issued

Federal Securities Law

- The Securities Act of 1933
 - Goals - Ensure more transparency in financial disclosures and establish laws against fraudulent activities in the securities markets
- The Securities Exchange Act of 1934
 - Created to:
 - Govern securities transactions on the secondary market
 - Ensure greater financial transparency

The Securities Act of 1933

- 1933 Act
 - Registration requirement
 - Section 3(a)(2) exempts “[a]ny security issued or guaranteed by... any State of the United States, or by any political subdivision of a State or territory, or by any public instrumentality of one or more States or territories ...” from the requirement of the 1933 Act that certain publicly sold securities be registered with the Securities and Exchange Commission.

The Securities Act of 1933

- Antifraud rule

- Generally, Section 17(a) provides that: It shall be unlawful for any person in the offer or sale of any securities...directly or indirectly—

- (1) To employ any device, scheme, or artifice to defraud, or

- (2) To obtain money or property by means of **any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading**; or

- (3) To engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.

Securities Exchange Act of 1934

Rule 10b-5

- Rule 10b-5

- Generally, Rule 10b-5 provides that:

- It shall be unlawful for any person, directly or indirectly...,

- (a) To employ any device, scheme, or artifice to defraud,

- (b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading,** or

- (c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

The Materiality Standard

- The Supreme Court has held that a fact is material if there is a substantial likelihood that a reasonable (not “any”) investor would (not “could”) consider it important (not “interesting”) in deciding whether to buy or sell securities
- Materiality is determined in context of all the facts and circumstances, but usually on a retroactive basis
- Guidance comes primarily from court decisions and SEC enforcement cases

Consequences for Violation of Antifraud Rules

- The SEC can bring enforcement actions for violations of the antifraud rules, as can private plaintiffs (under Rule 10b-5) where such individuals suffer damages as a result of misleading disclosure
- Violation of the requirements of Section 17(a) or Rule 10b-5 could result in, among other things:
 - Administrative, criminal and civil investigations by the SEC, U.S. Justice Department and others
 - Fines or penalties
 - Civil suits and defense costs
 - Cease and desist orders
 - Rating downgrades
 - Reputational harm
 - Higher borrowing costs

Consequences for Violation of Antifraud Rules

- Consequences are not limited to the issuer.
 - Board members and Issuer personnel may be held liable and subject to penalties, fines, injunctions or even incarceration
- Enforcement action does not require default on the securities

Securities Exchange Act of 1934

Rule 15c2-12

- To prevent fraudulent or manipulative practices, Rule 15c2-12 makes it unlawful for an underwriter to act as an underwriter in a primary offering of municipal securities (with limited exceptions) unless the underwriter complies with the Rule

Securities Exchange Act of 1934

Rule 15c2-12

- The Rule generally, requires, among other things:
 - Underwriter to obtain and review an official statement that an issuer deems final
 - Underwriter may not purchase or sell municipal securities in connection with an offering unless the underwriter has reasonably determined that the issuer has undertaken to provide the MSRB:
 - Annual financial and operating information as is presented in the final official statement
 - Audited financial statements
 - Notice of certain listed events

Securities Exchange Act of 1934

Rule 15c2-12

- Generally, the term final official statement means a document prepared by an issuer that is complete as of the date delivered to the underwriter and that sets forth:
 - Information concerning the terms of the proposed issue of securities
 - Financial information or operating data concerning the issuer and those other entities, enterprises, funds, accounts, and other persons material to an evaluation of the securities
 - A description of the continuing disclosure undertakings to be provided pursuant to Rule 15c2-12
 - A description of any instances in the previous five years in which the issuer failed to comply, in all material respects, with any previous undertakings in a written contract or agreement for continuing disclosure under Rule 15c2-12

Due Diligence and Reliance

- Underwriters of municipal securities are obligated under federal law to undertake a reasonable investigation that the Official Statement does not contain any material misstatements or omissions
- In connection with this obligation, underwriters may assert a “due diligence” defense to legal claims that they failed to perform their obligations
- Issuers have similar due diligence obligations under the antifraud rules to provide accurate and complete information presented in its Official Statement. However, issuers DO NOT have the same “due diligence” defense

Due Diligence and Reliance

- Issuers may rely on the advice of professionals. In order to maintain a defense based on the reliance on advice of professionals:
 - Such reliance must be reasonable
 - The issuer is required to exercise independent judgment in approving securities disclosure
 - Even then, a defense based upon reliance on advice of professionals may not alleviate all potential claims
- The SEC has made its position clear – The issuer is ultimately responsible for the content of the issuer’s disclosure in connection with its securities

When Do Anti-Fraud Rules Apply?

- New Offerings/Initial Disclosure
- Continuing Disclosure
- Investor Relations
- Any other circumstance where an issuer is “speaking to the market”
 - Public statements by officials – whether this will be considered “speaking to the market” will depend on the broader context, the official making the statement and the audience
 - Investor website

Form of Official Statement

Los Angeles World Airports – Case Study

NEW ISSUES – BOOK-ENTRY ONLY

Ratings: See "RATINGS" herein.

In the opinion of Dentons US LLP, Bond Counsel to the Department, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2018DE Subordinate Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2018D Subordinate Bond for any period during which such Series 2018D Subordinate Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2018D Subordinate Bonds, or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is further of the opinion that (a) interest on the Series 2018D Subordinate Bonds constitutes an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and for taxable years beginning before January 1, 2018, on corporations, by the Code, and (b) interest on the Series 2018E Subordinate Bonds is not an item of tax preference for purposes of the federal alternative minimum tax, except that interest on the Series 2018E Subordinate Bonds will be included in a corporate taxpayer's adjusted current earnings for purposes of computing its federal alternative minimum tax liability. Bond Counsel notes that no federal alternative minimum tax applies to corporations for taxable years beginning on and after January 1, 2018. Bond Counsel is further of the opinion that interest on the Series 2018DE Subordinate Bonds is exempt from present State of California personal income taxes. See "TAX MATTERS" herein.



\$578,370,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT

\$418,390,000 Subordinate Revenue Bonds 2018 Series D (AMT)	\$159,980,000 Subordinate Revenue Bonds 2018 Series E (Non-AMT)
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Dated: Date of Delivery

Due: May 15, as shown on the inside cover

The Los Angeles International Airport, Subordinate Revenue Bonds, 2018 Series D (the "Series 2018D Subordinate Bonds") and the Los Angeles International Airport, Subordinate Revenue Bonds, 2018 Series E (the "Series 2018E Subordinate Bonds" and together with the Series 2018D Subordinate Bonds, the "Series 2018DE Subordinate Bonds") of the Department of Airports of the City of Los Angeles (the "Department") are being issued as described herein. Capitalized terms not defined on the cover of this Official Statement shall have the meanings ascribed to them in this Official Statement.

The Series 2018DE Subordinate Bonds are being issued to (i) pay and/or reimburse the Department for certain capital projects at Los Angeles International Airport ("LAX"), (ii) fund the Department's required contribution under the 2018 American Airlines Lease to an escrow to redeem the outstanding Regional Airports Improvement Corporation Facilities Sublease Revenue Bonds American Airlines, Inc. Terminal 4 Project (Los Angeles International Airport) and acquire the improvements to the Terminal 4 facilities financed therewith, (iii) make a deposit to the Subordinate Reserve Fund, (iv) fund a portion of the interest accruing on the Series 2018D Subordinate Bonds, and (v) pay costs of issuance of the Series 2018DE Subordinate Bonds. See "PLAN OF FINANCE."

The Series 2018DE Subordinate Bonds are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Subordinate Pledged Revenues and (ii) certain funds and accounts held by the Subordinate Trustee. The Series 2018DE Subordinate Bonds are being issued on parity with the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018DE SUBORDINATE BONDS."

The Series 2018DE Subordinate Bonds do not constitute or evidence an indebtedness of the City of Los Angeles (the "City") or a lien or charge on any property or the general revenues of the City. Neither the faith and the credit nor the taxing power of the City, the State of California or any public agency, other than the Department, to the extent described herein, is pledged to the payment of the principal or interest on the Series 2018DE Subordinate Bonds. The Department has no power of taxation. The Series 2018DE Subordinate Bonds constitute and evidence an obligation of the Department payable only in accordance with Section 609(b) of the City Charter and any other applicable provisions thereof. None of the properties of the Airport System is subject to any mortgage or other lien for the benefit of the owners of the Series 2018DE Subordinate Bonds. The Department is under no obligation to pay the Series 2018DE Subordinate Bonds, except from funds in the LAX Revenue Account of the Airport Revenue Fund and as further specifically provided in the Subordinate Indenture.

Interest on the Series 2018DE Subordinate Bonds will be payable on each May 15 and November 15, commencing May 15, 2019. The Series 2018DE Subordinate Bonds are being issued only as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), and will be available in authorized denominations of \$5,000 and integral multiples thereof. The Series 2018DE Subordinate Bonds initially are being issued and delivered in book-entry form only.

The Series 2018DE Subordinate Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described in this Official Statement. See "DESCRIPTION OF THE SERIES 2018DE SUBORDINATE BONDS – Redemption Provisions."

The Series 2018DE Subordinate Bonds are offered when, as and if issued by the Department, subject to the approval of validity by Dentons US LLP, Bond Counsel to the Department, and certain other conditions. Certain legal matters will be passed upon for the Department by Michael N. Feuer, City Attorney of the City. Polsinelli LLP serves as Disclosure Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling Yocum Carlson & Rauth, a Professional Corporation. PFM Financial Advisors LLC and Prusac & Associates, LLC serve as Co-Municipal Advisors to the Department. It is expected that the delivery of the Series 2018DE Subordinate Bonds will be made through DTC on or about November 14, 2018.

J.P. Morgan Securities LLC

Loop Capital Markets

Date of Official Statement: October 31, 2018.

PNC Capital Markets LLC

Form of Official Statement

- Cover
- Introduction
- Plan of Finance
- Estimated Sources and Uses
- Description of The Bonds
 - Redemption Provisions

PLAN OF FINANCE

The Series 2018DE Subordinate Bonds are being issued to (i) pay and/or reimburse the Department for certain capital projects at LAX, (ii) fund the Department's required contribution under the 2018 American Airlines Lease (as defined herein) to an escrow to redeem the outstanding American Airlines RAIC Bonds and acquire the improvements to the Terminal 4 facilities financed therewith, (iii) make a deposit to the Subordinate Reserve Fund, (iv) fund a portion of the interest accruing on the Series 2018D Subordinate Bonds, and (v) pay costs of issuance of the Series 2018DE Subordinate Bonds.

See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes." See also APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for additional information regarding the projects of the Capital Program being financed with a portion of the proceeds of the Series 2018DE Subordinate Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of the funds with respect to the Series 2018DE Subordinate Bonds:

	Series 2018D Subordinate Bonds	Series 2018E Subordinate Bonds	Total
SOURCES:			
Principal Amount	\$ 418,390,000.00	\$ 159,980,000.00	\$ 578,370,000.00
Net Original Issue Premium	47,832,388.25	22,057,571.30	69,889,959.55
TOTAL:	\$ 466,222,388.25	\$ 182,037,571.30	\$ 648,259,959.55
USES:			
Deposit to Subordinate Construction Fund ⁽¹⁾	\$ 237,761,000.00	\$ 168,291,515.00	\$ 406,052,515.00
Deposit to Subordinate Reserve Fund	34,689,101.94	13,264,089.81	47,953,191.75
Deposit to Subordinate Interest Account ⁽²⁾	2,591,583.34	--	2,591,583.34
Deposit to Escrow for RAIC Bonds Defeasance	190,000,000.00	--	190,000,000.00
Costs of Issuance ⁽³⁾	1,180,702.97	481,966.49	1,662,669.46
TOTAL:	\$ 466,222,388.25	\$ 182,037,571.30	\$ 648,259,959.55

⁽¹⁾ To be used to pay a portion of the costs of the Capital Program.

⁽²⁾ Represents a portion of the interest accruing on the Series 2018D Subordinate Bonds.

⁽³⁾ Includes legal fees, underwriters' discount, trustee fees, municipal advisory fees, consultant fees, rating agencies' fees, printing costs and other costs of issuance.

Redemption Provisions

Optional Redemption

The Series 2018DE Subordinate Bonds maturing on or before May 15, 2029 are not subject to optional redemption prior to maturity. The Series 2018DE Subordinate Bonds maturing on and after May 15, 2030 are redeemable at the option of the Department on or after May 15, 2029, in whole or in part at any time, from any moneys that may be provided for such purpose and at a redemption price equal to 100% of the principal amount of the Series 2018DE Subordinate Bonds to be redeemed plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption

Series 2018D Subordinate Term Bonds. The Series 2018D Subordinate Bonds maturing on May 15, 2043 (the "Series 2018D Subordinate Term Bonds (2043)") are subject to mandatory sinking fund redemption in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on May 15 of the following years and in the following principal amounts:

Redemption Date (May 15)	Principal Amount
2039	\$ 14,045,000
2040	14,755,000
2041	15,490,000
2042	16,260,000
2043 [†]	17,075,000

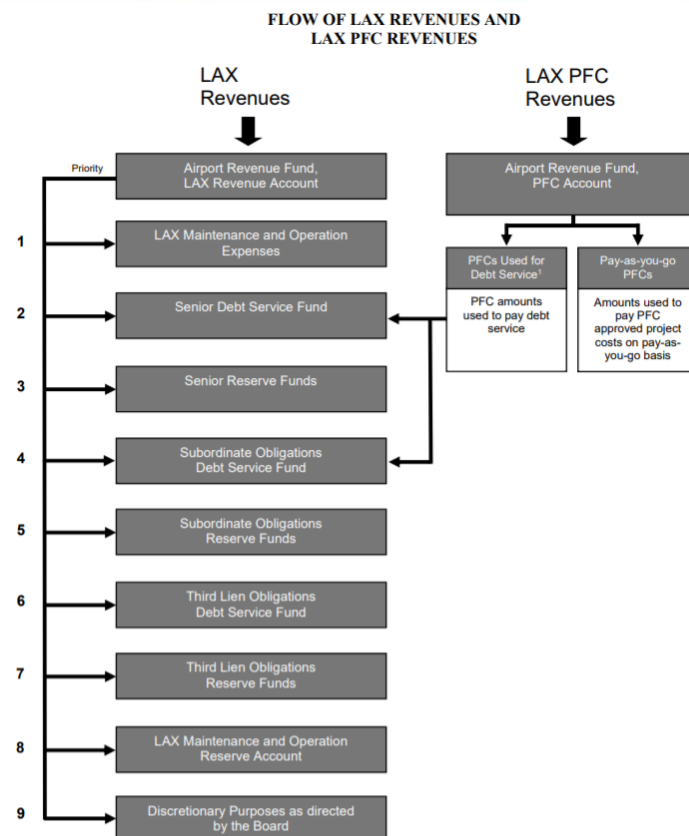
[†] Final Maturity

Form of Official Statement

- Security and Sources of Payment for the Bonds

- Flow of Funds
- Pledge of Revenues
- Permitted Investments
- Events of Default and Remedies

- Outstanding Obligations and Debt Service



Form of Official Statement

- Certain Investment Considerations
- Airline Industry Information
- The Department of Airports
- Los Angeles International Airport

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Series 2018DE Subordinate Bonds involve investment risk and may not be suitable for all investors. Prospective investors are urged to read this Official Statement, including its appendices, in its entirety. The factors set forth in this Official Statement, among others, may affect the security for and/or trading value of the Series 2018DE Subordinate Bonds. The information contained in this Official Statement relates solely to the Series 2018DE Subordinate Bonds and speaks only as of the date of this Official Statement. The information in this Official Statement does not purport to be a comprehensive or complete discussion of all risks or other considerations that may be relevant to an investment in the Series 2018DE Subordinate Bonds. Other factors may exist which may be material to investors based on their respective individual characteristics. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. Additional risk factors relating to the purchase of Series 2018DE Subordinate Bonds are described throughout this Official Statement, whether or not specifically designated as risk factors. Additional risks and uncertainties not presently known, or currently believed to be immaterial, may also materially and adversely affect, among other things, Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues or individual investors. In addition, although the various risks discussed in this Official Statement are generally described separately, prospective investors of the Series 2018DE Subordinate Bonds should consider the potential effects of the interplay of multiple risk factors. Where more than one significant risk factor is present, the risk of loss to an investor may be significantly increased. There can be no assurance that other risks or considerations not discussed in this Official Statement are or will not become material in the future.

THE DEPARTMENT OF AIRPORTS

General Description

The City, acting through the Department, currently operates two airports in the Airport Service Region, LAX and VNY. The Department voluntarily returned the operating certificate relating to LA/PMD to the FAA, but may, upon compliance with certain requirements, request to have the LA/PMD certificate reissued. LAX, VNY and LA/PMD are collectively referred to as the "Airport System." The Airport System is operated as a financially self-sufficient enterprise, without City General Fund support.

For a description of LAX, see "LOS ANGELES INTERNATIONAL AIRPORT."

VNY is a general aviation airport located approximately 20 miles northwest of downtown Los Angeles, in the San Fernando Valley, and occupies approximately 730 acres. VNY is one of the busiest general aviation airports in the United States with over 246,240 operating movements in Fiscal Year 2018 as reported by the FAA. More than 100 businesses are located at VNY, including four fixed-base operators and numerous other aviation service

LOS ANGELES INTERNATIONAL AIRPORT

Introduction

LAX is located approximately 15 miles from downtown Los Angeles on the western boundary of the City. LAX occupies approximately 3,673 acres in an area generally bounded on the north by Manchester Avenue, on the east by Aviation Boulevard, on the south by the Imperial Highway and on the west by the Pacific Ocean. The LAX site, originally known as Mines Field, has been in use as an aviation field since 1928. During World War II it was used for military flights. Commercial airline service started in December 1946, and the present terminal complex was constructed in 1961. In the early 1980s, LAX added domestic and international terminals, parking structures and a second level roadway. LAX offers commercial air service to every major city in the United States and to virtually every major international destination, and is classified by the FAA as a large hub airport.

Form of Official Statement

■ Certain Funding Sources

■ Use of Airport Facilities

CERTAIN FUNDING SOURCES

Passenger Facility Charges

Generally, the PFC Acts permit public agencies controlling certain commercial service airports to charge each enplaning passenger a facility charge ranging from \$1.00 to \$4.50. The proceeds from passenger facility charges must be used to finance eligible airport-related projects. Eligible airport-related projects approved by the FAA are referred to in this Official Statement as "Approved PFC Projects." Public agencies wishing to impose and use passenger facility charges to finance eligible airport-related projects must apply to the FAA for the authority to do so. The Department has received approval from the FAA to collect a passenger facility charge up to \$4.50 on each enplaning passenger at LAX.

The Department expects to submit additional applications to impose and use passenger facility charges for eligible expenditures including, but not limited to, PFC Eligible Obligations (as defined below). If such applications to impose and use passenger facility charges for eligible expenditures are approved, such approval may extend the date by which such PFC revenues are expected to be collected.

PFC revenues to fund certain Approved PFC Projects are collected by air carriers as part of the price of a ticket and then remitted to the Department. The air carriers are permitted by the PFC Acts to retain a portion of each passenger facility charge collected (currently \$0.11 of each passenger facility charge collected) as compensation for collecting and handling PFC revenues. PFC revenues received by the Department are net of this collection fee. Since 1993, the Department has received approval from the FAA to impose and use approximately \$4.2 billion of

USE OF AIRPORT FACILITIES

General

The Department permits airlines and other parties to use Airport facilities, and receives payment for the use of Airport facilities, pursuant to a variety of arrangements, all of which are intended to fulfill the Department's goal of recovering all costs allocable to areas used from the users of such facilities (including, but not limited to, costs for capital, debt service, maintenance and operations, certain airline equipment and infrastructure). Generally these arrangements consist of:

- Air Carrier Operating Permits;
- The Airport Terminal Tariff and the Rate Agreement (as defined below);
- Terminal leases;
- Facilities Use Terms and Conditions;
- Concession and parking agreements;
- Non-exclusive licensing agreements; and
- Various other building and miscellaneous leases including for cargo and hangar facilities.

Form of Official Statement

- Financial and Operating Information
- Airport and Capital Planning

AIRPORT AND CAPITAL PLANNING

The Department is undertaking a multi-billion dollar capital development program at LAX. The following is a discussion of the Department's capital development program (see "—Capital Development") and certain sources of financing (see "—Financing the Capital Program").

Capital Development

The Department regularly reviews and assesses capital needs, taking into account improved information regarding the condition and/or requirements of new and existing facilities, updated cost estimates for contemplated projects, new opportunities for investments or acquisitions that arise from time to time, current and forecast traffic levels, and changes within the industry that may influence the cost of the Department's capital development projects.

- Environmental Matters

AIRPORT SYSTEM ENVIRONMENTAL MATTERS

Several significant environmental matters have direct and indirect impacts on the Department and LAX, some of which are described below. These include mitigation of aircraft noise impacts and wildlife hazards, hazardous substance cleanup and clean air requirements. In accordance with Department policy, generally the Department's tenant leases and/or applicable laws provide that tenants are responsible for the costs of remediation of hazardous or other regulated material from Department property and for compliance with applicable laws. However, if a tenant does not comply with these lease requirements and/or applicable laws, and under certain circumstances, the Department could ultimately become responsible for the costs of compliance and/or required environmental cleanup. The timing and aggregate costs of such cleanups cannot be determined at this time, but could be material.

Aircraft Noise Impacts

In the State, commercial airports operate under operating permits issued by the California Department of Transportation ("Caltrans"). Airports within the State are regulated under the State of California Aeronautics Act. The Department maintains a Noise Management Section within the Environmental Programs Group which operates the Department's noise monitoring system and prepares and submits periodic reports to Caltrans as required under applicable law.

TABLE 11
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL OPERATING STATEMENTS
(DOLLARS IN THOUSANDS)⁽¹⁾

	2014 ⁽²⁾	2015 ⁽²⁾	Fiscal Year 2016 ⁽²⁾	2017	2018
Operating revenues:					
Aviation revenue:					
Landing fees (net)	\$ 222,608	\$ 227,518	\$ 238,491	\$ 260,971	\$ 284,014
Building rentals	315,764	365,296	462,667	493,382	527,476
Other aviation revenue ⁽³⁾	90,154	95,042	102,766	105,599	114,374
Concession revenue	331,311	354,082	398,692	441,623	469,187
Airport sales and services	853	2,047	2,838	3,241	3,624
Other operating revenue	1,039	1,815	1,158	23,873 ⁽⁴⁾	23,729 ⁽⁴⁾
Total operating revenue	\$ 961,729	\$ 1,045,800	\$ 1,206,612	\$ 1,328,689	\$ 1,422,404
Operating expenses:					
Salaries and benefits	\$ 356,726	\$ 374,018	\$ 387,595	\$ 438,153 ⁽⁵⁾	\$ 466,263 ⁽⁵⁾
Contractual services	161,771	174,745	182,659	203,277	221,421
Administrative expense	(1,768) ⁽⁶⁾	2,890	3,288	2,905	4,447
Materials and supplies	45,726	46,102	46,062	43,830	49,703
Utilities	39,089	38,355	36,181	36,043	39,433
Advertising and public relations	3,915	4,606	4,095	2,988	2,512
Other operating expenses	4,567	4,682	3,999	15,304 ⁽⁷⁾	10,942
Total operating expenses before depreciation and amortization	\$ 610,027	\$ 645,398	\$ 663,879	\$ 742,500	\$ 794,721
Income from operations before depreciation and amortization	\$ 351,702	\$ 400,402	\$ 542,733	\$ 586,189	\$ 627,683
Depreciation and amortization	(141,795)	(178,035)	(226,439)	(298,176)	(360,638)
Operating Income	\$ 209,907	\$ 222,367	\$ 316,294	\$ 288,013	\$ 267,045
Non-Operating revenues/(expenses):					
Passenger facility charges	\$ 132,809	\$ 137,855	\$ 150,409	\$ 163,869	\$ 171,431
Customer facility charges	28,675	29,347	31,996	32,545	55,759
Interest income	20,413	20,327	19,638	23,327	35,080
Change in fair value of investments	1,799	(2,021)	13,776	(20,738)	(25,232)
Other non-operating revenue ⁽⁸⁾	11,122	8,618	17,985	15,743	43,421
Interest expense	(133,694)	(166,919)	(182,386)	(193,469)	(205,308)
Bond expense	(1,703)	(2,488)	(3,764)	(2,516)	(4,417)
Other non-operating expenses	(225)	(7,071) ⁽⁹⁾	(3,026)	23	2,500
Net non-operating revenues/(expenses)	\$ 59,196	\$ 17,648	\$ 44,628	\$ 18,784	\$ 73,234
Income before capital grants, and inter-agency transfers	\$ 269,103	\$ 240,015	\$ 360,922	\$ 306,797	\$ 340,279
Federal grants	24,674	30,964	49,255	87,762	54,297
Inter-agency transfers	6,329	5,303	5,116	1,856	--
Transfer of residual operation from ONT	--	--	--	104,125 ⁽⁴⁾	--
Change in net position	300,106	276,282	415,293	500,540	394,576
Net position, beginning of period	\$ 4,044,923	\$ 4,345,029	\$ 4,053,417	\$ 4,468,710	\$ 4,969,250
Change in accounting principle and removal of net pension obligation	--	(567,894) ⁽¹⁰⁾	--	--	(76,496) ⁽¹⁰⁾
Net position, end of period	\$ 4,345,029	\$ 4,053,417	\$ 4,468,710	\$ 4,969,250	\$ 5,287,330

(1) Totals may not add due to rounding.

(2) Restated. Certain reclassifications have been made to conform to fiscal year 2018 presentation.

(3) Includes reimbursement of security-related expenses; TSA revenue pertaining to law enforcement officers and canines presented in non-operating revenue.

(4) Fiscal Years 2018 and 2017 Other Operating Revenues include employee salary and overhead reimbursement of approximately \$16.7 million and \$21.0 million, respectively, from OIAA pursuant to the Staff Augmentation Agreement. As described in Note 17 of the notes to the Annual Financial Report, the Department transferred the assets and liabilities of Ontario International Airport ("OIAA") to Ontario International Airport Authority ("OIAA") as contemplated by a settlement agreement with OIAA on November 1, 2016. As a result of the transfer, the Department recognized a transfer of residual operation from OIAA of approximately \$104.1 million in Fiscal Year 2017.

(5) Fiscal Year 2018 and 2017 salaries and benefits expense include salaries and benefits of approximately \$13.8 million and \$17.4 million, respectively, from OIAA subsequent to the OIAA transfer on November 1, 2016 as described in Note 17 of the notes to the Annual Financial Report.

(6) Fiscal Year 2014 negative Administrative expenses primarily due to an adjustment of approximately \$4.7 million for allowance for uncollectible accounts.

(7) Fiscal Year 2017 increase in other operating expense was mainly due to the accrual and payment of approximately \$3.7 million property taxes for the Park One parking lot pursuant to the lease covering the fiscal years from 2014 to 2017.

(8) Includes approximately \$6.948 million adjustment to Fund Balance.

(9) Primarily comprised of the proportional allocation of the City's Net Pension Liability. See "THE DEPARTMENT OF AIRPORTS - Retirement Plan."

(10) Primarily comprised of the proportional allocation of the City's Net OPEB Liability. See "THE DEPARTMENT OF AIRPORTS - Retirement Plan."

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

Form of Official Statement

- Litigation Regarding the Airport
- Litigation Regarding the Bonds

- Tax Matters

- Ratings

LITIGATION REGARDING THE AIRPORT SYSTEM AND THE DEPARTMENT

General

From time to time, the Department is a party to litigation and is subject to claims arising out of its normal course of business and operations. At this time, there is no pending litigation relating to the Airport System or the Department's operations or business pertaining thereto that would reasonably be expected to have a material impact on Net Pledged Revenues or the operation of LAX, except as described under "THE DEPARTMENT OF AIRPORTS – Subsidization within the Airport System," "USE OF AIRPORT FACILITIES," "AIRPORT AND CAPITAL PLANNING," "AIRPORT SYSTEM ENVIRONMENTAL MATTERS" and below.

TAX MATTERS

General

In the opinion of Dentons US LLP, Bond Counsel to the Department, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2018DE Subordinate Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2018D Subordinate Bond for any period during which such Series 2018D Subordinate Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2018D Subordinate Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Bond Counsel is further of the opinion that (a) interest on the Series 2018D Subordinate Bonds constitutes an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and for taxable years beginning before January 1, 2018, on corporations, by the Code, and (b) interest on the Series 2018E Subordinate Bonds is not a specific preference item for purposes of the federal alternative minimum tax except that interest on the Series 2018E Subordinate Bonds will be included in a corporate taxpayer's adjusted current earnings for purposes of computing its federal alternative minimum tax liability. Bond Counsel notes that no federal alternative minimum tax applies to

RATINGS

S&P Global Ratings, a business division of Standard & Poor's Financial Services LLC ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"), have assigned ratings of "AA-," "Aa3," and "AA-," respectively, to the Series 2018DE Subordinate Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings, including any outlook thereon, should be obtained from the rating agency furnishing the same, at the following addresses: S&P, 55 Water Street, 38th Floor, New York, New York 10041; Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007 and Fitch, One State Street Plaza, New York, New York 10004. The Department furnished the rating agencies with certain information and materials concerning the Series 2018DE Subordinate Bonds and the Department, some of which is not included in this Official Statement. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2018DE Subordinate Bonds.

Form of Official Statement

- Legal Matters
- Municipal Advisors
- Airport Consultant
- Financial Statements
- Continuing Disclosure
- Underwriting
- Appendices
 - Report of the Airport Consultant
 - Annual Financial Report of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) Los Angeles International Airport
 - Summaries of Indentures
 - Proposed Form of Bond Counsel's Opinion
 - Book-entry only system
 - Form of Continuing Disclosure Undertaking
 - Certain Information Regarding the Retirement Plan and Pension Systems of the City of Los Angeles

CONTINUING DISCLOSURE

In connection with the issuance of the Series 2018DE Subordinate Bonds, the Department will covenant to provide, or cause to be provided, to the MSRB certain annual financial information and operating data relating to the Department and, in a timely manner, notice of certain listed events for purposes of Rule 15c2-12 adopted by the SEC. See APPENDIX G – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The Department has agreed to provide the foregoing information to MSRB through the Electronic Municipal Market Access (EMMA) website.

APPENDIX B-2

LOS ANGELES WORLD AIRPORTS (LOS ANGELES INTERNATIONAL AIRPORT) ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017

Form of Official Statement

- Each issuer and bond offering is unique
- Taking into consideration the antifraud rules, Issuers should use independent judgment as to what information should be included in their Official Statements
- Guidelines as to what certain organizations, investors and analyst groups would like to see included in official statements are published from time to time
- Additionally, information contained in official statements of other similar issuers for similar securities may be informative

Preparing the Official Statement

- Begin with consideration of big picture issues and refine details as described below
- Issuers typically addresses questions like the following in connection with consideration of what information to include in an Official Statement:
 - Why are the Bonds being issued?
 - How will the proceeds be used?
 - What types of Bonds are being issued?
 - How will the Bonds be repaid?

Preparing the Official Statement

- Are there circumstances that might interfere with repayment of the Bonds? What else could go wrong in the short, intermediate and long term?
- What is the Issuer's financial condition and what circumstances might cause it to change?
- What options do bondholders have if revenues are not sufficient to pay the Bonds?
- What is new or different since the Issuer's last Bond offering?
- What do bondholders need to know, and is that information being described clearly?

Preparing the Official Statement

- Consider the following procedures in preparing an Official Statement:
 - Engage Disclosure Counsel to work with Issuer staff in assembling information for inclusion in the Official Statement

Preparing the Official Statement

- The Issuer, the Issuer's Attorney and Disclosure Counsel:
 - Review, among other things, financial and industry trends, Issuer-specific news and developments, financial results, regulatory compliance, pending or threatened litigation, legislation or other developments that could affect operations or revenues
 - Other members of the Issuer's finance team prepare various portions of the Official Statement, each of which is reviewed by Issuer staff, the Issuer Attorney and Disclosure Counsel, and later by the full financing team
 - The finance team participates in conference calls and meetings to review the contents of the Official Statement

Preparing the Official Statement

- Issuer's managers and the Issuer's counsel participate in due diligence sessions and provide thorough responses to questions and requests for further information by members of the financing team

Preparing the Official Statement

- The Issuer is responsible for the completeness and accuracy of its Official Statements
- The Issuer should establish and maintain internal procedures designed to ensure that information contained in each Official Statement has been reviewed and approved by the individuals most knowledgeable about various matters
- The Issuer's Board should ensure that the internal and external professionals responsible for disclosure matters are qualified, that staff has followed reasonable internal review procedures and that any material concerns the Board has about the Issuer or the securities have been adequately addressed in each Official Statement

Board Approval of Official Statement

- The Issuer's Board is responsible to ensure that the Issuer complies with applicable securities laws
- The Board should have a thorough understanding of a proposed securities issue prior to its approval and ensure that all material information is provided to potential bondholders
- The Board may reasonably rely on the advice of professionals, yet must exercise independent judgment in approving securities disclosure

Board Approval of Official Statement

- In addition to the questions described above which the Issuer should consider in connection with determining what information should be included in an Official Statement, the Board should considered other questions when approving an Official Statement, including:
 - How has the Issuer allocated responsibilities for the preparation of the Official Statement?
 - What processes or procedures have been established to select qualified professionals?
 - What has the Issuer done to provide for the accuracy of financial and operating information and its other disclosure in the Official Statement?

Board Approval of Official Statement

- What continuing disclosure responsibilities has the Department assumed and what procedures has the Department established to meet them?
- Have the Issuer's procedures resulted in an Official Statement that the Board believes accurately presents the Issuer's financial and operating condition and discloses the information a reasonable investor needs to know?
- Publication of the Official Statement should not occur until each member of the financing team is satisfied that the information is accurate and complete.

Helpful Hints

- Create a disclosure culture
- Highlight important developments “up front”
- Determine appropriate level of importance for any particular event or piece of financial or operating data item
- Bringing all these factors together into final product is ongoing process of give and take
- Tomorrow’s “hot topic” may be different than today’s
- Disclosure must evolve to reflect changing circumstances
- Read the disclosure with “fresh eyes”
- If you think something may be a concern, raise the issue with colleagues and the working group
- There are no “stupid questions”
- Political sensitivity and confidentiality considerations are not exceptions to disclosure

Disclosure Policy and Training

- Adopt or update your disclosure policy, ideally before initiating bond disclosure
 - Process for update, review and sign-off
 - Documents internal controls over disclosure development and sign-off
 - Follow the disclosure policy
 - Make the policy a “living” document that can be revised and refined over time.
- Provide periodic training to Issuer officials and board members on disclosure

Lessons Learned from SEC Actions

- Orange County
 - Emphasized that disclosure is Issuer's responsibility; Reliance on professionals must be reasonable
- Dauphin County, Pennsylvania
 - Know something, say something
- San Diego
 - Lack of disclosure procedures and excessive reliance on outside professionals
 - Some individuals paid fines from their own pocket

Lessons Learned from SEC Actions

- Incomplete or Misleading Pension Disclosures
 - States of New Jersey, Illinois and Kansas –first SEC actions against a State
 - Reinforced lessons of San Diego; importance of disclosure policies and training
- Harrisburg
 - Speaking to the market
- Miami
 - Substantial financial penalties

Investor Communications


- From time to time, Investors contact an Issuer regarding questions concerning the Issuer's finances or operations.
- Best Practice –
 - Develop policies and procedures to identify a point person or persons to respond to such inquiries
 - Only provide information that is already publicly available
 - Where the Issuer wishes to provide information that is not yet publicly available, make such information available to the public simultaneously

Summary

- Have the right people involved – make sure that the personnel involved in disclosure preparation can reasonably be expected to know material information
- Empower everyone in the organization
- Give the investors all the material facts, and let them decide
- Full and transparent disclosure is essential
- Investors must be provided all material information when making their investment decision

Summary

- Officials participating in the disclosure process must be in a position to know material information (i.e., “the right people must be in the room”)
- Vigorous disclosure program requires buy-in and encouragement from top levels
- The Issuer must have a robust disclosure process, and must continue to be vigilant in training involved officials and maintaining rigorous disclosure practices
- Have formal policies and procedures and follow them



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