



**FISCAL YEAR 2020-2021
BUDGET UPDATE #1**

May 18, 2020

Department of Airports of the City of Los Angeles, California

This Fiscal Year 2020-2021 Budget Update #1 (“**Budget Update**”) is voluntarily provided by the Department of Airports (the “**Department**” or “**LAWA**”) of the City of Los Angeles, California (the “**City**”), acting through the Board of Airport Commissioners of the City (the “**Board**”).

This Budget Update is made without intention to provide any update to this Budget Update or its subject matter or make similar voluntary Budget Updates in the future. Any obligation to do so now or in the future is expressly disclaimed. This Budget Update is provided as a further update of information set forth in LAWA’s Voluntary Information Statements dated April 9, 2020 and April 16, 2020.

The worldwide outbreak of COVID-19 has caused and continues to cause disruptions to domestic and international air travel, including both passenger and cargo operations. This Budget Update is intended to provide: (1) a general summary of the impact of COVID-19 on LAWA’s current financial and operational status, (2) a general summary of LAWA’s budget proposals, (3) an update regarding LAWA’s proactive measures to support its business counterparties that are experiencing financial impacts, and to manage its own operations as a result of COVID-19; and (4) a description of how LAWA’s operations and financial condition may change as a result of COVID-19.

LAWA is currently in the process of developing its fiscal year 2020-2021 budget. As part of that process, LAWA management has provided budget information to the Board, including the Budget Update. On April 30, 2020, LAWA Management provided the Budget Update which includes preliminary passenger traffic and financial forecast for fiscal year 2019-20 and two passenger traffic recovery scenarios for fiscal year 2020-2021 with corresponding financial outlooks. Subsequently, on May 7, 2020, LAWA Management presented additional information related to the development of the fiscal year 2020-2021 budget. The May 7, 2020 Budget Update is available on LAWA’s Investor Relations website. The finalization and adoption of LAWA’s fiscal year 2020-2021 budget are subject to Board approval.

Please note that as part of its budget efforts, LAWA is exploring available relief options, including the federal Coronavirus Aid, Relief, and Economic Security Act (“**CARES Act**”). The CARES Act became law on March 27, 2020 and addresses the economic crisis created by the COVID-19 pandemic. The CARES Act provides two types of funding for airports. Direct aid which will reimburse amounts spent for any lawful airport purpose, of which LAWA is expected

to receive approximately \$331.2 million in total funds, of which approximately \$323.6 million are allocated to Los Angeles International Airport (“LAX”) to pay eligible operating expenses and debt service, as noted in the Budget Update. In addition, the CARES Act includes a provision increasing the federal share of all federal fiscal year 2020 (ending September 30, 2020) (“FFY 2020”) Airport Improvement Program grants to 100%. This provision may result in an additional federal share not to exceed approximately \$7.2 million for LAX for its proposed FFY 2020 grant-funded projects, which is subject to confirmation by FAA.

The CARES Act funds will be provided to LAWA on a reimbursement basis. The distribution of the CARES Act funds will depend on the rate at which LAWA spends funds on such purposes and seeks reimbursement. LAWA expects to expend the funds and qualify for reimbursement by the end of fiscal year 2022 or sooner.

LAWA is in the process of gathering and evaluating information necessary in order to make reasonable longer term estimates and forecasts, including with respect to traffic, revenue, expenses and debt service coverage. LAWA’s current main sources of liquidity are its cash on hand and the proceeds of borrowings under its commercial paper program. Total estimated and unaudited restricted cash as of April 30, 2020 was approximately \$2.7 billion and total estimated and unaudited unrestricted cash as of April 30, 2020 was approximately \$1.1 billion.

LAWA expects that as its fiscal year 2020-21 budget is finalized and adopted and as longer term estimates and forecasts are published by LAWA, if any, such information will be made available on LAWA’s Investor Relations website. No assurances can be given that (i) the forecasts and expectations included in fiscal year 2020-21 budget will be achieved or that the assumptions upon which the forecasts are based are reasonable or will be realized, (ii) LAWA management’s current fiscal year 2020-21 budget presentations will be included in the adopted LAWA fiscal year 2020-21 budget, (iii) LAWA will develop or publish any long term estimates and forecasts, or (iv) the foregoing information will be posted on LAWA’s Investor Relations website, and to the extent LAWA provides information on its Investor Relations website, or otherwise, that LAWA is not obligated to present or update, LAWA disclaims any obligation to update such information in the future.

Notwithstanding anything in the Budget Update to the contrary, LAWA cannot predict and no assurance can be given regarding: (i) the duration or extent of the COVID-19 outbreak or other outbreak or pandemic; (ii) the duration or expansion of travel restrictions and warnings; (iii) whether additional countries or destinations will be added to the travel restrictions or warnings; (iv) what long and short term effect COVID-19 or other outbreak/pandemic-related travel restrictions or warnings may have on demand for air travel, including to and from LAX, Department costs or LAWA revenues; (v) to what extent the COVID-19 outbreak, other outbreak or pandemic or force majeure will disrupt the local or global economy, manufacturing or supply chain, and the extent to which any such disruption will adversely impact construction or other operations at LAX; (vi) the extent to which the COVID-19 outbreak or other outbreak or pandemic, may result in changes in demand for travel, or may have an impact on the airlines serving LAX, concessionaires or the airline and travel industry, generally; (vii) whether or to what extent LAWA may provide any further deferrals, forbearances, adjustment or other changes to LAWA’s arrangements with its counterparties and whether its counterparties will fully perform their

obligations under the temporary relief programs that are currently in effect; or (viii) whether any of the foregoing may have a material adverse effect on the finances and operations of LAX.

The Budget Update is provided as of the date set forth therein. If you are viewing the Budget Update after that date there may have been events that occurred subsequent to such date that would have a material adverse effect on the information contained in the Budget Update. The information provided in this Budget Update is not warranted as to completeness or accuracy and is subject to change without notice. All numbers contained in this Budget Update are approximate.

Any investment decisions regarding LAWA's securities should only be made after a careful review of an Official Statement or Offering Memorandum of LAWA, as applicable, related to such securities. In no event will LAWA be liable for any use by any party of, for any decision made or action taken by any party in reliance upon, or for any inaccuracies or errors in, or omissions from, the information contained in the Budget Update and such information may not be relied upon by any party in evaluating the merits of participating in any transaction. Past performance is not indicative of future returns, which will vary. Transactions involving LAWA's securities may not be suitable for all investors. Each investor should consult with his, her or its own advisors as to the suitability of securities or other financial instruments for the investor's particular circumstances.

Certain statements included in this Budget Update constitute "forward-looking statements." Such statements are generally identifiable by terminology used, such as "plan," "expect," "estimate," "budget," "project," "maintain," "achieve," "forecast," "will likely result," "are expected to," "will continue," "is anticipated," "intend" or other similar words. The forward-looking statements herein are based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including airlines, customers, suppliers and competitors, among others, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Department and the Board. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Budget Update will prove to be accurate, and actual results, performance or achievements may differ materially from the expectations and forecasts described in this Budget Update.

LAWA may not issue any updates or revisions to those forward-looking statements if or when the expectations, or events, conditions or circumstances on which such statements are based, occur. Information contained in this Budget Update which involves estimates, forecasts, or other matters of opinion, whether or not expressly so described in this Budget Update, are intended solely as such and are not to be construed as representations of fact. Further, expressions of opinion contained in this Budget Update are subject to change without notice and the delivery of this Budget Update will not, under any circumstances, create any implication that there has been no change in the affairs of LAWA.

By providing the information in this Budget Update, LAWA does not imply or make any representation (a) that all information provided in this Budget Update is material to investors' decisions regarding investment in LAWA's securities, (b) the completeness or accuracy of any financial, operational or other information not included in this Budget Update, (c) regarding any other financial, operating or other information about LAWA, or its outstanding securities, (d) that no changes, circumstances or events have occurred since the date of this Budget Update or (e) that no other circumstances or events have occurred or that no other information exists concerning LAWA, its outstanding securities or any contemplated transactions which may have a bearing on LAWA's financial condition, the security for LAWA securities, or an investor's decision to buy, sell, or hold any of LAWA's securities.



Fiscal Year 2020-2021
Budget Update #1

Los Angeles World Airports
Board of Airport Commissioners
April 30, 2020

This presentation contains forward-looking statements which may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking statements. Actual results could differ materially from those set forth in the forward-looking statements.

COVID-19 Impact Is Unprecedented

- Impacts
 - TSA Checkpoint Traffic is 95-96% down in April
 - Concession sales are 93-97% down
 - Parking revenues are 92% down
 - International airlines have started filing for bankruptcy
- Responses
 - LAWA implemented austerity measures in early March (freeze on hiring, limits on discretionary spending and contractual services)
 - Rent Relief Programs in place for airlines, concessionaires and other tenants
 - CARES Act allocated \$323.6 million to LAX to mitigate revenue losses

LAX FY2020 Enplaned Passengers

(in millions)	Actual FY 2019	Forecast FY 2020	Decrease	% Change
Domestic	31.2	21.6	(9.6)	-30.6%
International	13.0	8.8	(4.2)	-32.6%
Enplanements*	44.2	30.4	(13.8)	-31.2%

- Enplaned passenger forecast reflects estimated COVID-19 impact in March-June 2020.

* Enplanements, or enplaned passengers, are passengers boarding a plane at an airport, and are, on average, equal approximately 50% of total passengers using the airport. It is a common air traffic metric, used to estimate the airport unit cost and unit revenue and forecast passenger-driven revenues.

LAX FY2020 Net Operating Revenues: Budget vs. Forecast

(in \$ millions)	FY2020 Budget	FY2020 Forecast*	\$ Change	% Change
Revenues - collected	\$ 1,587	\$ 1,240	\$ (347)	(22%)
Revenues - accrued**		165	165	N/A
Total Operating Revenues	\$ 1,587	\$ 1,405	\$ (182)	(11%)
Operating Expenses***	(874)	(856)	(18)	(2%)
Net Operating Revenues	\$ 713	\$ 549	\$ (164)	(23%)
Net Operating Revenues, excl. accruals	\$ 713	\$ 384	\$ (329)	(46%)

* Preliminary, unaudited and subject to change

** Estimated accruals for year-end airline revenue true-ups and deferred rents

*** Net of capitalized salaries & benefits. Excluding depreciation and amortization.

FY2020 Forecast does not include any assumptions on the application of CARES Act grant funds.

- **Financial metrics:**
 - Achieve Debt Service Coverage Ratio of no less than 1.40x
 - Maintain targeted Days Cash on Hands at or above 365 days
- **Cash/Liquidity:** Maintain liquidity to protect against operational, financial, and economic uncertainties
- **Operating:** Reduce costs in response to reduction in traffic
- **Debt:** Maintain cost effective access to short- and long-term debt markets
- **Capital Investments:** Continue funding key capital projects

FY2021 Budget Challenges

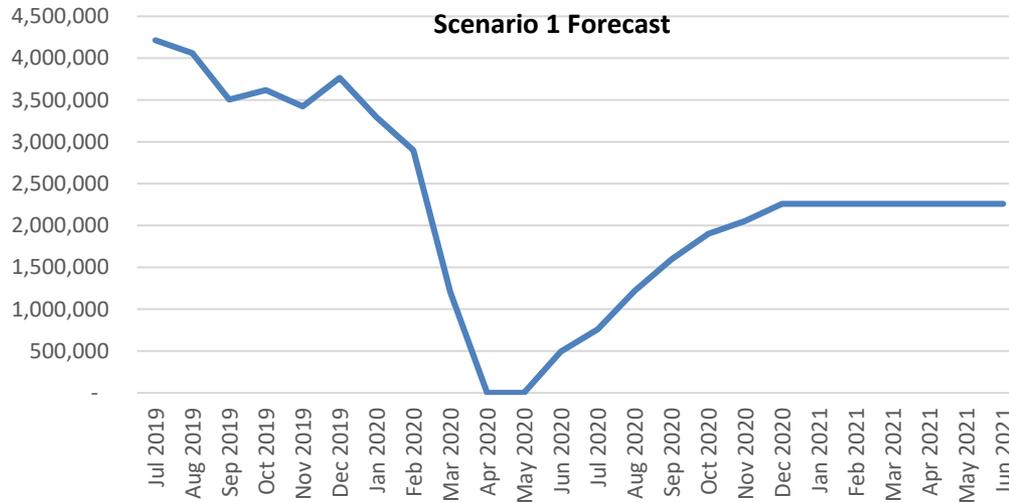
- **Traffic Forecast:**
 - Difficult to estimate rate of traffic recovery.
 - Airlines and analysts predict a 3-5 year recovery back to 2019 traffic levels.
- **Revenue Uncertainty:**
 - Variable revenues correlate with traffic.
 - Spend per passenger will likely decrease.
 - It will be difficult to increase rates to recover costs.
- **Financial Health of Key Tenants:**
 - Airlines and concessionaires' financial viability depends on traffic recovery.
 - Increasing risk of tenant bankruptcies and defaults.
 - FPGs cover only three months of rents and fees.
- **Cost Pressures:**
 - Airport costs generally do not correlate with traffic.
 - Additional O&M costs for new facilities are coming on line (MSC, T1.5, ITF West).
 - Higher cost of funds and risk premiums.

FY2021 Preliminary Key Budget Assumptions – Personnel Expenses

- Target 10% in Personnel cost savings
- Without any action, Personnel costs would increase by approximately 5%, compared to FY2020 Budget
- Actions
 - Maintain hiring freeze through FY2021
 - Separation Incentive Program (SIP)
 - Attrition
 - Overtime reduction
 - Further measures, as required to achieve target
- SIP benefits extend beyond FY2021

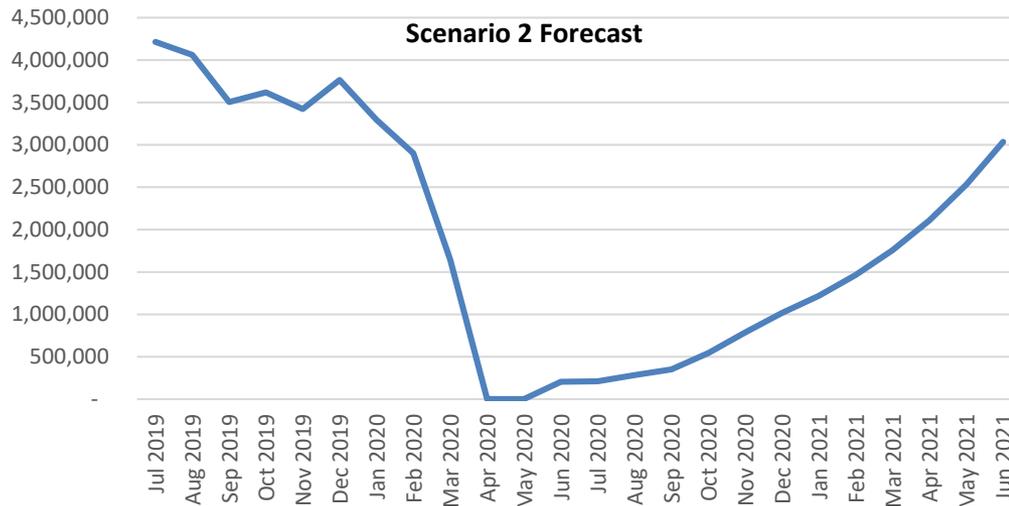
- Divisional targets are set at 20% reduction over FY2020 Budget:
 - Use zero-based budgeting approach, evaluating and prioritizing every budget line item
 - Scrutinized each contract for savings (operating and capital)
 - CEO and CFO are reviewing unfunded expenditures

LAX Enplaned Passenger Traffic Forecast - Scenarios



Scenario 1	Enplanements*	YOY Change	vs. FY2019
FY2019	44.2		
FY2020	30.4	-31%	-31%
FY2021	23.3	-23%	-47%

* Enplanements in millions



Scenario 2	Enplanements*	YOY Change	vs. FY2019
FY2019	44.2		
FY2020	30.4	-31%	-31%
FY2021	15.3	-50%	-65%

* Enplanements in millions

Enplanements, or enplaned passengers are passengers boarding a plane at an airport, and are, on average, equal to approximately 50% of total passengers using the airport. It is a common air traffic metric, used to estimate the airport unit cost and unit revenue and forecast passenger-driven revenues.

LAX FY2021 Current Outlook – Scenario I

(in \$ millions)	FY2020 Budget	FY2021 Outlook 1	\$ Change	% Change
Revenues*	\$ 1,587	\$ 1,348	\$ (239)	(15%)
Expenses**	(874)	(787)	(87)	(10%)
Interest Earnings and Other***	54	30	(24)	(44%)
Net Revenues	\$ 767	\$ 591	\$ (176)	(23%)
Net Debt Service	281	320	39	14%
Estimated Debt Service Coverage	2.7x	1.8x	(0.9x)	(32%)
Remaining Net Revenues	\$ 486	\$ 271	\$ (215)	(44%)

* Includes 10% allowance for bad debt

** Net of capitalized salaries & benefits. Excluding depreciation and amortization.

*** Other includes Build America Bond subsidy

FY2021 Outlook does not include any assumptions on the application of CARES Act grant funds.

LAX FY2021 Current Outlook – Scenario 2

(in \$ millions)	FY2020 Budget	FY2021 Outlook 2	\$ Change	% Change
Revenues*	\$ 1,587	\$ 1,211	\$ (376)	(24%)
Expenses**	(874)	(787)	(87)	(10%)
Interest Earnings and Other***	54	30	(24)	(44%)
Net Revenues	\$ 767	\$ 454	\$ (313)	(41%)
Net Debt Service	281	320	39	14%
Estimated Debt Service Coverage	2.7x	1.4x	(1.3x)	(48%)
Remaining Net Revenues	\$ 486	\$ 134	\$ (352)	(72%)

* Includes 10% allowance for bad debt

** Net of capitalized salaries & benefits. Excluding depreciation and amortization.

*** Other includes Build America Bond subsidy

FY2021 Outlook does not include any assumptions on the application of CARES Act grant funds.

- May
 - 1st Meeting: “Deep dive” into budget details
 - 2nd Meeting: Incorporate BOAC feedback and present finalized revenues and expenses
- June
 - 1st Meeting: Staff presents FY2020-21 Budget for adoption