



**FISCAL YEAR 2020-2021
BUDGET DEVELOPMENT UPDATE #2**

May 18, 2020

Department of Airports of the City of Los Angeles, California

This Fiscal Year 2020-2021 Budget Development Update #2 (“**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 and LAWA’s Fiscal Year 2020-2021 Budget Update #1 dated April 30, 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 this Budget Update. On May 7, 2020, LAWA Management presented this Budget Update which includes an update to the financial metrics being used to develop the budget, the operating expense components for the fiscal year 2020-2021 and a summary of cost savings proposals for personnel expenses, city services, utilities and insurance and financing costs to achieve \$130 million in cost savings. The Budget Update and the prior April 30, 2020 Budget Update #1 are available on LAWA’s Investor Relations website. The finalization and adoption of LAWA’s fiscal year 2020-2021 budget are subject to Board approval. The fiscal year 2020-2021 budget is scheduled to be presented to the Board in June 2020.

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 costs and debt service as noted in the Budget Update #1 dated April 30, 2020. 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.

LAWA is also in the process of gathering and evaluating information necessary for LAWA 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 this 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 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 the Budget Update is not warranted as to completeness or accuracy and is subject to change without notice. All numbers contained in the 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 Development
Update #2

Los Angeles World Airports
Board of Airport
Commissioners,
May 7, 2020

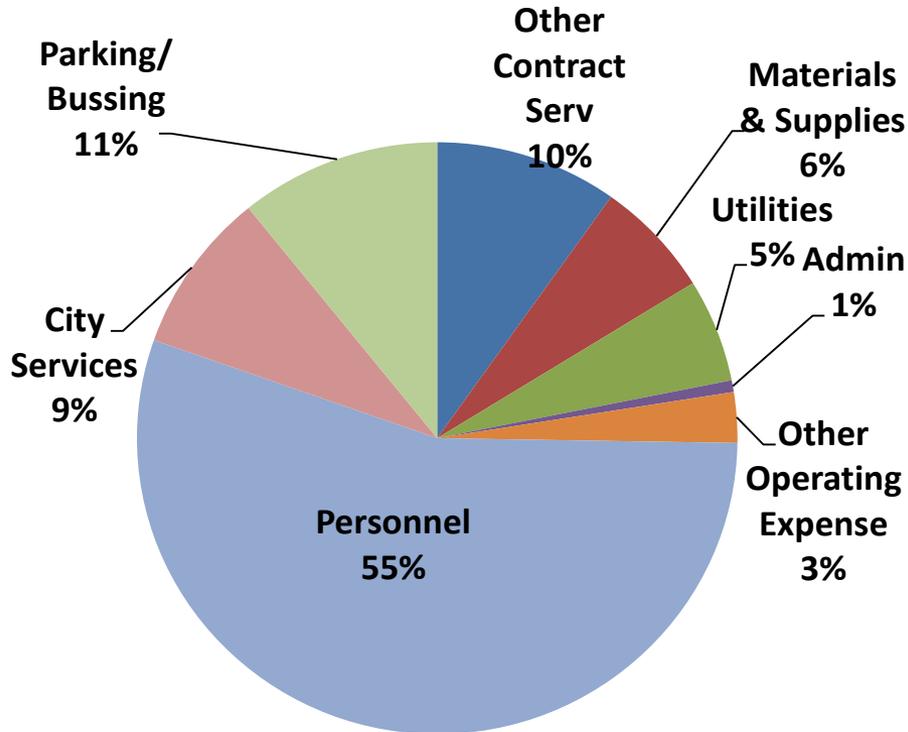
This presentation contains forward-looking statements which may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking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

FY2021 Budget Objectives

- **Financial metrics:**
 - Achieve Debt Service Coverage Ratio of no less than 1.40x;
 - Maintain targeted Days Cash on Hands at or above 365 days;
 - Target 10% Personnel Cost savings;
 - Reduce divisional budgets by 20% vs. FY2020 Budget.
- **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.

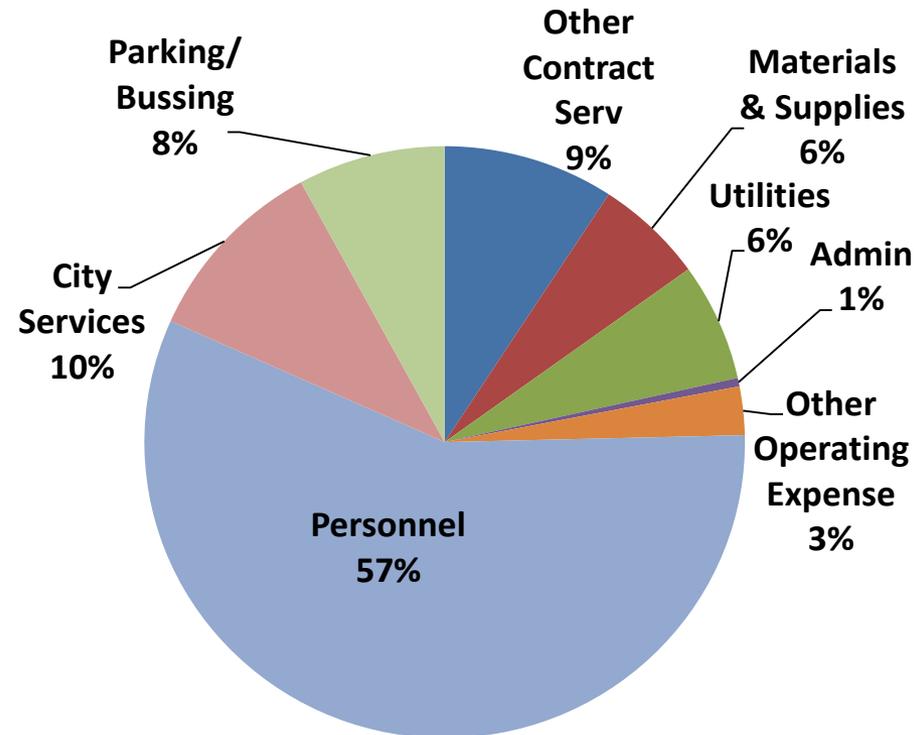
LAWA Operating Expense Components

FY2020 Budget



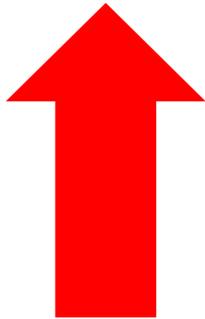
FY2020 Budget LAWA and City personnel costs - 64% of total

FY2021 Preliminary

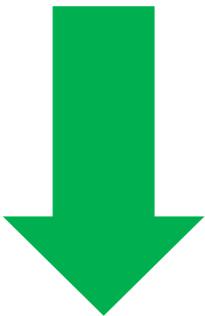


FY2021 Preliminary LAWA and City personnel costs - 67% of total

Key Budget Drivers



- Payroll and City Services Increases
- Contractual Living Wage Increases
- Utilities
- Insurance Premiums
- Credit Facility Fees



- Payroll reduction initiatives
- City Services renegotiations
- Zero-based Budgeting, with Not-To-Exceed Budget Targets (20% reduction)
- Right-sizing Operations & Maintenance based on projected traffic
- Contract reduction or renegotiations opportunities
- Eliminate discretionary expenditures

\$130 million Cost Reduction Target

FY2021 Preliminary Personnel Expenses

\$ in Thousands	Head count	FY2020 Budget	Savings	FY2021 Prelim	Increase/ (Decrease) vs. FY2020	
					\$	%
Baseline Costs	3,763	507,391		532,890	25,499	5%
Hiring Freeze	3,619		(18,295)	514,595	7,204	1%
Overtime Reduction			(2,610)	511,985	4,594	1%
Separation Incentive Program	3,269		(12,782)	499,203	(8,188)	(2%)
Total Personnel Cost Savings			(\$33,687)			
Other Measures	3,269		(20,666)	478,537	(28,854)	(6%)

- Additional cost reduction measures are required to achieve targeted \$50 million in savings against FY2011 Preliminary Baseline Costs

LAWA's Payments for City Services

(\$ in thousands)

Type of Service	FY2020	FY2021	Increase/(Decrease)	
			\$	%
Fire Fighting – LAX	\$34,461	\$35,977	1,516	4%
Fire Fighting – VNY	6,257	6,319	62	1%
Police	26,883	27,720	837	3%
Direct Services	10,345	10,051	(294)	(3%)
Central Services	4,240	5,135	895	21%
AP Controllers	607	1,350	743	122%
Various Services	2,047	2,906	859	42%
Total Operating Expenses	\$84,840	\$89,458	\$4,618	5%

- **Savings Gap - \$22 million**

- To achieve 20% budget reduction, FY2021 costs need to be reduced by \$22 million, or 24%

FY2021 Utility Expenses

(\$ in thousands)

By Type	FY2020 Budget	FY2021 Prelim	Increase/ (Decrease) vs. FY2020	
			\$	%
Electricity	\$39,344	\$39,454	110	0%
Water	6,854	7,224	370	5%
Telephone	3,713	4,058	345	9%
Gas	3,098	3,349	251	8%
Miscellaneous	1,394	1,592	198	14%
Total	\$54,403	\$55,677	\$1,274	2%

- **Savings Gap - \$12 million**

- To achieve 20% budget reduction, FY2021 costs need to be reduced by \$12 million, or 22%

FY2021 Insurance and Financing Costs

(\$ in thousands)

By Type	FY2020 Budget	FY2021 Prelim	Increase/ (Decrease) vs. FY2020	
			\$	%
Insurance Premiums and Deductibles	\$9,550	\$11,020	\$1,470	15%
Credit Facility Fees	1,753	4,524	2,771	158%
Total	\$11,303	\$15,544	\$4,241	38%

- **Savings Gap – \$6.5 million**
 - To achieve 20% budget reduction, FY2021 costs need to be reduced by \$6.5 million, or 41%

Proposed Actions to Achieve Target

- Savings Gap based on 2021 Preliminary is approximately \$55 million.
- Actions to close the Gap:
 - Explore other measures to reduce Personnel Expenses (Target \$50 million total savings).
 - Explore City Services reduction opportunities (Target 10%, or \$9 million reduction).
 - Estimate Utility savings from the reduction in traffic (e.g. lower water consumption) and more efficient systems in new facilities (Target 10%, or 6 million in savings).
 - Review risk management strategy against insurance costs (Target: cost v. risk optimization).
 - Reduce LAWA's controllable expenses (Target additional \$25 million in savings).

- May
 - 2nd Meeting: Incorporate BOAC feedback and present finalized revenues and expenses for LAX, VNY and PMD
- June
 - 1st Meeting: Staff presents FY2020-21 Budget for adoption