



January 2, 2020

Senate Judiciary Committee
Attn: The Honorable Hanna-Beth Jackson – Chair
Room 2187
State Capitol
Sacramento, CA 95814-4900

Dear Honorable Chairwoman Jackson,

As required under California Government Code Section 50474.3(b)(4)(A), the City of Los Angeles Department of Airports, also known as Los Angeles World Airports ("LAWA"), is providing information as required under the Code to the following topics:

LAX
Van Nuys
City of Los Angeles

- i. *The total amount of the customer facility charge collected.*
- ii. *How the funds are being spent, and*
- iii. *The amount of and reason for any changes in the airport budget or financial needs for the facility or common-use transportation system*

Eric Garcetti
Mayor

Board of Airport
Commissioners

Sean O. Burton
President

Valeria C. Velasco
Vice President

Gabriel L. Eshaghian
Beatrice C. Hsu
Nicholas P. Roxborough
Dr. Cynthia A. Telles
Karim Webb

Deborah Flint
Chief Executive Officer

With respect to Items (i) and (ii), LAWA is providing the attached independent audit of the CFC program at Los Angeles International Airport which contains such information.

With respect to Item (iii), LAWA completed its procurement of a 29-year Design, Build, Finance, Operate and Maintain agreement for a new Consolidated Rental Car Facility ("ConRAC") with Los Angeles Gateway Partners in December 2018. As part of our funding plan for the new ConRAC, LAWA expects to issue bonds on or around ConRAC opening to fund portions of the cost of building the ConRAC, the debt service of which will be known when the bonds are issued. Based on the recent review of previous projections of CFC collections and project funding requirements by airport staff, LAWA has made the determination in pursuant to California Government Code Section 50474.3(b) to impose the maximum \$9 per day CFC rate earlier than previously planned.

Please feel free to contact me if you have any questions on the aforementioned information. I can be reached at (424) 646-5253.

Sincerely,

Nerida Esguerra-Olivares
Acting Chief Financial Officer
Los Angeles World Airports

Attachment

cc: Tamami Yamaguchi, Deputy City Attorney, Office of the Los Angeles City Attorney





Los Angeles
World Airports

January 2, 2020

Assembly Judiciary Committee
Attn: The Honorable Assembly Member Mark Stone – Chair
1020 N. Street, Room 104
Sacramento, CA 96814

Dear Honorable Chairman Stone,

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Nerida Esguerra-Olivares
Acting Chief Financial Officer
Los Angeles World Airports

Attachment

cc: Tamami Yamaguchi, Deputy City Attorney, Office of the Los Angeles City Attorney





REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH
REQUIREMENTS OF THE CUSTOMER FACILITY CHARGE

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Customer Facility Charge Report
Fiscal Year Ended June 30, 2019



MOSSADAMS

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 the Customer Facility Charge 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 its Customer Facility Charge ("CFC") program for the year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with statutes, regulations, and the terms and conditions applicable to the CFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the CFC program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Code. Those standards and the Code require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the CFC program occurred. An audit includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the CFC program. However, our audit does not provide a legal determination of LAX's compliance.

Opinion on CFC Program

In our opinion, LAX complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its CFC program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LAX's internal control over compliance with the types of requirements that could have a direct and material effect on the CFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Code, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Code. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Customer Facility Charge Revenues and Expenditures

We have audited the financial statements of LAX, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise LAX's basic financial statements. We have issued our report thereon dated October 28, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements as a whole.

Moss Adams LLP

Los Angeles, California
October 28, 2019

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, 2019 and 2018

(amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over revenues collected on approved projects
Program to date as of July 1, 2017	\$ 266,669	\$ 17,377	\$ 284,046	\$ 3,026	\$ 281,020
Fiscal year 2017-18 transactions					
Quarter ended September 30, 2017	8,756	848	9,604	—	9,604
Quarter ended December 31, 2017	7,758	921	8,679	—	8,679
Quarter ended March 31, 2018	16,096	1,027	17,123	—	17,123
Quarter ended June 30, 2018	23,149	1,175	24,324	—	24,324
Program to date as of June 30, 2018	322,428	21,348	343,776	3,026	340,750
Fiscal year 2018-19 transactions					
Quarter ended September 30, 2018	23,028	1,352	24,380	—	24,380
Quarter ended December 31, 2018	18,695	1,504	20,199	—	20,199
Quarter ended March 31, 2019	17,136	1,652	18,788	—	18,788
Quarter ended June 30, 2019	21,389	1,833	23,222	—	23,222
Unexpended customer facility charge revenues and interest earned June 30, 2019	<u>\$ 402,676</u>	<u>\$ 27,689</u>	<u>\$ 430,365</u>	<u>\$ 3,026</u>	<u>\$ 427,339</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, 2019 and 2018

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):

	<u>2019</u>	<u>2018</u>
Amount collected	\$ 402,676	\$ 322,428
Interest earnings	<u>27,689</u>	<u>21,348</u>
Subtotal	430,365	343,776
Expenditures		
ConRAC planning and development costs	<u>3,026</u>	<u>3,026</u>
Unexpended CFCs revenue and interest earnings	<u>\$ 427,339</u>	<u>\$ 340,750</u>

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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