MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns Aa3 to Los Angeles Dept. of Apts.-Los Angeles International Airport Enterprise's (CA) 2025 Series A-E subordinate bonds; affirms outstanding ratings, outlook stable

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New York, March 14, 2025 -- Moody's Ratings has assigned Aa3 to Los Angeles Department of Airports-Los Angeles International Airport Enterprise's (CA) (LAX) $1,199.170 million Subordinate Revenue and Refunding Revenue Bonds, 2025 Series A (Private Activity/AMT) (Green Bonds), $177.085 million Subordinate Revenue and Refunding Revenue Bonds, 2025 Series B (Private Activity/AMT), $171.035 million Subordinate Refunding Revenue Bonds, 2025 Series C (Governmental Purpose/Non-AMT), $942.300 million Subordinate Revenue and Refunding Revenue Bonds, 2025 Series D (Governmental Purpose/Non-AMT) (Green Bonds), and $565.500 million Subordinate Revenue and Refunding Revenue Bonds, 2025 Series E (Governmental Purpose/Non-AMT). Concurrently, we affirmed the Aa2 rating on $3.8 billion of outstanding senior lien bonds and the Aa3 on $6.5 billion of outstanding parity subordinate lien bonds. The outlook is stable.

The affirmation of the ratings with a stable outlook reflects our view that, although LAX will experience weakened leverage and coverage metrics due to debt issued for the $15 billion next capital plan, these metrics will remain consistent with the Aa3 category. The current forecast incorporates conservative elements, suggesting potential for outperformance and stronger positioning within the rating category. LAX has also shown flexibility in preserving credit quality by aligning the capital plan with expected growth.

RATINGS RATIONALE

The ratings reflect the airport's strong market position, which historically drives high demand for terminal rentals, supporting a favorable rate-making structure and robust operating margins and debt service coverage ratios (DSCR). Total DSCR has historically exceeded 2.0x and is expected to remain above 1.5x, assuming the airport's projections for enplanement recovery and future debt issuance are met. The new projections assume a full recovery of passengers by fiscal 2029. Strong liquidity, with unrestricted and discretionary cash balances equivalent to 871 days of cash on hand as of June 30, 2024, and three letters of credit totaling $500 million, also supports the ratings. Additionally, airline diversity, with no single airline accounting for more than 20% of enplanements in fiscal 2024, bolsters credit quality. The airport's rate agreement, which allows charging airlines as necessary to achieve a 1.40x DSCR on all senior and subordinate debt service and capital availability payments, is another credit strength.

The ratings face negative pressure from the department's plan to advance a significant $15 billion capital expansion after the prior $15.1 billion plan. However, LAWA has demonstrated prudent management by rescheduling expansionary terminal projects and focusing near-term efforts on repairing and maintaining the existing infrastructure. Projects, such as the midfield satellite concourse south, will facilitate the renovation of the last terminal (Terminal 5) that has not been recently renovated before the city hosts the 2028 Olympics. The proposed plan remains subject to design and contracting, with the existing budget reflecting conservative assumptions to account for rising construction costs. The current ratings consider the flexibility around timing and costs of the new program. Implementing the program as expected would increase total debt to nearly $21 billion, with adjusted debt per O&D enplanement peaking near $635.

The Aa2 senior lien rating reflects the senior lien on net revenues and very strong DSCR that will remain above 2.6x if the airport's conservative forecast is met. Currently, senior lien debt accounts for about 38% of outstanding obligations. The Aa3 rating on the subordinate lien debt reflects the second claim on airport revenue and relatively weaker total DSCR that will remain above 1.50x if the airport's forecast is met. Both forecasts include the full financing of the next capital plan.

RATING OUTLOOK

The stable outlook reflects that LAX's total DSCR will remain above 1.75x while adjusted debt per O&D enplanement increases to around $635 in fiscal 2028 and liquidity will remain strong above 600 days cash on hand. Our stable outlook also considers that while enplanement growth could be weak in fiscal 2025 given industry wide trends, that LAX will see steady growth through the forecast period.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Given the high leverage and construction risk at the airport as well as the inherent operational risks in the airport industry, positive rating pressure is unlikely at this rating level

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Significant enplanement declines or year-over-year losses that extend into the second half of calendar year 2025.

- Leverage, as measured by adjusted debt per O&D enplanement and inclusive of the obligations for availability payments above $700

- Net revenue DSCR below 2.5x on senior lien bonds and total DSCR below 1.5x on all obligations, including availability payments on sustained basis

LEGAL SECURITY

The senior lien bonds are secured by a pledge of net pledged revenues generated at LAX and the subordinate lien bonds are secured by a pledge of net pledged revenues subordinate to the claim of the senior bondholders. The senior lien bonds have an additional bonds test (ABT) that requires historic net revenues plus rolling coverage equal 125% of maximum annual debt service, or that the senior rate covenant has been met and will be met, including additional bonds, to the later of five years after issuance or three years beyond the use of capitalized interest. Subordinate bonds have an ABT that is similar to the seniors but with a subordinate net revenues threshold of 115% on subordinate debt.

USE OF PROCEEDS

The 2025 Series ABC Subordinate Bonds are being issued to: 1) pay and/or reimburse the Department for the costs of certain capital projects at LAX; 2) current refund and defease all or a portion of the outstanding Los Angeles International Airport Senior Revenue Bonds, 2015A (AMT), Senior Revenue Bonds, 2015B (Non-AMT), Senior Revenue Bonds, 2015 Series D (AMT), Senior Revenue Bonds, 2015 Series E (Non-AMT) and Subordinate Refunding Revenue Bonds, Series 2015C; 3) current refund a portion of the outstanding Subordinate Commercial Paper Notes; 4) fund capitalized interest 5) make a deposit to the Subordinate Reserve Fund; and 6) pay costs of issuance.

The 2025 Series DE Subordinate Bonds are being issued to: 1) pay and/or reimburse the Department for the costs of certain capital projects at LAX; 2) current refund all of the Subordinate Revolving Obligations; 3) current refund and defease all or a portion of the Department of Airports of the City of Los Angeles, California Los Angeles International Airport Subordinate Revenue Bonds 2009 Series C (Federally Taxable - Build America Bonds - Direct Payment to Issuer) (the "Series 2009C Subordinate Bonds"); 4) current refund a portion of Commercial Paper; 5) fund capitalized interest; 6) make a deposit to the Subordinate Debt Service Reserve Fund; and 7) pay costs of issuance of the 2025 Series DE Subordinate Bonds.

LAX's near-term capital projects that will be funded by the bond issuance include 1) access projects, including additional payments for the APM system not included in the previous capital plan, 2) taxiway improvements, 3) Midfield Satellite Concourse South; and 4) Terminal 5 renovations and improvements, amongst other projects.

PROFILE

Revenues derived from the facilities at Los Angeles International Airport (LAX) are included in the security pledge for these bonds. LAX is managed by Los Angeles World Airports (LAWA). LAWA also operates Van Nuys Airport.

LAX is located approximately 15 miles from downtown Los Angeles on the western boundary of the city and occupies approximately 3,800 acres. The central terminal complex features a decentralized design with nine individual terminals constructed on two levels lining a U-shaped two-level roadway. LAX currently has 148 contact gates of which 6 are currently closed for remodeling. Eight additional contact gates are under construction for delivery in late 2025. The existing airfield consists of four parallel east-west runways configured in two pairs. Approximately 13,500 public parking spaces are available at LAX in parking lots owned by LAWA. Cargo facilities at LAX provide approximately 2.0 million square feet of building space.

These buildings and accompanying aircraft ramp areas occupy approximately 261 acres of land.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Airports and Related Issuers published in February 2023 and available at https://ratings.moodys.com/rmc-documents/398689 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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Earl Heffintrayer
Lead Analyst

Kurt Krummenacker
Additional Contact

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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