

**New Issue – Book-Entry Only****Ratings: See “RATINGS” herein**

*In the opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel to the Board (as defined below), under existing law, including current statutes, regulations, rulings and judicial decisions and assuming continuing compliance by the Board with certain covenants and the Tax Certificate (as defined below), (i) interest on the 2008 Series A Bonds and the 2008 Series B Bonds (both terms as defined below and collectively, the “Tax-Exempt Bonds”) is excludible from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the “Code”), except for interest on any 2008 Series A Bonds during any period that it is held by a “substantial user” of the facilities financed with proceeds of such 2008 Series A Bonds or a “related person” of such “substantial user” as such quoted terms are defined for purposes of Section 147(a) of the Code, and (ii) interest on the 2008 Series C Bonds (as defined below and sometimes referred to as the “Taxable Bonds”) is fully includible in gross income for federal income tax purposes. In the further opinion of Bond Counsel, under present law, interest on the 2008 Series A Bonds is an item of tax preference under Section 57(a) of the Code in computing the federal alternative minimum tax for individuals and corporations and interest on the 2008 Series B Bonds is taken into account in determining the adjusted current earnings under Section 56(g) of the Code in computing the federal alternative minimum tax for corporations. Bond Counsel is also of the opinion that, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, interest on the Tax-Exempt Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky, and the 2008 Bonds (as defined below) are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. Ownership of the 2008 Bonds may result in certain collateral federal income tax consequences to certain Bondholders. See “TAX TREATMENT” herein for a more complete discussion.*

**\$77,075,000****LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD****\$46,395,000**

**Variable Rate General Airport  
Revenue and Revenue Refunding Bonds,  
2008 Series A  
(Lexington-Fayette Urban County  
Government General Obligation)  
(AMT)  
CUSIP: 52908W AA1**

**\$26,235,000**

**Variable Rate General Airport  
Revenue and Revenue Refunding Bonds,  
2008 Series B  
(Lexington-Fayette Urban County  
Government General Obligation)  
(non-AMT)  
CUSIP: 52908W AB9**

**\$4,445,000**

**Variable Rate General Airport  
Taxable Revenue Refunding Bonds,  
2008 Series C  
(Lexington-Fayette Urban County  
Government General Obligation)  
(Taxable)  
CUSIP: 52908W AC7**

**Dated:** Date of Delivery

**Due:** 2008 Series A Bonds: July 1, 2038  
2008 Series B Bonds: July 1, 2038  
2008 Series C Bonds: July 1, 2033

The Lexington-Fayette Urban County Airport Board (the “Board”) will issue its Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series A (Lexington-Fayette Urban County Government General Obligation) (AMT) (the “2008 Series A Bonds”), Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series B (Lexington-Fayette Urban County Government General Obligation) (non-AMT) (the “2008 Series B Bonds”), and its Variable Rate General Airport Taxable Revenue Refunding Bonds, 2008 Series C (Lexington-Fayette Urban County Government General Obligation) (Taxable) (the “2008 Series C Bonds”), pursuant to the General Bond Resolution and the 2008 Series Bond Resolution adopted by the Board on October 15, 2008, and the Trust Indenture, dated as of November 1, 2008, as supplemented and amended by the First Supplemental Trust Indenture, dated as of November 1, 2008, both by and between the Board and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”) (such Trust Indenture, as so supplemented and amended, the “Indenture”). The 2008 Series A Bonds, the 2008 Series B Bonds and the 2008 Series C Bonds (collectively, the “2008 Bonds”) are being issued by the Board for the principal purposes of providing funds to: (i) refund certain outstanding First Mortgage Revenue Bonds issued by the Lexington-Fayette Urban County Airport Corporation, as more fully described herein; (ii) finance improvements to the Blue Grass Airport (the “Airport”) consisting of certain airfield, terminal, parking and sanitary sewer improvements (the “2008 Project”); (iii) fund a Debt Service Reserve Fund; and (iv) pay the costs of issuance of the 2008 Bonds.

The 2008 Bonds will be dated the date of delivery and will bear interest from that date to their respective maturity dates. The 2008 Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). Purchases of beneficial interests in the 2008 Bonds will be made in book-entry-only form, in denominations of \$100,000 and any integral multiple of \$5,000 in excess of \$100,000. Purchasers of beneficial interests in the 2008 Bonds (the “Beneficial Owners”) will not receive physical delivery of certificates representing their interests in the 2008 Bonds. Interest, together with the principal and redemption premium, if any, of the 2008 Bonds, will be paid directly to DTC by the Trustee, in Louisville, Kentucky, as Paying Agent under the Indenture, so long as DTC or its nominee is the registered owner of the 2008 Bonds. The final disbursement of such payments to the Beneficial Owners of the 2008 Bonds will be the responsibility of DTC, the Direct Participants and the Indirect Participants, all as more fully described in “DESCRIPTION OF THE 2008 BONDS - Book-Entry Only System.”

The 2008 Bonds initially will be in the Daily Rate Period, bearing interest at a variable rate determined daily by J.P. Morgan Securities Inc. (the “Remarketing Agent”). Generally, each Daily Rate Period will commence on each Business Day and end on, but not include, the next succeeding Business Day. The 2008 Bonds may be converted to a Weekly Rate Period, a Commercial Paper Rate Period, a Long-Term Rate Period or a Fixed Rate Period, as more fully described herein. So long as the 2008 Bonds bear interest at the Daily Rate or the Weekly Rate, interest on the 2008 Bonds is payable on any Conversion Date and on the first Business Day of each month, commencing January 2, 2009. Investors should not rely upon this Official Statement with respect to any 2008 Bonds, if such 2008 Bonds no longer bear interest at the Daily Rate or the Weekly Rate. See “DESCRIPTION OF THE 2008 BONDS.”

The 2008 Bonds are subject to optional and mandatory redemption prior to maturity and optional and mandatory tender for purchase, as described herein under the caption “DESCRIPTION OF THE 2008 BONDS - Mandatory Sinking Fund Redemption,” “- Optional Redemption,” “- Extraordinary Optional Redemption,” “- Optional Tender for Purchase” and “- Mandatory Tender for Purchase.”

From the date of original issuance through December 15, 2011, the 2008 Series A Bonds, the 2008 Series B Bonds and the 2008 Series C Bonds will be payable from three separate irrevocable direct pay Letters of Credit issued by JPMorgan Chase Bank, N.A., a national banking association (the “Bank”), in favor of the Trustee. The Trustee will be entitled to draw up to an amount sufficient to pay the principal of and up to 45 days’ accrued interest on the 2008 Bonds, at the maximum rate of 12% per annum with respect to the Tax-Exempt Bonds and at the maximum rate of 15% per annum with respect to the Taxable Bonds, to be used (1) to pay the principal of and interest on the 2008 Bonds when due and (2) to pay the purchase price of 2008 Bonds tendered by the holders thereof as provided in the Indenture. The Letters of Credit will expire, unless earlier terminated or extended as described herein, on December 15, 2011. The Letters of Credit constitute Credit Support Instruments under the Indenture and may be replaced by Alternate Credit Support Instruments as described herein. See “CREDIT SUPPORT INSTRUMENTS” and “APPENDIX F - INFORMATION CONCERNING THE BANK.”

In addition, the 2008 Bonds are secured, on a parity basis, by: (1) a pledge of and lien on the General Revenues of the Board, which generally consist of all the revenues, payments, proceeds, fees, charges, rent and all other income of any nature derived by or for the Board from the operation or ownership of the Airport, except for those items specifically excluded pursuant to the Indenture; (2) a pledge of all of the Board’s right, title and interest in various funds and accounts under the Indenture; and (3) the rental payments (the “Lease Rental Payments”) made by the Lexington-Fayette Urban County Government (the “Urban County Government”) to the Board pursuant to the Lease Agreement, dated as of November 1, 2008 (the “Lease”), between the Board, as lessor, and the Urban County Government, as the lessee, the amounts of which are intended to be sufficient to pay the principal of and interest on the 2008 Bonds when due; PROVIDED THAT THE LEASE RENTAL PAYMENTS DO NOT SECURE THE PAYMENT OF THE PURCHASE PRICE OF 2008 BONDS TENDERED BY THE HOLDERS THEREOF AS PROVIDED IN THE INDENTURE. See “SECURITY FOR THE 2008 BONDS.” The obligation of the Urban County Government created by the Lease constitutes a full general obligation of the Urban County Government, and the full faith, credit and revenue of the Urban County Government are pledged for the prompt payment of the Lease Rental Payments. See “APPENDIX D – SUMMARIES OF THE INDENTURE AND THE LEASE.”

Except as provided in the Lease with respect to the Urban County Government, the 2008 Bonds do not constitute an indebtedness or pledge of the credit or taxing power, within the meaning of any constitutional or statutory provision whatsoever, of the Commonwealth of Kentucky or any political subdivision or governmental unit thereof, the Urban County Government or the Board. See “SECURITY FOR THE 2008 BONDS.”

**This cover page contains information for quick reference only and is not a summary of the 2008 Bonds. Investors must read the entire Official Statement, including the appendices hereto, to obtain information essential to making an informed investment decision, paying particular attention to the matters discussed under “BONDHOLDER RISKS.”**

The 2008 Bonds are offered for delivery when, as and if issued and received by the Underwriter, and subject to the approving opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Board by Stites & Harbison, PLLC, Louisville, Kentucky, General Counsel, for the Underwriter by Barnes & Thornburg LLP, Indianapolis, Indiana, counsel to the Underwriter and for the Bank by Frost Brown Todd LLC, Louisville, Kentucky. It is expected that the 2008 Bonds will be ready for delivery through the facilities of DTC in New York, New York, on or about December 9, 2008.

**J.P. Morgan**

Dated: November 25, 2008

**Lexington-Fayette Urban  
County Airport Board**

*Chair, Bernard Lovely, Jr.*

*Vice-Chair, James Boyd*

*Member, Roszalyn Akins*

*Member, Robert Dawson*

*Member, Dr. David Stevens*

*Secretary, P.G. Peebles*

*Treasurer, J. Robert Owens*

*Member, John Davis*

*Member, Richard Hopgood*

*Member, Nancy Wisner*

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*Newton & Associates, Inc.  
Charlotte, North Carolina  
Airport Consultant*

*Stites & Harbison, PLLC  
Louisville, Kentucky  
Counsel to the Board*

*Peck, Shaffer & Williams  
LLP  
Covington, Kentucky  
Bond Counsel*

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by the Lexington-Fayette Urban County Airport Board (the "Board") or the Lexington-Fayette Urban County Government (the "Urban County Government"). The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances create any implication that there has been no change in the affairs of the Board or the Urban County Government since the date hereof. This Official Statement is submitted in connection with the sale of the 2008 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

This Official Statement does not constitute an offer to sell the 2008 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such jurisdiction. No dealer, salesman or any other person has been authorized by the Board, the Urban County Government or the Underwriter to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Board, the Urban County Government or the Underwriter.

This Official Statement is not to be construed as a contract with the purchasers of the 2008 Bonds. Statements contained in this Official Statement which involve estimates, forecasts, projections or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE 2008 BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

IN CONNECTION WITH THE OFFERING OF THE 2008 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2008 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT .....	1
THE BOARD .....	4
LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT .....	4
AUTHORITY .....	5
SOURCES AND USES OF FUNDS .....	6
PLAN OF FINANCE.....	6
DESCRIPTION OF THE 2008 BONDS .....	8
SECURITY FOR THE 2008 BONDS .....	27
CREDIT SUPPORT INSTRUMENTS.....	35
THE AIRPORT.....	37
THE 2008 PROJECT .....	39
AIRPORT OPERATIONS.....	40
BONDHOLDER RISKS .....	40
AIRPORT CONSULTANT .....	48
LITIGATION.....	48
TAX TREATMENT .....	49
APPROVAL OF LEGAL PROCEEDINGS .....	52
RATINGS .....	52
UNDERWRITING .....	52
REMARKETING .....	53
CERTAIN RELATIONSHIPS .....	53
CONTINUING DISCLOSURE .....	53
FINANCIAL STATEMENTS .....	56
OTHER MATTERS.....	56
APPENDIX A -	REPORT OF AIRPORT CONSULTANT
APPENDIX B -	GENERAL INFORMATION, LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
APPENDIX C -	FINANCIAL INFORMATION, LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD
APPENDIX D -	SUMMARIES OF THE INDENTURE AND THE LEASE
APPENDIX E -	FORM OF BOND COUNSEL OPINION
APPENDIX F -	INFORMATION CONCERNING THE BANK

## OFFICIAL STATEMENT

**\$77,075,000**

### LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD

<b>\$46,395,000</b> Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series A (Lexington-Fayette Urban County Government General Obligation) (AMT) CUSIP: 52908W AA1	<b>\$26,235,000</b> Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series B (Lexington-Fayette Urban County Government General Obligation) (non-AMT) CUSIP: 52908W AB9	<b>\$4,445,000</b> Variable Rate General Airport Taxable Revenue Refunding Bonds, 2008 Series C (Lexington-Fayette Urban County Government General Obligation) (Taxable) CUSIP: 52908W AC7
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### INTRODUCTORY STATEMENT

The purpose of this Official Statement, which includes the cover page, Table of Contents and Appendices, is to provide certain information concerning (i) the Lexington-Fayette Urban County Airport Board (the “Board”), (ii) the Lexington-Fayette Urban County Government (the “Urban County Government”) and (iii) the Board’s \$46,395,000 aggregate principal amount of Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series A (Lexington-Fayette Urban County Government General Obligation) (AMT) (the “2008 Series A Bonds”), \$26,235,000 aggregate principal amount of Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series B (Lexington-Fayette Urban County Government General Obligation) (non-AMT) (the “2008 Series B Bonds”) and \$4,445,000 aggregate principal amount of Variable Rate General Airport Taxable Revenue Refunding Bonds, 2008 Series C (Lexington-Fayette Urban County Government General Obligation) (Taxable) (the “2008 Series C Bonds” and collectively with the 2008 Series A Bonds and the 2008 Series B Bonds, the “2008 Bonds”).

APPENDIX D to this Official Statement contains definitions of certain terms used herein. Capitalized terms not defined in APPENDIX D or elsewhere herein shall have the meanings given thereto in the Trust Indenture (the “Trust Indenture”), as supplemented by the First Supplemental Trust Indenture (the “First Supplemental Indenture”), both dated as of November 1, 2008 (collectively, the “Indenture”), between the Board and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”).

*This Official Statement describes only the terms and provisions applicable to the 2008 Bonds while bearing interest at a Daily Rate or a Weekly Rate. If the Interest Rate applicable to a Series of 2008 Bonds is converted to the Commercial Paper Rate, the Long-Term Rate or the Fixed Rate, the Board will supplement this Official Statement or deliver a new official statement describing the terms and provisions of such other Interest Rate. Purchasers of the 2008 Bonds should not rely on this Official Statement for information relating to 2008 Bonds bearing interest in an Interest Rate other than the Daily Rate or the Weekly Rate.*

As of the date of this Official Statement, the Lexington-Fayette Urban County Airport Corporation (the “Corporation”) has outstanding (i) \$1,400,000 First Mortgage Revenue Bonds, 1994 Series B, which were issued in the original aggregate principal amount of \$3,200,000 (the “1994 Bonds”), (ii) \$9,500,000 First Mortgage Airport Parking Revenue Bonds, 1998 Series A, which were issued in the original aggregate principal amount of \$11,200,000 (the 1998A Bonds”), (iii) \$1,400,000 First Mortgage Taxable Airport Revenue Bonds, 1998 Series B, which were issued in the original aggregate principal amount of \$2,600,000 (the “1998B Bonds”), (iv) \$3,000,000 First Mortgage Airport Refunding Revenue Bonds, 1998 Series C, which were issued in the original aggregate principal amount of \$6,700,000 (the “1998C Bonds and, together with the 1998A Bonds and 1998B Bonds, the “1998 Bonds”), (v) \$23,700,000 First Mortgage Airport Revenue Bonds, 2003 Series A, which were issued in the original

aggregate principal amount of \$24,500,000 (the “2003A Bonds”) and (vi) \$4,375,000 First Mortgage Taxable Airport Revenue Bonds, 2003 Series B, which were issued in the original aggregate principal amount of \$4,550,000 (the “2003B Bonds” and, together with the 2003A Bonds, the “2003 Bonds”).

Under the financing structure used for the 1994 Bonds, the 1998 Bonds and the 2003 Bonds (collectively, the “Prior Bonds”), title to the Blue Grass Airport (the “Airport”) was held by the Corporation and operated by the Board. Pursuant to a Contract, Lease and Option of 1994, a Contract, Lease and Option of 1998 and a Contract, Lease and Option of 2003 (collectively, the “Prior Leases”), the Corporation leased certain designated portions of the Airport (including various capital improvements financed with the Prior Bonds) to the Urban County Government and the Board, as joint lessees. The required rental payments under the Prior Leases included annual amounts sufficient to pay principal of and interest on the Prior Bonds. To secure payment of the Prior Bonds, the Corporation granted a nonforecloseable mortgage lien to The Bank of New York Mellon Trust Company, N.A. (successor to Bank One, Kentucky, N.A., with respect to the 1994 Bonds and the 1998 Bonds, and successor to J.P. Morgan Trust Company, with respect to the 2003 Bonds), as trustee (the “Prior Bond Trustee”) on the Airport pursuant to the original Mortgage Deed of Trust, as amended and supplemented by intervening indentures and a Mortgage Deed of Trust of 1994, a Mortgage Deed of Trust of 1998 and a Mortgage Deed of Trust of 2003 (collectively, the “Prior Indenture”).

The 2008 Bonds are to be issued by the Board pursuant to Chapter 183 of the Kentucky Revised Statutes, the General Bond Resolution and the 2008 Series Bond Resolution (the “2008 Series Resolution”) adopted by the Board on October 15, 2008 (collectively, the “Resolutions”), and the Indenture, pursuant to which the Trustee has been appointed to act as the trustee, the authenticating agent and the paying agent (the “Paying Agent”) for the 2008 Bonds and the keeper of the books maintained for the registration, exchange and transfer of the 2008 Bonds (the “Registrar”). The 2008 Bonds are being issued by the Board for the principal purposes of providing funds to: (1) refund all of the Corporation’s outstanding Prior Bonds; (2) finance improvements to the Airport consisting of certain airfield, terminal, parking and sanitary sewer improvements (the “2008 Project”); (3) fund the Debt Service Reserve Fund established pursuant to the Trust Indenture (the “Debt Service Reserve Fund”) in an amount equal to the Debt Service Reserve Requirement (as hereinafter defined); and (4) pay the costs of issuance of the 2008 Bonds.

Upon the issuance of the 2008 Bonds, portions of the proceeds thereof, together with other moneys legally available therefor, will be deposited in the Sinking Fund established by the Prior Indenture (the “Prior Sinking Fund”) for the defeasance of all the Prior Bonds outstanding under the Prior Indenture. Moneys on deposit in the Prior Sinking Fund will provide sufficient moneys for the payment of the interest on the Prior Bonds when due and the redemption price of the Prior Bonds called for optional redemption on their redemption date. Upon such deposit on the date of issuance of the 2008 Bonds, the Prior Bonds will no longer be outstanding under the Prior Indenture, the Prior Indenture will be defeased, the Prior Leases will be terminated, the Corporation will be dissolved, and the Board will then become the owner of the Airport. See “PLAN OF FINANCE.”

From the date of original issuance through December 15, 2011, the 2008 Series A Bonds, the 2008 Series B Bonds and the 2008 Series C Bonds will be payable from three separate irrevocable direct pay Letters of Credit (the “Letters of Credit”) issued by JPMorgan Chase Bank, N.A., a national banking association (the “Bank”), in favor of the Trustee, pursuant to the Letter of Credit and Reimbursement Agreement, dated as of November 1, 2008 (the “Reimbursement Agreement”), between the Board and the Bank. The Trustee will be entitled to draw up to an amount sufficient to pay the principal of and up to 45 days’ accrued interest on the 2008 Bonds, at the maximum rate of 12% per annum with respect to the 2008 Series A Bonds and the 2008 Series B Bonds (collectively, the “Tax-Exempt Bonds”) and at the maximum rate of 15% per annum with respect to the 2008 Series C Bonds, to be used (1) to pay the

principal of and interest on the 2008 Bonds when due and (2) to pay the purchase price of 2008 Bonds tendered by the holders thereof as provided in the Indenture. The Letters of Credit will expire, unless earlier terminated or extended as described herein, on December 15, 2011. The Letters of Credit constitute Credit Support Instruments under the Indenture and may be replaced by Alternate Credit Support Instruments as described herein. See “CREDIT SUPPORT INSTRUMENTS” and “APPENDIX F - INFORMATION CONCERNING THE BANK.”

Pursuant to the Lease Agreement, dated as of November 1, 2008 (the “Lease”), between the Board, as lessor, and the Urban County Government, as the lessee, the Board will lease the Airport, including the 2008 Project, to the Urban County Government. The Lease is a general obligation of the Urban County Government and the full faith, credit and taxing power of the Urban County Government is irrevocably pledged to the payment of lease rental payments which are equal to the principal and interest payments on the 2008 Bonds (the "Lease Rental Payments"), when due. The basic security for the general obligation debt of the Urban County Government, including the Lease, is the Urban County Government's ability to levy, and its pledge to levy, an annual tax to pay the interest on and principal of outstanding general obligation indebtedness, including the Lease Rental Payments, as and when the same become due and payable. The tax must be levied in an amount sufficient to pay, as the same become due, the Lease Rental Payments, as well as the principal of and interest on all outstanding general obligation bonds and bond anticipation notes of the Urban County Government. The Constitution of the Commonwealth of Kentucky mandates the collection of a tax sufficient to pay the interest on an authorized indebtedness and the creation of a sinking fund for the payment of the principal thereof. The Urban County Government adopted an Ordinance on October 23, 2008 (the "Ordinance") that levies such annual tax, which shall be collected to the extent other lawfully available monies of the Urban County Government are not provided. The Ordinance also affirms the prior creation of a sinking fund into which the proceeds of such tax or other lawfully available monies of the Urban County Government are to be deposited for payment of the Lease Rental Payments and not used for any other purpose. THE LEASE RENTAL PAYMENTS DO NOT SECURE THE PAYMENT OF THE PURCHASE PRICE OF THE 2008 BONDS TENDERED BY THE HOLDERS THEREOF AS PROVIDED IN THE INDENTURE. See “SECURITY FOR THE 2008 BONDS - Lease - General Obligation Pledge.”

Upon the issuance of the 2008 Bonds, the 2008 Bonds, any additional Obligations hereafter issued and outstanding from time to time, any Interest Rate Hedge Agreements hereafter entered into, and any obligation of the Board to pay Hedge Payments, the Bank to the extent of any obligation of the Board to reimburse the Bank for amounts provided under the Letters of Credit pursuant to the Reimbursement Agreement and any other Credit Support Providers to the extent of any obligation of the Board to reimburse Credit Support Providers for amounts provided under Credit Support Instruments hereafter entered into by the Board are payable from and secured by a pledge of: (1) the General Revenues (as hereinafter defined) of the Airport; (2) all of the Board’s rights, title and interest in the Debt Service Fund, the Debt Service Reserve Fund and any other funds or accounts permitted by, established under or identified in the Indenture, as it may hereafter be further amended or supplemented; and (3) the Lease; without any preference, priority or distinction whatsoever of any Obligation, Interest Rate Hedge Agreement or Credit Support Instrument over any other, except as otherwise provided in the Indenture; PROVIDED THAT, THE LEASE RENTAL PAYMENTS DO NOT SECURE THE PAYMENT OF THE PURCHASE PRICE OF THE 2008 BONDS TENDERED BY THE HOLDERS THEREOF AS PROVIDED IN THE INDENTURE. See “SECURITY FOR THE 2008 BONDS” and “APPENDIX D - SUMMARIES OF THE INDENTURE AND THE LEASE” for the definitions of “Obligations,” “Interest Rate Hedge Agreements,” “Credit Support Provider” and “Credit Support Instruments.”

In connection with the issuance of the 2008 Bonds and the acquisition and construction of the 2008 Project, the Corporation has caused to be prepared by Newton & Associates, Inc. (“NAI” or the

“Airport Consultant”) the “Report of the Airport Consultant” (the “Feasibility Report”), which is included in APPENDIX A hereto.

## **THE BOARD**

The Lexington-Fayette Urban County Airport Board is a political subdivision of the Commonwealth of Kentucky created in 1946 pursuant to Kentucky Revised Statutes, Chapter 183 and the prior existence of the Board was specifically recognized in the Charter of the Lexington-Fayette Urban County Government Sec. 7.18, which provides that the merger of the City of Lexington and Fayette County would not change the Airport Board’s statutory enabling acts and operation of the Board. The Board continues its autonomous status as intended under the statutes. The Board consists of ten members who are appointed by the Mayor of the Urban County Government.

The Board provides for the management and operation of the Airport by employment of an Executive Director and such staff as is deemed necessary to properly operate, develop, manage and maintain the Airport. The Executive Director is directly responsible to the Board for all of the Airport’s business and operational activities. The Executive Director is assisted by four Directors - one for Administration and Finance, one for Operations, one for Planning and Development and one for Marketing and Community Relations. In total, the Board has 84 full time and nine part time employees. There are six operating divisions, namely: Airport Services; Janitorial Services; Public Safety; Administration; Planning and Development; and Operations.

The Airport is currently operated by the Board. Following the issuance of the 2008 Bonds, the Board will continue to be the sole operator of the Airport.

The audited financial statements for the Board for the years ended June 30, 2008 and June 30, 2007 are attached hereto as APPENDIX C. See “FINANCIAL STATEMENTS” herein.

## **LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**

The Urban County Government is a political subdivision of the Commonwealth of Kentucky created on January 1, 1974, by the merger of the City of Lexington with the County of Fayette. It exists as the single unit of general local government exercising jurisdiction throughout the geographical boundaries of Fayette County. The Urban County Government operates under a Mayor-Council form of government whereby the executive and administrative functions are vested with the Mayor and legislative authority is vested with the Urban County Council.

The Mayor is the chief executive officer and is elected to serve a four-year term. The Urban County Council has fifteen members, including twelve members elected from districts who serve two-year terms and three at-large members who serve four-year terms. The Vice-Mayor is the at-large member who receives the most votes in the general election.

The Mayor is assisted in the administration of the Urban County Government by department commissioners who are appointed by the Mayor with the approval of the Urban County Council. The Urban County Government has seven departments, headed by department commissioners, which are responsible for administering programs and implementing policies. Each department is divided into divisions that are managed by division directors.

The Department of Finance is responsible for: the custody, investment and disbursement of all funds; debt management; retirement fund administration; coordination of the annual financial audit; and

publication of the Comprehensive Annual Financial Report. This department includes the divisions of Accounting, Computer Services, Purchasing and Revenue.

See “APPENDIX B - GENERAL INFORMATION, LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT,” which contains further information and data regarding the Urban County Government.

## LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

Mayor  
Jim Newberry

Council Members at Large  
Jim Gray (Vice Mayor)  
Chuck Ellinger II  
Linda Gorton

### Council Members by District

1<sup>st</sup> District  
Andrea James

5<sup>th</sup> District  
David B. Stevens, M.D.

9<sup>th</sup> District  
Jay McChord

2<sup>nd</sup> District  
Tom Blues

6<sup>th</sup> District  
Kevin O. Stinnett

10<sup>th</sup> District  
Don Blevins

3<sup>rd</sup> District  
Dick DeCamp

7<sup>th</sup> District  
K.C. Crosbie

11<sup>th</sup> District  
Peggy Henson

4<sup>th</sup> District  
Julian Beard

8<sup>th</sup> District  
George Myers

12<sup>th</sup> District  
Ed Lane

Commissioner of Finance  
Kyna Koch

Clerk of the Urban County Council  
Susan Lamb

Additional information regarding the Urban County Government, including certain financial information, is included in APPENDIX B attached hereto.

### **AUTHORITY**

The 2008 Bonds are to be issued pursuant to authority contained in Chapter 183 of the Kentucky Revised Statutes. The 2008 Bonds have been authorized by the 2008 Series Resolution. The Lease is being entered into under the provisions of Section 65.940 to 65.956 of the Kentucky Revised Statutes. The 2008 Series Resolution and the Ordinance also approved the forms of the Lease and authorized the Board and the Urban County Government, respectively, to enter into and perform the Lease.

## SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

	<b>2008 Series <u>A Bonds</u></b>	<b>2008 Series <u>B Bonds</u></b>	<b>2008 Series <u>C Bonds</u></b>
<b>Sources</b>			
Principal Amount of Bonds	\$46,395,000.00	\$26,235,000.00	\$4,445,000.00
Available Funds with respect to the Prior Bonds	<u>3,535,668.04</u>	<u>654,563.76</u>	<u>431,525.59</u>
Total Sources	\$49,930,668.04	\$26,889,563.76	\$4,876,525.59
<b>Uses</b>			
Deposit to Prior Sinking Fund	\$31,963,859.18	\$7,554,160.00	\$4,436,250.00
Deposit to Project Fund	14,086,614.03	17,150,988.38	0.00
Deposit to Debt Service Reserve Fund	3,289,687.04	1,860,220.70	383,184.21
Costs of Issuance (Includes Underwriter's Discount)	<u>590,507.79</u>	<u>334,194.68</u>	<u>57,091.38</u>
Total Uses	\$49,930,668.04	\$26,889,563.76	\$4,876,525.59

## PLAN OF FINANCE

### Refunding

The Prior Bonds will be called for optional redemption on January 2, 2009 (the "Redemption Date of the Prior Bonds"), at 100% of the principal amount thereof.

The refunding of the Prior Bonds will be accomplished by depositing, concurrently with the issuance of the 2008 Bonds, a portion of the proceeds thereof, together with other moneys legally available therefor, in the Prior Sinking Fund. In particular: (1) a portion of the proceeds of the 2008 Series A Bonds, together with other moneys legally available therefor, will be deposited in the Prior Sinking Fund for (a) the 1994 Bonds, (b) the 1998A Bonds and the 1998C Bonds and (c) the 2003A Bonds; (2) a portion of the proceeds of the 2008 Series B Bonds, together with other moneys legally available therefor, will be deposited in the Prior Sinking Fund for the 1998B Bonds; and (3) a portion of the proceeds of the 2008 Series C Bonds, together with other moneys legally available therefor, will be deposited in the Prior Sinking Fund for the 2003B Bonds. Moneys on deposit in the Prior Sinking Fund will provide sufficient moneys for the payment of the interest on the Prior Bonds when due and the redemption price of the Prior Bonds called for optional redemption on the Redemption Date of the Prior Bonds. Upon such deposit, the Prior Bonds will no longer be outstanding under the Prior Indenture, the indebtedness with respect thereto will be discharged, the Prior Leases will be terminated, the Corporation will be dissolved, and the Board will then become the owner of the Airport.

Potter & Company, LLP, Lexington, Kentucky, a firm of independent public accountants, will deliver to the Board its attestation report indicating that it has examined, in accordance with standards established by the American Institute of Certified Accountants, the information and assertions provided by the Board and others. Included in the scope of its examination will be a verification of the mathematical accuracy of the mathematical computations of the adequacy of the cash deposited in the

Prior Sinking Fund to pay the interest on the Prior Bonds when due and the redemption price of the Prior Bonds on the Redemption Date of the Prior Bonds.

## **2008 Project**

A portion of the proceeds of the 2008 Series A Bonds and the Series 2008 Series B Bonds will be used to finance the 2008 Project. See “THE 2008 PROJECT” for a further description of the 2008 Project.

## **Debt Service Reserve Fund**

A portion of the proceeds of the 2008 Bonds will be deposited in the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Requirement. See “SECURITY FOR THE 2008 BONDS - Debt Service Reserve Fund” for a further description of the Debt Service Reserve Fund.

## **Interest Rate Cap Agreements**

The Board has entered into eight interest rate cap agreements (the “Interest Rate Cap Agreements”) with JPMorgan Chase Bank, N.A. (successor to JPMorgan Chase Bank with respect to the Current Interest Rate Cap Agreements (as hereinafter defined)) (the “Counterparty”), which are described in further detail in the table below under this subcaption.

Six of the Interest Rate Cap Agreements were entered into on November 25, 2003 (the “Current Interest Rate Cap Agreements”), in the original aggregate notional principal amount of \$49,350,000 in order to provide a hedge against future interest rate risk with regard to the Prior Bonds. The Current Interest Rate Cap Agreements terminate on January 1, 2011, and their current aggregate notional principal amount is \$44,075,000. Four of the Current Interest Rate Cap Agreements (the “SIFMA Current Interest Rate Cap Agreements”) provide for certain payments to be made by the Counterparty to the Board in the event that the average SIFMA Municipal Swap Index (formerly the BMA Municipal Swap Index) exceeds 7.5% per annum during any Calculation Period (as defined therein). The current aggregate notional principal amount of the SIFMA Current Interest Rate Cap Agreements is \$38,100,000, and immediately prior to their termination date, their aggregate notional principal amount is scheduled to be \$35,400,000. The SIFMA Current Interest Rate Cap Agreements were entered into to provide a hedge against future interest rate risk with regard to the 1994 Bonds, the 1998A Bonds, the 1998C Bonds and the 2003A Bonds. The other two Current Interest Rate Cap Agreements (the “LIBOR Current Interest Rate Cap Agreements”) provide for certain payments to be made by the Counterparty to the Board in the event that the average three-month LIBOR rate exceeds 10% per annum during any Calculation Period (as defined therein). The current aggregate notional principal amount of the LIBOR Current Interest Rate Cap Agreements is \$5,975,000. The LIBOR Current Interest Rate Cap Agreements were entered into to provide a hedge against future interest rate risk with regard to the 1998B Bonds and the 2003B Bonds.

The other two Interest Rate Cap Agreements consist of forward interest rate caps and were entered into on July 26, 2005, with an effective date of January 1, 2011 (the “Forward Interest Rate Cap Agreements”), in the original aggregate notional principal amount of \$31,800,000. The Forward Interest Rate Cap Agreements terminate on January 1, 2018, and provide for certain payments to be made by the Counterparty to the Board in the event that the average SIFMA Municipal Swap Index (formerly the BMA Municipal Swap Index) exceeds 7.5% per annum during any Calculation Period (as defined therein). The Forward Interest Rate Cap Agreements were entered into to replace the SIFMA Current Interest Rate Cap Agreements and thereby continue to provide a hedge against future interest rate risk with regard to the 1994 Bonds, the 1998A Bonds, the 1998C Bonds and the 2003A Bonds. As a result of

the refunding of the Prior Bonds with the proceeds of the 2008 Bonds, the Interest Rate Cap Agreements are intended by the Board to continue providing a hedge against future interest rate risk with regard to a portion of the 2008 Bonds.

Any payments received by the Board pursuant to the Interest Rate Cap Agreements will constitute General Revenues available to pay debt service on the 2008 Bonds. See “SECURITY FOR THE 2008 BONDS - General Revenues” and “BONDHOLDER RISKS - Interest Rate Cap Agreements.”

## INTEREST RATE CAP AGREEMENTS

### Current Interest Rate Cap Agreements

<u>SIFMA Current Interest Rate Cap Agreements (Cap Rate – 7.5%)</u>		<u>LIBOR Current Interest Rate Cap Agreements (Cap Rate – 10%)</u>	
<u>Notional Amount</u>	<u>As of</u>	<u>Notional Amount</u>	<u>As of</u>
\$42,700,000	12/2/2003	\$6,650,000	12/2/2003
\$42,200,000	7/1/2004	\$6,550,000	7/1/2004
\$41,300,000	7/1/2005	\$6,450,000	7/1/2005
\$40,500,000	7/1/2006	\$6,350,000	7/1/2006
\$39,375,000	7/1/2007	\$6,175,000	7/1/2007
\$38,100,000	7/1/2008	\$5,975,000	7/1/2008
\$36,925,000	7/1/2009	\$5,800,000	7/1/2009
\$35,400,000	7/1/2010	\$5,600,000	7/1/2010
\$ 0	1/1/2011	\$ 0	1/1/2011

### Forward Interest Rate Cap Agreements (Cap Rate – 7.5%)

<u>Notional Amount</u>	<u>As of</u>
\$31,800,000	1/1/2011
\$31,075,000	7/1/2011
\$30,200,000	7/1/2012
\$29,275,000	7/1/2013
\$28,450,000	7/1/2014
\$27,375,000	7/1/2015
\$26,375,000	7/1/2016
\$25,625,000	7/1/2017
\$ 0	1/1/2018

## DESCRIPTION OF THE 2008 BONDS

### General

The 2008 Bonds will be dated their date of issuance and will mature as shown on the cover page. From and after the date of the issuance and delivery of the 2008 Bonds, the 2008 Bonds will bear interest at the Daily Rate and be in the Daily Rate Period and will continue to bear interest at the Daily Rate and be in the Daily Rate Period until the date on which another type of Rate Period becomes effective for the 2008 Series A Bonds, the 2008 Series B Bonds or the 2008 Series C Bonds. The Rate Period of each

series of the 2008 Bonds may be converted to the Weekly Rate Period, the Commercial Paper Rate Period, the Long-Term Rate Period or the Fixed Rate Period, however, all 2008 Series A Bonds shall operate in the same Rate Period at the same time, all 2008 Series B Bonds shall operate in the same Rate Period at the same time, and all 2008 Series C Bonds shall operate in the same Rate Period at the same time. If any series of the 2008 Bonds is converted from the Daily Rate Period to another Rate Period, such series is subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. See “- Conversions Between Rate Periods.”

The 2008 Bonds will be issuable only in fully registered form and, while the 2008 Bonds operate in the Weekly Rate Period or the Daily Rate Period, in the minimum denomination of \$100,000 or any integral multiple of \$5,000 in excess thereof (the “Minimum Authorized Denomination”). Interest on the Tax-Exempt Bonds, which bear interest at: (1) a Weekly Rate, will be computed on the basis of a 365- or 366-day year for the number of days actually elapsed, based on the calendar year in which the Weekly Rate Period commences; or (2) a Daily Rate, will be computed on the basis of a 365- or 366-day year for the number of days actually elapsed. Interest on the 2008 Series C Bonds, which bear interest at a Weekly Rate or a Daily Rate, will be computed on the basis of a 360-day year and the number of days actually elapsed. Interest payable on any Interest Payment Date will be payable to the registered owner of the 2008 Bonds as of the Regular Record Date for such payment; provided that interest payable on any 2008 Bond shall, if the Interest Rate is the Daily Rate or the Weekly Rate, be payable to the registered owner on the applicable Interest Payment Date in immediately available funds by electronic wire transfer to the bank for credit to the ABA routing number and account number of such registered owner filed with the Trustee no later than five Business Days before an Interest Payment Date, but no later than a Regular Record Date.

“Interest Payment Date” means:

(1) when used with respect to a series of 2008 Bonds accruing interest at Daily Rates, the first Business Day of each calendar month following a month in which interest at such rate has accrued, and any day which is a Conversion Date from a Daily Rate Period; and

(2) when used with respect to a series of 2008 Bonds accruing interest at Weekly Rates, the first Business Day of each calendar month following the Weekly Rate Period for which interest is payable, and any day which is a Conversion Date from a Weekly Rate Period.

“Conversion Date” means, the day on which a particular type of Interest Rate (i.e., a Daily Rate, Commercial Paper Rate, Fixed Rate, Long-Term Rate or Weekly Rate), becomes effective for a series of 2008 Bonds which is immediately preceded by a day on which such series of 2008 Bonds did not accrue interest at that type of interest rate. Each Conversion Date shall be an Interest Payment Date for the Rate Period from which the series of 2008 Bonds are converted, except that any Business Day may be a Conversion Date from a Daily or Weekly Rate Period.

“Regular Record Date” means, in the case of 2008 Bonds accruing interest at Daily or Weekly Rates, the close of business on the day (whether or not a Business Day) immediately preceding an Interest Payment Date.

The 2008 Bonds initially are registered through a book-entry only system operated by The Depository Trust Company, New York, New York (“DTC”). Details of payments of the 2008 Bonds and the book-entry system are described below under the subcaption “- Book-Entry Only System.”

## **Determination of Interest Rates**

General. The Interest Rate for the 2008 Bonds for each Rate Period shall be determined by J.P. Morgan Securities Inc. (the "Remarketing Agent") as the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause such 2008 Bonds to have a market value as of the date of determination equal to the principal amount thereof, taking into account prevailing market conditions; provided that in no event will the interest rate on any 2008 Bonds (other than Credit Support Provider Bonds) exceed the applicable Maximum Interest Rate.

In the event the Remarketing Agent fails for any reason to determine the Interest Rate for any Rate Period and the provisions described below under "- Maximum Interest Rate to Apply under Certain Circumstances" do not apply:

(1) The Interest Rate then in effect for 2008 Bonds that accrue interest at Daily Rates will remain in effect from day to day until the Trustee is notified of a new Daily Rate determined by the Remarketing Agent.

(2) The Interest Rate then in effect for 2008 Bonds that accrue interest at Weekly Rates will remain in effect from week to week until the Trustee is notified of a new Weekly Rate determined by the Remarketing Agent.

All determinations of Interest Rates and Rate Periods pursuant to the Indenture shall be conclusive and binding upon the Board, the Trustee, the Paying Agent, the Bank and the Holders of the 2008 Bonds to which such rates are applicable.

The Interest Rate in effect for each 2008 Bond shall be available to the Holder of such 2008 Bond on the date such Interest Rate is determined, between 1:00 p.m. and 5:00 p.m., New York City time, from the Remarketing Agent or the Trustee at their designated offices and shall also be communicated by the Remarketing Agent promptly to the Board by telephonic or Electronic notice.

Daily Rates. The initial Daily Rates for the 2008 Bonds, which shall be applicable with respect to each series of the 2008 Bonds, shall be as set forth in a certificate of the Remarketing Agent delivered at the time of original issuance of the 2008 Bonds. A Daily Rate shall be determined for each Daily Rate Period as follows:

(1) Daily Rate Periods for a series of 2008 Bonds shall commence on a Daily Rate Conversion Date which shall be a Business Day and thereafter on each Business Day until the type of Rate Period of the series of 2008 Bonds is converted to another type of Rate Period and shall extend to, but not include, the next succeeding Business Day.

(2) The Daily Rate for each Daily Rate Period shall be effective from and including the commencement date thereof and remain in effect to, but not including, the next succeeding Business Day. Each such Daily Rate shall be determined by the Remarketing Agent on the first Business Day of the Daily Rate Period to which it relates and provided to the Trustee by the Remarketing Agent by telephonic or Electronic notice by 10:00 a.m., New York City time, on that same day.

Weekly Rates. A Weekly Rate shall be determined for each Weekly Rate Period as follows:

(1) Weekly Rate Periods for a series of 2008 Bonds shall commence on a Thursday and end on Wednesday of the following week and each Weekly Rate Period shall be followed by another Weekly Rate Period until the Rate Period of the series of 2008 Bonds is converted to another type of Rate Period;

provided that: (a) in the case of a conversion to a Weekly Rate Period from a different Rate Period, the Weekly Rate Period shall commence on the Weekly Rate Conversion Date and shall end on Wednesday of the following week; (b) in the case of a conversion from a Weekly Rate Period to a different Rate Period, the last Weekly Rate Period prior to conversion shall end on the day immediately preceding the Conversion Date to the new Rate Period; and (c) the day of the week on which Weekly Rate Periods shall commence may be changed by the Remarketing Agent with the consent of the Board, if the scheduled rate determination day has become inappropriate (taking into account general market practice), as determined in the reasonable exercise of the Remarketing Agent's judgment, upon notice to the Trustee not less than 14 days before the change, which notice shall promptly be communicated by the Trustee, by first class mail to the Holders of 2008 Bonds, provided that, with respect to the 2008 Series A Bonds or the 2008 Series B Bonds, such notice to the Trustee is accompanied by an Opinion of Bond Counsel, which opinion shall also be addressed and delivered to the Board, to the effect that the change will not adversely affect the exclusion from gross income on any 2008 Series A Bonds or 2008 Series B Bonds for federal income tax purposes.

(2) The Weekly Rate for each Weekly Rate Period shall be effective from and including the commencement date thereof and remain in effect to and including the last day thereof. Each such Weekly Rate shall be determined by the Remarketing Agent on the Business Day next preceding the commencement date of the Weekly Rate Period to which it relates (or if not a Business Day on the next succeeding Business Day), and provided to the Trustee by the Remarketing Agent by written, telephonic or Electronic notice by 5:00 p.m., New York City time, on such preceding Business Day.

Maximum Interest Rate. No 2008 Bond shall, at any time, bear interest in excess of its Maximum Interest Rate, which is defined as the rate per annum equal to the lesser of (1) 12% per annum with respect to the Tax-Exempt Bonds and 15% per annum with respect to the 2008 Series C Bonds or (2) the maximum rate permitted by applicable law.

Maximum Interest Rate to Apply under Certain Circumstances.

(1) If there is a failure to purchase any 2008 Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, all 2008 Bonds shall bear interest at the applicable Maximum Interest Rate from the date of such failed purchase to the date all tendered or deemed tendered 2008 Bonds are remarketed or purchased in accordance with the terms of the First Supplemental Indenture.

(2) If the 2008 Bonds are bearing interest at the Weekly Rate or the Daily Rate and the Remarketing Agent for such 2008 Bonds resigns or is removed and no successor has been appointed as of the effective date of such resignation or removal, then such 2008 Bonds shall bear interest at the applicable Maximum Interest Rate from the effective date of such resignation or removal to the date a successor Remarketing Agent has been appointed and begins determining the Weekly Rate or the Daily Rate.

(3) If (a) a Credit Support Instrument required to be maintained under the First Supplemental Indenture is no longer in effect, (b) no Alternate Credit Support Instrument has been delivered to the Trustee and (c) any 2008 Bonds were not purchased prior to the expiration of such Credit Support Instrument as provided in the First Supplemental Indenture, the related 2008 Bonds shall bear interest at the applicable Maximum Interest Rate from the date of such failed purchase to the date an Alternate Credit Support Instrument is delivered to the Trustee in accordance with the terms of the First Supplemental Indenture.

## Conversion Between Rate Periods

The Board may elect to convert all of the 2008 Bonds of any series from Weekly Rate Period or the Daily Rate Period to another Rate Period as described below; provided, however, that during the continuance of an event of default under the First Supplemental Indenture, the Bank shall have the right to consent to and direct any conversions:

Notices by Board. The Board shall give notice of any proposed conversion to the Trustee not fewer than seven Business Days prior to the date the notice to affected Holders must be given pursuant to the First Supplemental Indenture of the proposed conversion, and upon receipt of such notice from the Board, the Trustee shall promptly give written notice of the proposed conversion to the Remarketing Agent and the Bank. Pursuant to the Remarketing Agreement, dated as of November 1, 2008 (the "Remarketing Agreement"), between the Board and the Remarketing Agent, the Board may delegate and assign to the Remarketing Agent (and may rescind such delegation and assignment) the Board's right under the First Supplemental Indenture to elect to convert any series of 2008 Bonds from one type of Rate Period to another (except to a Fixed Rate Period), in which case the Remarketing Agent shall agree to carry out any such conversion in the manner and at the times specified in the First Supplemental Indenture.

Notices by Trustee. The Trustee shall give notice (which may be combined, where applicable, with any notice of mandatory tender for purchase in connection with such conversion), by first class mail of the proposed conversion to the affected Holders of 2008 Bonds not less than 15 days before the proposed Conversion Date. Such notice shall state:

- (1) the proposed Conversion Date, the proposed Rate Period to be effective on such date and the dollar amount of 2008 Bonds to be converted;
- (2) that such 2008 Bonds will be subject to mandatory tender for purchase on the Conversion Date;
- (3) the conditions, if any, to the conversion pursuant to the provisions described below under this subcaption, and the consequences of such conditions not being fulfilled pursuant to the provisions described below under this subcaption;
- (4) if the 2008 Bonds are in certificated form, information with respect to required delivery of 2008 Bond certificates and payment of the Purchase Price; and
- (5) the new Interest Payment Dates and Regular Record Dates.

"Purchase Price" means the amount equal to 100% of the principal amount of a 2008 Bond to be purchased pursuant to optional or mandatory tender for purchase, plus accrued interest, if any.

Conditions to Conversion. No conversion of Rate Periods will become effective unless:

- (1) if the conversion is from Daily or Weekly Rate Periods to a Long-Term Rate Period, the Trustee and the Board have been provided, no later than one day before the Conversion Date, with an Opinion of Bond Counsel to the effect that the conversion is authorized or permitted by the First Supplemental Indenture and the Act, and additionally, with respect to the 2008 Series A Bonds and the 2008 Series B Bonds, that such conversion will not adversely affect the exclusion from gross income on any 2008 Series A Bonds and 2008 Series B Bonds, as applicable, for federal income tax purposes;

(2) if the conversion is to a Commercial Paper or Long-Term Rate Period, the Trustee and the Board have been provided, no later than one day before the Conversion Date, with written evidence from each Rating Service that such conversion will not result in a reduction or withdrawal of the then current rating on the 2008 Bonds;

(3) if the conversion is to a Daily Rate, a Weekly Rate, a Commercial Paper Rate or a Long-Term Rate Period, a Credit Support Instrument required pursuant to and meeting the requirements of the First Supplemental Indenture is in place; and

(4) if the conversion is to a Commercial Paper Rate: (a) the Board must engage, at its expense, a commercial paper issuing and paying agent, reasonably acceptable to the Trustee and the Paying Agent, having access to DTC's electronic money market issuing and payment system and otherwise eligible to serve as an issuing and paying agent under DTC's policies and procedures for the issuance and payment of commercial paper; (b) the Remarketing Agent must arrange for the execution and delivery to DTC of the required DTC letter of representations for the eligibility of the 2008 Bonds in the Commercial Paper Rate in DTC's book entry system and the provision of any needed CUSIP numbers; (c) the Board shall take all other action needed to comply with DTC requirements applicable to the issuance and payment of the 2008 Bonds while in the Commercial Paper Rate; and (d) the Board shall enter into any amendment of the First Supplemental Indenture that is needed to comply with DTC's or any Rating Service's requirements concerning the issuance and payment of the 2008 Bonds in the Commercial Paper Rate mode.

Provisions Regarding Conversion To Fixed Rate Period. At the option of the Board, all of the 2008 Bonds bearing interest at a Daily Rate or Weekly Rate (in an amount which is an Authorized Denomination for the new Rate Period) may be converted to bear interest at the Fixed Rate as hereinafter described. Any such conversion shall be made as follows:

(1) The Conversion Date to a Fixed Rate shall be, in the case of a conversion from a Daily Rate Period or a Weekly Rate Period, a regularly scheduled Interest Payment Date on which interest is payable for the Daily Rate Period or Weekly Rate Period from which the conversion is to be made.

(2) Not less than seven Business Days prior to the date on which the Trustee is required to notify the Holders of the 2008 Bonds of the conversion pursuant to the provisions described in subparagraph (3) below, the Board shall give written notice of the conversion to the Trustee, the Remarketing Agent and the Bank setting forth the proposed Conversion Date. Together with such notice, the Board shall file with the Trustee, an Opinion of Bond Counsel to the effect that the conversion of the 2008 Bonds to the Fixed Rate, including the assignment of new maturity dates and amortization requirements pursuant to the provisions described in subparagraph (7) below, will not adversely affect the validity of the 2008 Bonds or, with respect to the Tax-Exempt Bonds, any exclusion from gross income for federal income tax purposes to which interest on the Tax-Exempt Bonds would otherwise be entitled. No conversion to the Fixed Interest Rate shall occur unless the Board shall also file with the Trustee an Opinion of Bond Counsel to the same effect dated the Conversion Date.

(3) In the event of a conversion from a Daily Rate Period or Weekly Rate Period, the Trustee shall mail a notice of the proposed conversion to the Holders of all 2008 Bonds to be converted not less than 30 days prior to the proposed Conversion Date.

(4) Not later than 12:00 noon, New York City time, on the Business Day prior to the Conversion Date, the Remarketing Agent shall determine the Fixed Rate for the 2008 Bonds to be converted.

(5) The determination made pursuant to the provisions described in subparagraph (4) above shall be conclusive and binding upon the Board, the Trustee, the Bank and the Holders of the 2008 Bonds to which such rate will be applicable. Not later than 5:00 p.m., New York City time, on the date of determination of the Fixed Rate, the Remarketing Agent shall notify the Trustee, the Bank and the Board of such rate by telephone.

(6) The Board may revoke its election to effect a conversion of the interest rate on the 2008 Bonds to the Fixed Rate by giving written notice of such revocation to the Board, the Trustee, the Remarketing Agent and the Bank, at any time prior to 10:00 a.m. New York City time on the Business Day immediately preceding the proposed Conversion Date.

(7) Prior to the conversion of any of the 2008 Bonds to a Fixed Rate pursuant to the First Supplemental Indenture, the Remarketing Agent shall deliver to the Trustee and the Board a certificate, which includes a schedule, specifying the principal amount of 2008 Bonds to be converted to a Fixed Rate which will mature on July 1 of the years specified in such schedule and the interest rate payable on the 2008 Bonds to be converted to a Fixed Rate of each such maturity date and a schedule specifying the principal amount of 2008 Bonds to be converted to a Fixed Rate maturing on July 1 of the years specified in such schedule or to be called for mandatory redemption pursuant to the amortization requirements on July 1 of the 2008 Bonds specified in such schedule. In determining the maturity dates, amortization requirements and interest rates, the Remarketing Agent shall use the following guidelines:

(a) The Remarketing Agent shall determine the schedule of principal payments on the 2008 Bonds to be converted to a Fixed Rate to achieve annual level debt service with respect to the converted 2008 Bonds. In making such schedule, the Remarketing Agent shall, to the extent necessary, alternately round down and up to the nearest \$5,000 the amount allocable to the 2008 Bonds which are being converted;

(b) The Remarketing Agent shall allocate the 2008 Bonds to be converted to a Fixed Rate between serial bonds and term bonds in such manner as shall produce the lowest aggregate interest payable with respect to such 2008 Bonds; and

(c) The Remarketing Agent shall set the interest rate on each 2008 Bond to be converted to a Fixed Rate of a particular maturity date at the lowest interest rate that will enable such 2008 Bond, upon conversion, to be remarketed at par (plus any accrued interest) taking into account the maturity date of such 2008 Bond and amortization requirements with respect to the 2008 Bonds of such maturity date.

The foregoing notwithstanding, the Board may agree to another method for providing for payment of principal of the 2008 Bonds after the Conversion Date, if (1) the Remarketing Agent deems the utilization of such other method necessary in order to remarket the 2008 Bonds at a price of par and (2) there is delivered to the Trustee by the Board an Opinion of Bond Counsel to the effect that utilization of such other method will not adversely affect the validity of any 2008 Bonds and, with respect to the Tax-Exempt Bonds, any exclusion from federal income taxation to which the interest on the Tax-Exempt Bonds would otherwise be entitled.

(8) Mandatory redemption of the 2008 Bonds converted to the Fixed Rate by operation of mandatory sinking fund redemption shall be without premium. The 2008 Bonds converted to the Fixed Rate shall be redeemed by the Trustee pursuant to the provisions of the Indenture without any notice from or direction by the Board.

Failure of Conditions to Conversion. In the event any condition precedent to a conversion is not fulfilled, any affected 2008 Bond shall continue to be subject to any mandatory tender otherwise required by the First Supplemental Indenture without regard to the failure to fulfill such condition, and thereafter shall accrue interest at Weekly Rates for Weekly Rate Periods. In the event the Remarketing Agent fails for any reason to determine any such Weekly Rate, the applicable Weekly Rate shall be the rate determined on the basis of an index based upon the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established by the Public Securities Association and effective for that date on which such rate is determined (or if such rate is not available, any other similar rate as is determined by the Trustee in its sole discretion to be appropriate).

### **Mandatory Sinking Fund Redemption**

The 2008 Series A Bonds shall be subject to mandatory sinking fund redemption and payment prior to stated maturity on July 1 in the years, at 100% of the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2009	\$ 980,000	2019	\$1,370,000	2029	\$1,840,000
2010	\$1,365,000	2020	\$1,560,000	2030	\$1,905,000
2011	\$1,375,000	2021	\$1,610,000	2031	\$2,095,000
2012	\$ 805,000	2022	\$1,705,000	2032	\$2,215,000
2013	\$ 720,000	2023	\$1,885,000	2033	\$2,380,000
2014	\$1,170,000	2024	\$1,805,000	2034	\$ 865,000
2015	\$1,350,000	2025	\$2,060,000	2035	\$ 895,000
2016	\$1,380,000	2026	\$2,180,000	2036	\$ 935,000
2017	\$1,600,000	2027	\$2,370,000	2037	\$1,000,000
2018	\$1,315,000	2028	\$2,605,000	2038*	\$1,055,000

\*Maturity

The 2008 Series B Bonds shall be subject to mandatory sinking fund redemption and payment prior to stated maturity on July 1 in the years, at 100% of the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2009	\$ 75,000	2019	\$ 625,000	2029	\$1,250,000
2010	\$120,000	2020	\$ 745,000	2030	\$1,295,000
2011	\$115,000	2021	\$ 775,000	2031	\$1,425,000
2012	\$550,000	2022	\$ 835,000	2032	\$1,500,000
2013	\$410,000	2023	\$ 945,000	2033	\$1,605,000
2014	\$505,000	2024	\$ 880,000	2034	\$1,040,000
2015	\$550,000	2025	\$ 990,000	2035	\$1,080,000
2016	\$570,000	2026	\$1,050,000	2036	\$1,130,000
2017	\$700,000	2027	\$1,105,000	2037	\$1,205,000
2018	\$655,000	2028	\$1,240,000	2038*	\$1,265,000

\*Maturity

The 2008 Series C Bonds shall be subject to mandatory sinking fund redemption and payment prior to stated maturity on July 1 in the years, at 100% of the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2009	\$ 50,000	2019	\$115,000	2029	\$275,000
2010	\$ 70,000	2020	\$135,000	2030	\$310,000
2011	\$ 65,000	2021	\$150,000	2031	\$320,000
2012	\$ 90,000	2022	\$165,000	2032	\$355,000
2013	\$ 80,000	2023	\$195,000	2033*	\$390,000
2014	\$ 90,000	2024	\$185,000		
2015	\$100,000	2025	\$215,000		
2016	\$ 90,000	2026	\$235,000		
2017	\$120,000	2027	\$240,000		
2018	\$120,000	2028	\$285,000		

\*Maturity

The Trustee shall, in each year in which 2008 Bonds are to be mandatorily redeemed as described above, make timely selection of such 2008 Bonds or portions thereof to be so redeemed by lot in Minimum Authorized Denominations of principal amount in such equitable manner as the Trustee may determine and shall give notice thereof without further instructions from the Board. At the option of the Board, to be exercised on or before the 45th day next preceding each mandatory redemption date, the Board may: (1) deliver to the Trustee for cancellation 2008 Bonds in the aggregate principal amount desired; or (2) furnish to the Trustee funds, together with appropriate instructions, for the purpose of purchasing any of said 2008 Bonds from any Holder thereof in the open market at a price not in excess of 100% of the principal amount thereof, whereupon the Trustee shall expend such funds for such purposes to such extent as may be practical; or (3) elect to receive a credit in respect to the mandatory redemption obligation for any 2008 Bonds of the same maturity, which prior to such date have been redeemed (other than through the operation of the mandatory redemption requirements described above) and cancelled by the Trustee and not theretofore applied as a credit against any such mandatory redemption obligation. Each 2008 Bond so delivered or previously purchased or redeemed shall be credited at 100% of the principal amount thereof on the obligation of the Board to redeem 2008 Bonds of the same maturity on the next mandatory redemption date applicable to 2008 Bonds of such maturity that is at least 45 days after receipt by the Trustee of such instructions from the Board, and any excess of such amount shall be credited on future mandatory redemption obligations for 2008 Bonds of the same maturity in chronological order or such other order as the Board may designate, and the principal amount of 2008 Bonds of the same maturity to be redeemed on such future mandatory redemption dates shall be reduced accordingly. If the Board intends to exercise any option described in clauses (1), (2) or (3) above, the Board will, on or before the 45th day next preceding the applicable mandatory redemption date, the Fiscal Officer shall provide the Trustee with a certificate indicating to what extent the provisions of said clauses (1), (2) and (3) are to be complied with in respect to such mandatory redemption payment.

### **Optional Redemption**

2008 Bonds which accrue interest at Daily or Weekly Rates are subject to redemption and payment prior to maturity, at the option of the Board, which shall be exercised upon the written direction of the Board, in whole or in part, in an amount evenly divisible by Minimum Authorized Denominations, on any Business Day with respect to 2008 Bonds which accrue interest at Daily Rates or Weekly Rates, at a redemption price equal to 100% of the principal amount redeemed, plus interest accrued to the redemption date. Pursuant to the Reimbursement Agreement, the Board is required to cause the optional

redemption of the 2008 Bonds pursuant to the First Supplemental Indenture, without further direction or notice from the Bank, in accordance with the schedule set forth therein. Such schedule, however, may be modified or an Alternate Credit Support Instrument with a different schedule may be delivered in accordance with the terms of the First Supplemental Indenture without any notice of such modifications or new schedule being given to the holders of the 2008 Bonds. See “CREDIT SUPPORT INSTRUMENTS - The Reimbursement Agreement - Certain Covenants of the Board” for a more detailed description of such obligation of the Board under the Reimbursement Agreement.

The Board may require any 2008 Bond that is subject to optional redemption to be tendered by the holder thereof for mandatory purchase by the Board, in lieu of such optional redemption, on any date permitted for such optional redemption, at a purchase price equal to the then applicable redemption price that would apply on the purchase date. 2008 Bonds shall be purchased only after a written request of the Board is delivered to the Trustee at least 45 days prior to the purchase date.

### **Extraordinary Optional Redemption**

The 2008 Bonds are subject to redemption and payment prior to the stated maturity thereof, at the option of the Board and to the extent of funds available therefor, which shall be exercised upon the written direction of the Board, in whole or in part on any Business Day, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the redemption date, without premium, upon the occurrence of any of the following events:

(1) as a result of any change in the law or of legislative or administrative action (whether state or federal) or by final direction, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Board in good faith, the First Supplemental Indenture, the Lease or the Indenture has become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed therein; or

(2) to the extent and in the amount necessary (as established by a written Opinion of Bond Counsel addressed to the Trustee and the Board) to preserve the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes.

### **Selection of Bonds to be Redeemed**

The 2008 Bonds shall be redeemed in such manner so that only Minimum Authorized Denominations remain Outstanding.

If less than the entirety of any series of the 2008 Bonds are to be redeemed and paid prior to maturity pursuant to the First Supplemental Indenture, such series of the 2008 Bonds shall be redeemed from the maturity or maturities selected by the Board. If less than all 2008 Bonds of any maturity of a series are to be redeemed, the particular 2008 Bonds of such series to be redeemed shall be selected by the Trustee from the 2008 Bonds of such maturity and series which have not previously been called for redemption, by lot by such method as the Trustee shall deem fair and appropriate.

Notwithstanding the foregoing, Credit Support Provider Bonds of a particular series shall be redeemed prior to any other Series 2008 Bonds of that series.

### **Notice of Redemption**

Unless waived by any Holder of the 2008 Bonds to be redeemed, official notice of any such redemption shall be given by the Trustee on behalf of the Board by mailing a copy of an official

redemption notice by registered, certified or first class mail, at least 15 days prior to the redemption date for the 2008 Bonds accruing interest at Daily or Weekly Rates, to each Holder of the 2008 Bonds to be redeemed at the address shown on the bond register or at such other address as is furnished in writing by such Holder to the Trustee.

With respect to optional redemptions, notice of redemption may be conditional upon moneys being on deposit with the Trustee on or prior to the redemption date in an amount sufficient to pay the redemption price on the redemption date. If such notice is conditional and moneys are not received, such notice shall be of no force and effect, the Trustee shall not redeem such 2008 Bonds, and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such 2008 Bonds will not be redeemed.

### **Optional Tender for Purchase**

The 2008 Bonds are subject to optional tender for purchase prior to maturity as described in this subcaption.

Purchase Dates. The Holders of 2008 Bonds accruing interest at Daily or Weekly Rates may elect to have their 2008 Bonds (or portions thereof in Minimum Authorized Denominations) purchased at the Purchase Price on the following Purchase Dates:

(1) The 2008 Bonds accruing interest at Daily Rates may be tendered for purchase at the Purchase Price payable in immediately available funds on any Business Day upon written or Electronic notice of tender given to the Trustee not later than 11:00 a.m., New York City time, on the Business Day preceding the Purchase Date.

(2) The 2008 Bonds accruing interest at Weekly Rates may be tendered for purchase at the Purchase Price payable in immediately available funds on any Business Day upon written or Electronic notice of tender given to the Trustee not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the Purchase Date.

Notice of Tender. Each notice of tender:

(1) shall in the case of a written notice, be delivered to the Trustee at its Notice Address and be in form satisfactory to the Trustee;

(2) shall state (a) the principal amount of 2008 Bonds to which the notice relates, (b) that the Holder irrevocably demands purchase of such 2008 Bond or a specified portion thereof, (c) the date on which such 2008 Bond or portion is to be purchased, and (d) payment instructions with respect to the Purchase Price; and

(3) shall automatically constitute (a) an irrevocable offer to sell the 2008 Bonds (or portion thereof) to which the notice relates on the Purchase Date at the Purchase Price, (b) an irrevocable authorization and instruction to the Registrar to effect transfer of such 2008 Bond (or portion thereof) upon payment of the Purchase Price to the Trustee on the Purchase Date, (c) an irrevocable authorization and instruction to the Trustee to effect the exchange of the 2008 Bond to be purchased in whole or in part for other 2008 Bonds of the same series in an equal aggregate principal amount so as to facilitate the sale of such 2008 Bond (or portion thereof to be purchased), and (d) an acknowledgment that such Holder will have no further rights with respect to such 2008 Bond (or portion thereof) upon payment of the Purchase Price thereof to the Trustee on the Purchase Date, except for the right of such Holder to receive such Purchase Price upon delivery of such 2008 Bond to the Trustee, and that after the Purchase Date such

Holder will hold any undelivered certificate as agent for the Trustee. The determination of the Trustee as to whether a notice of tender has been properly delivered pursuant to the First Supplemental Indenture, as described in the foregoing, shall be conclusive and binding upon the Holder.

### **Mandatory Tender for Purchase**

The 2008 Bonds are subject to mandatory tender for purchase prior to maturity as described in this subcaption.

Conversions between Rate Periods. The 2008 Bonds to be converted from one type of Rate Period to a different type of Rate Period, are subject to mandatory tender for purchase on the Conversion Date at the Purchase Price.

Mandatory Tender upon Failure to Reinstate. If the Trustee has received notice from the Credit Support Provider that the interest portion of the Credit Support Instrument will not be reinstated following a draw on the Credit Support Instrument (or the Trustee otherwise has notice of non-reinstatement), any 2008 Bonds supported by a Credit Support Instrument shall be subject to mandatory tender in whole no later than 10 days after the Interest Payment Date to which such failure to reinstate relates, which 2008 Bonds (other than Credit Support Provider Bonds) must be delivered immediately for purchase at the Purchase Price.

Mandatory Tender Prior to the Stated Termination (Expiration) Date of the Credit Support Instrument; Extension. Any 2008 Bonds supported by a Credit Support Instrument shall be subject to mandatory tender in whole on the Interest Payment Date which next precedes a Credit Support Instrument termination (expiration) date, at a redemption price of 100% of the outstanding principal amount thereof plus accrued interest to the tender date unless, at least 90 days prior to any such Interest Payment Date, the Credit Support Provider shall have agreed to an extension or further extension of the Credit Support Instrument termination (expiration) date to a date not earlier than at least 364-days from the Credit Support Instrument termination date being extended or maturity date of the applicable series of 2008 Bonds plus 15 days, whichever is earlier.

Mandatory Tender Upon Providing an Alternate Credit Support Instrument and Upon Addition of a Credit Support Instrument in Certain Cases in which No Credit Support Instrument is in Effect. If at any time while any series of the 2008 Bonds bears interest at a rate other than the Fixed Rate, and the Board provides for an Alternate Credit Support Instrument in accordance with the provisions of the First Supplemental Indenture, all 2008 Bonds of the applicable series shall be subject to mandatory tender by the Holders thereof, at the Purchase Price, on the Interest Payment Date next preceding the termination date of the Credit Support Instrument (or if the Alternate Credit Support Instrument is being provided but not in connection with the stated termination date of the current Credit Support Instrument, then on the date selected for substitution, which substitution date shall be an Interest Payment Date, which Interest Payment Date must occur prior to the termination date of the current Credit Support Instrument).

Notice by Trustee. The Trustee shall give written notice of such mandatory tender for purchase to the affected Holders of the 2008 Bonds by first class mail not less than 15 days before the mandatory tender date; provided that notice for purchase pursuant to a failure to reinstate the interest portion of a Credit Support Instrument by a Credit Support Provider shall be immediately given upon receipt of notice of nonreinstatement of the Credit Support Instrument. In addition, the Trustee shall provide written notice of mandatory tender required under the provisions described under “Mandatory Tender Prior to the Stated Termination Date of the Credit Support Instrument; Extension” and “Mandatory Tender Upon Providing an Alternate Credit Support Instrument and Upon Addition of a Credit Support Instrument in Certain Cases in which No Credit Support Instrument is in Effect” above to the affected Holders of the

2008 Bonds by first class mail not less than 15 days before the tender date. Mandatory tender pursuant to the provisions described under “Mandatory Tender Upon Providing an Alternate Credit Support Instrument and Upon Addition of a Credit Support Instrument in Certain Cases in which No Credit Support Instrument is in Effect” shall be subject to the right of the Holders to affirmatively elect to waive mandatory tender and retain their 2008 Bonds, as described therein. If the 2008 Bonds are in certificated form, such notice shall include information with respect to required delivery of 2008 Bond certificates and payment of the Purchase Price.

Mandatory Tender Upon Notice of an Event of Default by Credit Support Provider. When the Credit Support Provider has provided the Board, the Trustee, the Paying Agent and the Rating Service with written notice of an event of default under the First Supplemental Indenture or the Reimbursement Agreement and directs the Trustee to cause a mandatory tender of a series of the 2008 Bonds, such series of the 2008 Bonds shall immediately be subject to mandatory tender after receipt by the affected Holders of such 2008 Bonds of written notice of mandatory tender and the requisite tender date, which tender date shall not be more than five days from the aforesaid written notice of an event of default.

### **Remarketing and Purchase of the 2008 Bonds**

Remarketing of Tendered 2008 Bonds. Unless otherwise instructed by the Board, the Remarketing Agent shall offer for sale and use its best efforts to find purchasers for each series of the 2008 Bonds or portions thereof for which notice of tender has been received pursuant to the First Supplemental Indenture or which are subject to mandatory tender. The terms of any sale by the Remarketing Agent shall provide for the payment of the Purchase Price, which shall be at par, for tendered 2008 Bonds (or 2008 Bonds deemed tendered) to the Remarketing Agent in sufficient time for the Remarketing Agent to deliver remarketing proceeds to the Trustee on the Purchase Date in immediately available funds at or before 2:30 p.m., New York City time. The Remarketing Agent shall not sell any 2008 Bond as to which a notice of conversion from one Rate Period to another has been given by the Trustee, or as to which the Trustee has given a notice of mandatory tender for purchase pursuant to the provisions described under “Mandatory Tender for Purchase - Mandatory Tender Upon Providing an Alternate Credit Support Instrument and Upon Addition of a Credit Support Instrument in Certain Cases in which No Credit Support Instrument is in Effect,” unless the Remarketing Agent has advised the Person to whom the sale is made of the conversion or notice. Any purchaser so advised must deliver a notice to the Trustee stating that such purchaser will tender such 2008 Bonds for purchase on the related mandatory tender date. The Remarketing Agent shall not remarket any 2008 Bonds pursuant to the provisions described under this subcaption to the Board and shall not remarket any 2008 Bonds pursuant to the provisions described under this subcaption if an event of default shall have occurred and be continuing under the First Supplemental Indenture with respect to the 2008 Bonds.

#### Purchase of Tendered Series 2008 Bonds.

Sources of Payments. The Remarketing Agent shall cause to be paid to the Trustee on the Purchase Date of tendered 2008 Bonds all amounts representing proceeds of the remarketing of such 2008 Bonds (the "Remarketing Proceeds"). If the Remarketing Proceeds will not be sufficient to pay the Purchase Price on the Purchase Date of the 2008 Bonds supported by a Credit Support Instrument (other than Credit Support Provider Bonds), the Trustee shall make such demand in the manner set forth in the Credit Support Instrument, and the Credit Support Provider shall furnish immediately available funds in an amount sufficient, together with the Remarketing Proceeds, to enable the Trustee to pay the Purchase Price of such 2008 Bonds to be purchased on such Purchase Date.

Payments by the Trustee. At or before 3:00 p.m., New York City time, on the Purchase Date for tendered 2008 Bonds and upon receipt by the Trustee of 100% of the aggregate Purchase Price of the

tendered 2008 Bonds, the Trustee shall pay the Purchase Price of such 2008 Bonds to the Holders thereof. Such payments shall be made in immediately available funds. The Trustee shall apply in order (1) moneys paid to it by the Remarketing Agent as proceeds of the remarketing of such Series 2008 Bonds by the Remarketing Agent, (2) proceeds made available through the Credit Support Instrument and (3) other moneys made available by the Board.

Registration and Delivery of Purchased 2008 Bonds. On the date of purchase, the Trustee shall register and deliver (or hold) all 2008 Bonds purchased on any Purchase Date as follows: (1) 2008 Bonds purchased or remarketed by the Remarketing Agent shall be registered and made available to the Remarketing Agent by 2:30 p.m., New York City time, in accordance with the instructions of the Remarketing Agent; and (2) 2008 Bonds purchased with proceeds made available through the Credit Support Instrument shall be delivered and held as Credit Support Provider Bonds. Notwithstanding anything in the First Supplemental Indenture to the contrary, so long as the 2008 Bonds are held under a Book Entry System, 2008 Bonds will not be delivered as set forth above; rather, transfers of beneficial ownership of the 2008 Bonds to the person indicated above will be effected on the registration books of the Securities Depository pursuant to its rules and procedures.

Credit Support Provider Bonds. The 2008 Bonds purchased with proceeds made available through the Credit Support Instrument shall be acquired for the benefit of the Credit Support Provider. The Credit Support Provider shall be the beneficial owner of such 2008 Bonds, which shall constitute "Credit Support Provider Bonds," and shall be delivered to and held by the Trustee as agent for the Credit Support Provider (and shall be shown as Credit Support Provider Bonds on the bond register), or as otherwise agreed to by the Credit Support Provider. The Remarketing Agent shall continue to use its best efforts to arrange for the sale of any Credit Support Provider Bonds at the Purchase Price, subject to full reinstatement of the amount available to be drawn under the Credit Support Instrument with respect to such 2008 Bonds. The Trustee shall not release Credit Support Provider Bonds until the Credit Support Provider has provided the Trustee written notice that the Credit Support Instrument has been so reinstated.

Delivery of Tendered 2008 Bonds; Effect of Failure to Surrender 2008 Bonds. All 2008 Bonds to be purchased shall be required to be delivered to the designated office of the Trustee or its designated agent in New York City at or before 12:00 noon, New York City time, on the applicable Purchase Date. If the Holder of any 2008 Bond (or portion thereof) in certificated form that is subject to optional or mandatory purchase fails to deliver such 2008 Bond to the Trustee for purchase on the Business Day preceding the Purchase Date, and if the Trustee is in receipt of the Purchase Price therefor, such 2008 Bond (or portion thereof) shall nevertheless be deemed purchased on the Purchase Date thereof and ownership of such 2008 Bond (or portion thereof) shall be transferred to the purchaser thereof as provided in the provisions described in "Registration and Delivery of Purchased 2008 Bonds" above. Any Holder who fails to deliver such 2008 Bond for purchase shall have no further rights thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of said 2008 Bond to the Trustee. The Trustee shall, as to any tendered 2008 Bonds, which have not been delivered to it, (1) promptly notify the Remarketing Agent of such nondelivery and (2) place or cause to be placed a stop transfer against an appropriate amount of 2008 Bonds registered in the name of such Holder(s) on the bond registration books. The Trustee shall place or cause to be placed such stop transfer commencing with the lowest serial number of the 2008 Bond registered in the name of such Holder(s) until stop transfers have been placed against an appropriate amount of 2008 Bonds until the appropriate tendered 2008 Bonds are delivered to the Trustee. Upon such delivery, the Trustee shall make or cause the Registrar to make any necessary adjustments to the bond registration books. Notwithstanding anything herein to the contrary, so long as the 2008 Bonds are held in a Book Entry System, 2008 Bonds will not be delivered as set forth above; rather, transfers of beneficial ownership of the 2008 Bonds to the person indicated above will be effected on the registration books of the Securities Depository pursuant to its rules and procedures.

Failure to Purchase Bonds. If sufficient funds are not available for the purchase of all 2008 Bonds tendered or deemed tendered and required to be purchased on any Purchase Date (including a failure in connection with the occurrence of an immediate termination or suspension of the Credit Support Instrument), all tendered 2008 Bonds shall be returned to their respective Holders and all 2008 Bonds shall bear interest at the applicable Maximum Interest Rate from the date of such failed purchase until all such 2008 Bonds are remarketed or purchased as required in accordance with the terms of the First Supplemental Indenture. Thereafter, the Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Credit Support Provider.

Book-Entry Tenders. Notwithstanding the foregoing, all tenders for purchase during any period in which the 2008 Bonds are registered in the name of Cede & Co. (or the nominee of any successor Depository) shall be subject to the terms and conditions set forth in the letter of representations of the Board to the Depository and to any regulations promulgated by the Depository (or any successor Depository). For so long as the 2008 Bonds are registered in the name of Cede & Co., as nominee for the Depository, the tender option rights of holders of the 2008 Bonds may be exercised only by the Depository by giving notice of its election to tender 2008 Bonds or portions thereof at the times and in the manner described in the Indenture. Beneficial Owners (as hereinafter defined) will not have any rights to tender 2008 Bonds directly to the Trustee.

Procedures under which a Beneficial Owner may direct a Direct Participant (as hereinafter defined) of the Depository, or an Indirect Participant (as hereinafter defined) of the Depository acting through a Direct Participant of the Depository, to exercise a tender option right in respect of 2008 Bonds or portions thereof in an amount equal to all or a portion of such Beneficial Owners's beneficial ownership interest therein shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant. For so long as the 2008 Bonds are registered in the name of Cede & Co., as nominee for the Depository, delivery of 2008 Bonds required to be tendered for purchase shall be effected by the transfer on the applicable Purchase Date of a book entry credit to the account of the Trustee of a beneficial interest in such 2008 Bonds.

Notwithstanding the foregoing, so long as the Book Entry System for the 2008 Bonds is maintained by the Depository:

(1) there shall be no requirement of physical delivery to or by the Trustee or the Remarketing Agent of:

(a) any 2008 Bonds subject to mandatory or optional purchase as a condition to the payment of the purchase price therefor;

(b) any 2008 Bonds that have become Credit Support Provider Bonds; or

(c) any remarketing proceeds of such 2008 Bonds or Credit Support Provider Bonds;

and

(2) except as provided in the provisions described in clause (3) below, neither the Trustee nor any Paying Agent shall have any responsibility for paying the purchase price of any tendered 2008 Bond or for remitting remarketing proceeds to any person; and

(3) the Trustee's sole responsibilities in connection with the purchase and remarketing of a tendered 2008 Bond shall be to:

(a) draw upon the Credit Support Instrument to pay the Purchase Price of the tendered but unremarketed 2008 Bond in the manner provided in the Indenture and to remit the amount so drawn to or upon the order of the Depository for the benefit of the tendering Beneficial Owners; and

(b) remit any proceeds derived from the remarketing of a Credit Support Provider Bond to the Credit Support Provider.

Special Rate Resetting. If any 2008 Bonds constitute Credit Support Provider Bonds due to a failure in remarketing such 2008 Bonds, the Remarketing Agent shall be entitled to determine a new Interest Rate with respect to such 2008 Bonds, as appropriate, effective on such date as such 2008 Bonds cease to be Credit Support Provider Bonds. Such new rate with respect to such 2008 Bonds shall be established by the Remarketing Agent in the manner described in the first paragraph under the subcaption “Determination of Interest Rates - General.”

### **Special Considerations Relating to the 2008 Bonds**

The Remarketing Agent is Paid by the Board. The responsibilities of the Remarketing Agent include determining the interest rate from time to time and remarketing the 2008 Bonds, respectively, that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement, all as further described in this Official Statement). The Remarketing Agent is appointed by the Board and is paid by the Board for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of the 2008 Bonds.

The Remarketing Agent May Purchase 2008 Bonds for Its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered 2008 Bonds for its own account and, in its sole discretion, routinely acquires tendered bonds in order to achieve a successful remarketing of such bonds (i.e., because there otherwise are not enough buyers to purchase the bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase tendered bonds, including the 2008 Bonds, and may cease doing so at any time without notice. If the Remarketing Agent ceases to purchase the 2008 Bonds, it may be necessary for the Trustee to draw on the applicable Credit Support Instrument. The Remarketing Agent may also make a market in the 2008 Bonds by routinely purchasing and selling the 2008 Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at or below par. However, the Remarketing Agent is not required to make a market in the 2008 Bonds. If the Remarketing Agent purchases 2008 Bonds for its own account, it may offer those 2008 Bonds at a discount to par to some investors. The Remarketing Agent may also sell any 2008 Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the 2008 Bonds. The purchase of the 2008 Bonds by the Remarketing Agent may create the appearance that there is a greater third party demand for the 2008 Bonds in the market than is actually the case. The practices described above also may result in fewer 2008 Bonds being tendered in a remarketing.

The 2008 Bonds May Be Offered at Different Prices on any Date, Including an Interest Rate Determination Date. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the applicable series of 2008 Bonds bearing interest at the applicable rate at par, plus accrued interest, if any, on and as of the applicable interest rate determination date. At the time any 2008 Bonds are tendered, the Remarketing Agent is required to use its best efforts to remarket the 2008 Bonds at par. The interest rate will reflect, among other factors, the level of market demand for that series of 2008 Bonds

(including whether the Remarketing Agent is willing to purchase such 2008 Bonds for its own account). There may or may not be 2008 Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agent may or may not be able to remarket any applicable series of 2008 Bonds tendered for purchase on such date at par, and the Remarketing Agent may sell 2008 Bonds at varying prices to different investors on any given date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of a series of the 2008 Bonds at the remarketing price. In the event the Remarketing Agent owns any 2008 Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2008 Bonds on any date, including an interest rate determination date, at a discount to par to some investors.

The Ability to Sell the 2008 Bonds Other than through the Tender Process May Be Limited. The Remarketing Agent may buy and sell 2008 Bonds other than through the tender process described herein. However, it is not obligated to do so and may cease doing so at any time without notice. The Remarketing Agent may require holders that wish to tender their 2008 Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the 2008 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2008 Bonds, other than by tendering the 2008 Bonds through the Trustee in accordance with the tender process described herein. Under certain circumstances, the Bank may fail to purchase tendered Bonds even when it is obligated to do so. In that event, the Board shall continue to be responsible to make timely payments on the 2008 Bonds. The failure of the Board to make any such timely payment on the 2008 Bonds would constitute an Event of Default under the Indenture, and all tendered 2008 Bonds would be returned to the holders thereof and bear interest at the applicable Maximum Interest Rate until such 2008 Bonds can be remarketed. It is not certain that, following a failure to purchase 2008 Bonds, a secondary market for the 2008 Bonds would develop.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the 2008 Bonds, Without a Successor Being Named. Under certain circumstances, the Remarketing Agent may be removed, have the ability to resign or cease its marketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. If a series of the 2008 Bonds is bearing interest at the Daily Rate or the Weekly Rate and the Remarketing Agent for such series is removed and no successor has been appointed as of the effective date of such removal, then such series shall bear interest at the applicable Maximum Interest Rate until a successor Remarketing Agent has been appointed and begins determining the Daily Rate or the Weekly Rate. In the event that there is no Remarketing Agent for a particular series of 2008 Bonds, the Trustee shall assume such duties as described in the First Supplemental Indenture.

Failure to Maintain Credit Support Facility. While a series of 2008 Bonds bears interest at the Daily Rate or the Weekly Rate, a Credit Support Facility must be maintained for such series. In the event no Credit Support Facility is then in effect for such series of 2008 Bonds, such series shall bear interest at the applicable Maximum Interest Rate until a Credit Support Facility for such series is delivered to the Trustee and accepted by the Trustee pursuant to the Indenture.

### **Book-Entry Only System**

DTC will act as securities depository for the 2008 Bonds. Each series of the 2008 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2008 Bond certificate will be issued for each series of the 2008 Bonds, each in the aggregate principal amount of such series, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2008 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2008 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2008 Bonds, except in the event that use of the book-entry system for the 2008 Bonds is discontinued.

To facilitate subsequent transfers, all 2008 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2008 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2008 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of the 2008 Bonds may wish to ascertain that the nominee holding the 2008 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2008 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2008 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, premium and interest payments on the 2008 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2008 Bonds purchased or tendered, through its Participant, to the Remarketing Agent, and shall effect delivery of such 2008 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2008 Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of 2008 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2008 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2008 Bonds to the Remarketing Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the 2008 Bonds at any time by giving reasonable notice to the Board or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2008 Bond certificates are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2008 Bond certificates will be printed and delivered to DTC.

The information in this subcaption concerning DTC and DTC's book-entry system has been obtained from sources that the Board believes to be reliable, but the Board takes no responsibility for the accuracy thereof.

### **Discontinuation of Book-Entry System**

In the event that the book-entry system for the 2008 Bonds is discontinued, the Trustee would provide for the registration of the 2008 Bonds in the name of the Beneficial Owners thereof. The Board and the Trustee would treat the person in whose name any 2008 Bond is registered as the absolute owner of such 2008 Bond for the purposes of making and receiving payment of the principal thereof and interest thereon, and for all other purposes, except as otherwise described under the caption, "CONTINUING

DISCLOSURE,” and neither the Board nor the Trustee would be bound by any notice or knowledge to the contrary.

Each 2008 Bond would be transferable or exchangeable only upon the presentation and surrender thereof at the corporate trust office of the Registrar, duly endorsed for transfer or exchange, or accompanied by a written assignment duly executed by the owner or its authorized representative in form satisfactory to the Registrar. Upon due presentation of any 2008 Bonds for transfer or exchange, the Trustee would authenticate and deliver in exchange therefor, within a reasonable time after such presentation, a new 2008 Bond or 2008 Bonds, registered in the name of the transferee or transferees (in the case of a transfer), or the owner (in the case of an exchange), in authorized denominations and of the same maturity and aggregate principal amount and bearing interest at the same rate as the 2008 Bond or 2008 Bonds so presented. The Board or the Trustee would require the owner of any 2008 Bonds to pay a sum sufficient to cover any tax, fee or other governmental charge required to be paid in connection with the transfer or exchange of such 2008 Bonds.

## SECURITY FOR THE 2008 BONDS

### General

Upon the issuance of the 2008 Bonds, the 2008 Bonds, any additional Obligations hereafter issued and outstanding from time to time (collectively, the “Obligations”), any Interest Rate Hedge Agreements hereafter entered into, and any obligation of the Board to pay Hedge Payments, the Bank to the extent of any obligation of the Board to reimburse the Bank for amounts provided under the Letters of Credit pursuant to the Reimbursement Agreement and any other Credit Support Providers to the extent of any obligation of the Board to reimburse Credit Support Providers for amounts provided under Credit Support Instruments hereafter entered into by the Board (collectively, the “Indenture Obligations”) are payable from and secured by a pledge of: (1) the General Revenues of the Airport; (2) all of the Board’s rights, title and interest in the Debt Service Fund, the Debt Service Reserve Fund and any other funds or accounts permitted by, established under or identified in the Indenture, as it may hereafter be amended or supplemented (collectively, the “Pledged Funds”); and (3) the Lease; without any preference, priority or distinction whatsoever of any Obligation, Interest Rate Hedge Agreement or Credit Support Instrument over any other, except as otherwise provided in the Indenture; PROVIDED THAT, THE LEASE RENTAL PAYMENTS DO NOT SECURE THE PAYMENT OF THE PURCHASE PRICE OF THE 2008 BONDS TENDERED BY THE HOLDERS THEREOF AS PROVIDED IN THE INDENTURE. See “APPENDIX D - SUMMARIES OF THE INDENTURE AND THE LEASE” for the definitions of “Obligations,” “Interest Rate Hedge Agreements,” “Credit Support Provider” and “Credit Support Instruments.”

**Except as provided in the Lease, the 2008 Bonds do not constitute an indebtedness or pledge of the faith and credit or taxing power, within the meaning of any constitutional or statutory provision whatsoever, of the Commonwealth of Kentucky, the Urban County Government, the Board or any political subdivision or governmental unit thereof.**

### General Revenues

The Indenture Obligations, including the 2008 Bonds and any obligation of the Board to pay the Bank to the extent of any obligation of the Board to reimburse the Bank for amounts provided under the Letters of Credit pursuant to the Reimbursement Agreement, are payable from and secured by on a parity basis a pledge of the General Revenues of the Airport. “General Revenues” means for any Fiscal Year, except to the extent excluded under the Indenture as described below, all revenues, payments, proceeds, fees, charges, rent and all other income of any nature, including investment income on moneys held under

the Indenture or on other funds of the Airport, derived directly or indirectly by or for the Board for such Fiscal Year for the use of, and for the services and facilities furnished by, or from the operation or ownership of, or with respect to the Airport, and any proceeds of business interruption insurance and any other insurance proceeds which are deemed to be revenues in accordance with Government Auditing Standards. Notwithstanding the foregoing, the following shall not be included in General Revenues:

(1) the proceeds of any Passenger Facility Charge (“PFCs”) or similar charge levied by or on behalf of the Board (and investment income thereon);

(2) the proceeds of any Contract Facility Charge (“CFCs”) or similar charge levied by or on behalf of the Board (and investment income thereon);

(3) any grants, gifts, bequests, contributions or donations, including any such funds provided by any person or entity, including an airline, doing business at the Airport, including, but not limited to, Federal Aviation Administration (“FAA”) and other governmental grants;

(4) the proceeds from the sale, transfer or other disposition of title by the Board to all or any part of the Airport;

(5) the proceeds of any taxes collected at the Airport;

(6) the proceeds of any condemnation award or insurance received by the Board except condemnation awards and insurance proceeds which are deemed to be revenues in accordance with Government Auditing Standards;

(7) the proceeds of any court or arbitration award or settlement in lieu thereof received by the Board except (a) awards or settlements which are deemed to be revenues in accordance with Government Auditing Standards or (b) awards or settlements which constitute reimbursements for costs previously incurred as Operation and Maintenance Expenses;

(8) amounts derived by the Board with respect to debt service on Special Facility Revenue Obligations;

(9) the proceeds of any bonds or other indebtedness of the Board;

(10) payments to the Board of the principal of and interest, if any, on any loan made by the Board for Airport purposes;

(11) investment income on moneys held in the Project Fund as created by the Indenture;

(12) Lease Rental Payments; and

(13) any other amounts which are not deemed to be revenues in accordance with Government Auditing Standards or which are restricted as to their use.

The General Revenues generally consist primarily of airline revenues, public parking revenues, rental car revenues, concession, rental and miscellaneous revenues and interest income. Airline revenues comprise revenues derived from landing fees, terminal rents and security charges paid by airlines operating at the Airport. Since 2001, the Board has established airline rates and charges annually using a compensatory based cost recovery methodology. Effective June 30, 2008, the Board established new airline rates and charges for Fiscal Year 2009. In addition, each airline serving the Airport is required to

execute a month to month Aircraft Operator Airport Use Permit, which sets forth its basic rights and obligations for the use of the Airport and the occupancy of space in the Airport terminal building and which provides that each such airline may terminate its Permit upon 30 days' prior notice.

As a matter of policy, the Board has declared that it will establish cost recovery rentals, fees and charges to the users of the Airport and make amendments thereto at periodic intervals as needed to assure that the Airport will be a self-sufficient entity to the fullest extent possible. See "APPENDIX A - REPORT OF AIRPORT CONSULTANT - Historic Airport Revenues" and "- Financial Forecast" for a further description of the revenues collected and the methodologies for determining the charges to be imposed by the Board for the use of the Airport.

### **Lease - General Obligation Pledge**

The Lease is a general obligation of the Urban County Government and the full faith, credit and taxing power of the Urban County Government is irrevocably pledged to the payment of the Lease Rental Payments, when due. The basic security for the general obligation debt of the Urban County Government, including the Lease, is the Urban County Government's ability to levy, and its pledge to levy, an annual tax to pay the interest on and principal of outstanding general obligation indebtedness, including the Lease Rental Payments, as and when the same become due and payable. The tax must be levied in an amount sufficient to pay, as the same become due, the Lease Rental Payments as well as the principal of and interest on all outstanding general obligation bonds and bond anticipation notes of the Urban County Government. The Constitution of the Commonwealth of Kentucky mandates the collection of a tax sufficient to pay the interest on an authorized indebtedness and the creation of a sinking fund for the payment of the principal thereof. The Ordinance levies such annual tax, which shall be collected to the extent other lawfully available monies of the Urban County Government are not provided. The Ordinance also affirms the prior creation of a sinking fund into which the proceeds of such tax or other lawfully available monies of the Urban County Government are to be deposited for payment of the Lease Rental Payments and not used for any other purpose.

THE URBAN COUNTY GOVERNMENT IS ONLY OBLIGATED TO PAY THE LEASE RENTAL PAYMENTS (PRINCIPAL OF AND INTEREST ON THE 2008 BONDS OR TO REPLENISH AMOUNTS WITHDRAWN FROM THE DEBT SERVICE RESERVE FUND FOR SUCH PAYMENT) WHEN DUE AND IS NOT OBLIGATED TO PAY THE PURCHASE PRICE OF ANY 2008 BOND THAT IS TENDERED FOR PURCHASE.

Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code") contains provisions relating to the adjustment of debts of a State's political subdivisions, public agencies and instrumentalities ("eligible entity"), such as the Urban County Government. Under the Bankruptcy Code and in certain circumstances described therein, an eligible entity may be authorized to initiate Chapter 9 proceedings without prior notice to or consent of its creditors, which proceedings may result in material and adverse modification or alteration of the rights of its secured and unsecured creditors, including holders of its bonds and notes.

Section 66.400 of the Kentucky Revised Statutes permits a political subdivision, such as the Urban County Government, for the purpose of enabling such subdivision to take advantage of the provisions of the Bankruptcy Code, and for that purpose only, to file a petition stating that the subdivision is insolvent or unable to meet its debts as they mature, and that it desires to effect a plan for the composition or readjustment of its debts, and to take such further proceedings as are set forth in the Bankruptcy Code as they relate to such subdivision. No taxing subdivision is permitted, in availing itself of the provisions of the Bankruptcy Code, to scale down, cut down or reduce the principal sum of its securities except that interest thereon may be reduced in whole or in part.

The Bankruptcy Code and Section 66.400 of the Kentucky Revised Statutes also permit the County to initiate Chapter 9 proceedings, which, because the County collects certain revenues on behalf of the Urban County Government (particularly ad valorem property taxes), may adversely affect the financial condition of the Urban County Government if the proper transfer of revenues is delayed.

### **Funds and Accounts**

The application of General Revenues is governed by the Indenture. The Trust Indenture creates a special fund designated as the General Operating Fund which is held by the Board, in which the Board is required to deposit all General Revenues collected by the Board. Moneys held in the General Operating Fund are then applied and deposited into the funds and accounts established pursuant to the Trust Indenture. General Revenues in the General Operating Fund are to be applied to the payment of all current Operation and Maintenance Expenses, and then, in the following order or priority: (1) transferred to the Debt Service Payment Account of the Debt Service Fund in the amounts required by the Trust Indenture; (2) transferred to the Debt Service Reserve Fund in the amounts required by the Trust Indenture; (3) applied to the payment of any amounts due to a Credit Support Provider that are not related to reimbursement of such Credit Support Provider for the payment of Debt Service Charges with draws under a Credit Support Instrument; and (4) applied to the payment of any amounts due from the Board to the Urban County Government under the Lease.

"Debt Service Charges" means, generally, for any applicable time period: (a) the principal (including any Mandatory Sinking Fund Requirements), interest and redemption premium, if any, required to be paid by the Board on Obligations pursuant to any Series Resolution, less any capitalized interest for such time period and accrued interest on deposit in the Debt Service Payment Account; (b) any amounts due to a Credit Support Provider, to the extent as set forth in a Credit Support Instrument, that do not exceed the corresponding Lease Rental Payments then due with respect to the Obligations related to such Credit Support Instrument; and (c) any Hedge Payments.

The General Revenues deposited in the General Operating Fund are pledged as security for Indenture Obligations, however, unless otherwise provided in a Supplemental Trust Indenture pledging the General Operating Fund as security for all Outstanding Obligations, the General Operating Fund shall not be a Pledged Fund.

### **Debt Service Reserve Fund**

The 2008 Bonds are secured by the Debt Service Reserve Fund, which has been established by the Trust Indenture for the purpose of securing all Indenture Obligations on a parity basis. The Debt Service Reserve Fund is required to be funded in an amount equal to the Debt Service Reserve Requirement, which means the least of: (1) the maximum Aggregate Annual Debt Service in any succeeding Bond Year; (2) 125% of the average Aggregate Annual Debt Service on all Outstanding Bonds; or (3) an amount equal to 10% of the proceeds of any series of Obligations; provided that not more than 10% of the proceeds of any series of Obligations shall be required to be deposited in the Debt Service Reserve Fund and, if such amount is so deposited, the amount of such deposit plus the amount of all prior deposits required upon the issuance of Obligations shall constitute the Debt Service Reserve Requirement until the earlier of (a) the date the next series of Obligations is issued or (b) the date such amount equals the requirement set forth in clause (1) above. On the date of issuance of the 2008 Bonds, a portion of the proceeds thereof will be deposited in the Debt Service Reserve Fund in an amount, which is equal to the Debt Service Reserve Requirement. Pursuant to the Lease, the Lease Rental Payments shall also be used, if and to the extent necessary, to replenish the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement.

## Rate Covenant

The Board covenants that it will fix and establish, and revise from time to time whenever necessary, such rentals, rates and other charges for the use and operation of the Airport and for certain services rendered by the Board in the operation thereof in order that in each Fiscal Year, General Revenues, together with any cash balances as of the first day of such Fiscal Year that are available for the following, will be at least sufficient:

(1) to provide for (a) the payment of Operation and Maintenance Expenses, (b) any required deposit to any Pledged Fund, (c) the payment of any amounts due to a Credit Support Provider that are not related to reimbursement of such Credit Support Provider for the payment of Debt Service Charges with draws under a Credit Support Instrument and (d) the payment of any amounts due from the Board to the Urban County Government under the Lease, exclusive of Aggregate Annual Debt Service for the Fiscal Year; and

(2) to provide for the payment of not less than 100 percent of the Aggregate Annual Debt Service for the Fiscal Year, reduced by (a) amounts available in any capitalized interest account established pursuant to a Supplemental Trust Indenture for disbursement during such Fiscal Year to pay interest on Obligations and (b) anticipated receipts from PFCs and CFCs that are available for the payment of Debt Service Charges;

provided that, failure to fix and establish rates, rentals and charges that are sufficient to pay the amount described in clause (1)(d) above shall not constitute an Event of Default under the Indenture.

If during any Fiscal Year, General Revenues, such PFCs, such CFCs and such cash balance are estimated to produce less than the amount required under the provisions described in the paragraph above, the Board shall revise its rentals, fees and charges or alter its methods of operation or take other action in such manner as is necessary to produce the amount so required in such Fiscal Year. Within 60 days after the end of each Fiscal Year, the Board shall furnish to the Trustee a calculation of the coverage required under the provisions described in the paragraph above certified by the Fiscal Officer.

If the certificate described in the preceding paragraph for any year indicates that the Board has not satisfied its obligations under the first paragraph under this subcaption, then as soon as practicable, but in any event no later than 60 days after the receipt by the Trustee of such certificate, the Board shall employ an Independent Airport Consultant to review and analyze the financial status and the administration and operation of the Airport and to submit to the Board, within 60 days after employment of the Independent Airport Consultant, a written report on the same, including the action which the Independent Airport Consultant recommends should be taken by the Board with respect to the revision of its Airport rentals, fees, and charges, alteration of its methods of operation or the taking of other action that is projected to result in producing the amount so required in the then-current Fiscal Year or, if less, the maximum amount deemed feasible by the Independent Airport Consultant. Promptly upon its receipt of the recommendations, the Board shall, after giving due consideration to the recommendations, revise its Airport rentals, fees and charges or alter its methods of operation, which revisions or alterations need not comply with the Independent Airport Consultant's recommendations so long as any revisions or alterations are projected by the Board to result in compliance with the first paragraph under this subcaption. The Board shall transmit copies of the Independent Airport Consultant's recommendations to the Trustee and to each owner of Obligations who has requested the same.

If at any time and as long as the Board is in full compliance with the provisions described under this subcaption, other than the first paragraph under this subcaption, there shall be no Event of Default

under the Indenture as a consequence of the Board's failure to satisfy the covenant described in such first paragraph during such period.

## **PFCs**

The United States Congress enacted the Aviation Safety and Capacity Expansion Act of 1990 (the "PFC Enabling Act"), authorizing a public agency, such as the Board, which controls a commercial service airport to charge each paying passenger enplaning at such airport (subject to limited exceptions) a PFC of \$1.00, \$2.00 or \$3.00. The proceeds from PFCs are required to be used to: finance eligible airport-related projects that preserve or enhance safety, capacity or security of the national air transportation system; reduce noise from an airport that is part of such system; or furnish opportunities for enhanced competition between or among air carriers. PFCs are collected on behalf of airports by air carriers and their agents and remitted monthly to the public agency, less prescribed handling charges (currently, \$.11 per PFC). Before imposing and using PFCs, a public agency must apply to the FAA for approval. Concurrent with the issuance of the Corporation's First Mortgage Revenue Bonds, 1994 Series A Bonds (the "1994A Bonds"), the Board applied for and received from the FAA authority to impose and use PFCs, at the \$3.00 level, on each revenue passenger enplaned on commercial, passenger aircraft at the Airport to pay debt service on the 1994A Bonds. None of the 1994A Bonds remain outstanding.

The Wendell H. Ford Aviation Investment and Reform Act for the 21<sup>st</sup> Century (the "Air 21 Act"), among other things, authorizes eligible public agencies such as the Board to impose PFCs of \$4.00 or \$4.50 to finance PFC eligible projects, including the payment of debt service on indebtedness incurred to finance such projects, that cannot be paid for from funds reasonably expected to be available through the federal Airport Improvement Program. In May 2001, the FAA approved an increase of the PFC level at the Airport from \$3.00 per passenger to \$4.50.

The Board is currently in the process of applying to the FAA for the authority to continue its PFC program by imposing a \$4.50 charge per enplaned passenger at the Airport to pay PFC-eligible debt service associated with certain work project elements, which will be funded, in part, with a portion of the proceeds of the Tax-Exempt Bonds ("PFC Application Number 7"), as more fully described in the Feasibility Report in APPENDIX A under "Financial Analysis – Financial Forecast – Airport Revenue - Passenger Facility Charges." As described in the Feasibility Report, the total requested authority to impose and use PFCs in PFC Application Number 7 is approximately \$45.2 million. Combined with the estimated PFCs to be collected pursuant to the FAA approved PFC Applications Number 5 and Number 6 (approximately \$55.4 million), the total amount that the Board will have requested to impose and use is estimated to be approximately \$95.7 million.

Thus, if PFC Application Number 7 is approved by the FAA, the Board could use all or a portion of the \$95.7 million to finance PFC-eligible costs of the 2008 Project or to pay the PFC-eligible debt service on the Tax-Exempt Bonds. If so approved, the Board intends to use all or a portion of such PFCs for either of those two purposes. Nevertheless, the Board has no obligation to use any portion of such PFCs for either such purpose. Moreover, PFCs are not included within General Revenues, which are pledged to the payment of debt service on the 2008 Bonds and all additional Obligations. See "- General Revenues" above. The Board may, however, use PFCs at its discretion for the purpose of paying debt service on Obligations in order to meet its rate covenant under the Trust Indenture, as described above under "- Rate Covenant."

Actual PFCs for Fiscal Year 2004 through Fiscal Year 2007 and budgeted PFC Revenues for Fiscal Year 2008 are set forth in Table V-1 of the Feasibility Report in APPENDIX A, and the Airport Consultant's forecast of PFCs for Fiscal Year 2009 through Fiscal Year 2013 is set forth in Table V-3 of the Feasibility Report in APPENDIX A. See also "APPENDIX A - REPORT OF AIRPORT

CONSULTANT - Financial Analysis - Historical Airport Revenues - Passenger Facility Charges” and “- Financial Forecast - Airport Revenue - Passenger Facility Charges” for a more detailed discussion of PFCs imposed and collected by the Board at the Airport.

## **CFCs**

Pursuant to Concession Agreements entered into by the Board and the on-Airport rental car companies (the “Rental Car Companies”), the Rental Car Companies are required to collect a CFC from its customers for each day that a rental contract is in effect that is written by such companies, up to a maximum of ten days. Since August 1, 2002, a CFC rate of up to \$2.00 has been imposed by the Board and collected by the Rental Car Companies to allow the Board to recover its cost in designing, constructing and financing certain rental car improvements at the Airport, as well as related operating and maintenance expenses and land rental expense.

When establishing its budget each Fiscal Year, the Board will estimate the number of contract days for rental cars expected in that year. The Board will then divide (i) the annual principal and interest requirement of the 2008 Series C Bonds related to that portion of 2003B Bonds allocable to the financing of certain rental car ready/return lot improvements and air freight relocation improvements, plus estimated operating and maintenance and land rental expense of such improvements, by (ii) the estimated annual number of contract days to arrive at the CFC rate of up to \$2.00 to be imposed for such Fiscal Year. At the end of each Fiscal Year, the Board performs the same calculation based on the actual number of contract days and adjusts the CFC rate of up to \$2.00 accordingly for the succeeding year to account for any deficiencies or surpluses.

Although the Board has used such CFCs for the payment of debt service on the 2003B Bonds and intends to continue using such CFCs for the payment of debt service on the 2008 Series C Bonds, the Board has no obligation to use any portion of such CFCs for such purpose. Moreover, CFCs are not included within General Revenues, which are pledged to the payment of debt service on the 2008 Bonds and all additional Obligations. See “- General Revenues” above. The Board may, however, use CFCs at its discretion for the purpose of paying debt service on Obligations in order to meet its rate covenant under the Trust Indenture, as described above under “- Rate Covenant.”

See also “APPENDIX A - REPORT OF AIRPORT CONSULTANT - Financial Analysis - Historical Airport Revenues - Contract Facility Charges” and “- Financial Forecast - Airport Revenue - Contract Facility Charges” for a more detailed discussion of CFCs imposed and collected by the Board at the Airport.

## **Additional Obligations Issued on a Parity with the 2008 Bonds**

Under the Trust Indenture, the Board is authorized to issue from time to time additional Obligations on a parity with the 2008 Bonds. Before any such additional Obligations shall be delivered to the Trustee, there shall be filed with the Trustee:

No Event of Default. A certificate of the Fiscal Officer that no Event of Default has occurred and is continuing under the Trust Indenture and that the other conditions to the issuance of the Obligations have been met.

Obligations Other than Completion Obligations and Refunding Obligations. Either (1) a Certificate of an Independent Airport Consultant stating that, based upon reasonable assumptions set forth therein, General Revenues (plus PFCs and CFCs if any are anticipated to be available for the payment of Debt Service Charges) are projected to be not less than that required to satisfy the rate covenant described

under the subcaption “Rate Covenant” (disregarding any Obligations that have been paid or discharged or will be paid or discharged immediately after the issuance of the Obligations proposed to be issued) for each of the next three Fiscal Years following the issuance of such Obligations or, if later, for each Fiscal Year from the issuance of such Obligations through the two Fiscal Years immediately following completion of the Airport Project to be financed by such Obligations; or (2) a Certificate stating that General Revenues for the most recent completed Fiscal Year for which audited financial statements have been prepared satisfied the rate covenant described under the subcaption “Rate Covenant” assuming for such purpose that Aggregate Annual Debt Service for such Fiscal Year includes the maximum Annual Debt Service on the Obligations proposed to be issued.

Completion Obligations. In the case of Completion Obligations: (1) a Certificate stating (a) that the Obligations proposed to be issued are being issued to finance the costs of one or more Airport Projects initially financed in whole or in part by Obligations, and (b) that the additional cost of the Airport Projects being financed by such Obligations does not exceed 15 percent of the aggregate cost thereof previously financed; and (2) a Certificate of a Consulting Engineer (a) stating that the Airport Projects have not materially changed from their description in the Supplemental Trust Indenture authorizing the Obligations initially issued to finance the cost of such Airport Projects, (b) estimating the revised aggregate cost of the Airport Projects, (c) stating that the revised aggregate cost of such Airport Projects cannot otherwise be paid, and (d) stating that, in the opinion of the Consulting Engineer, the issuance of Completion Obligations is necessary to provide funds to complete such Airport Projects.

Refunding Obligations. In the case of Refunding Obligations: (1) if a redemption of Obligations is to be effected, irrevocable instructions to the Trustee to give due notice of redemption of all the Obligations to be refunded and the redemption date or dates, if any, upon which such Obligations are to be redeemed; (2) if a redemption of Obligations is to be effected and the redemption is scheduled to occur subsequent to the next succeeding 45 days, irrevocable instructions to the Trustee to publish, as provided in the applicable Supplemental Trust Indenture, notice of redemption of such Obligations on a specified date prior to their redemption date; (3) a certificate of an Independent Accountant (or a certificate of the Trustee if the Obligations to be refunded will be redeemed within 90 days of the issue date of the Refunding Obligations) stating the amount of either (a) moneys in an amount sufficient to pay the Obligations to be refunded at the applicable Redemption Price of the Obligations to be refunded, together with accrued interest on such Obligations to the redemption date or dates or the date or dates of maturity thereof, or (b) Government Bonds, the principal of, and interest on, which when due (without reinvestment thereof), together with the moneys which must be contemporaneously deposited with the Trustee, to be sufficient to pay when due the applicable Redemption Price of the Obligations to be refunded, together with accrued interest on such Obligations to the redemption date or dates or the date or dates of maturity thereof, and (4) such further documents and moneys as are required by the provisions of the related Supplemental Trust Indenture.

### **Subordinated or Other Indebtedness**

Nothing contained in the Trust Indenture prohibits the Board from (1) issuing other indebtedness secured by and payable from the General Revenues, provided that such other indebtedness constitutes Subordinated Indebtedness, and (2) issuing other indebtedness payable from, but not secured by the General Revenues.

## CREDIT SUPPORT INSTRUMENTS

### General

The following summarizes certain provisions of the Letters of Credit issued by the Bank for each series of 2008 Bonds and the Reimbursement Agreement, pursuant to which the Letters of Credit have been issued by the Bank. Reference is made to the Letters of Credit and the Reimbursement Agreement for the detailed provisions thereof.

### The Letters of Credit

Pursuant to the terms of the Reimbursement Agreement, on the date of issuance of the 2008 Bonds, the Bank will issue, and deliver to the Trustee, the following Letters of Credit, in order to secure payment of the principal of and interest on the 2008 Bonds, as set forth below:

(a) the irrevocable direct-pay letter of credit (such letter of credit, the "2008 Series A Letter of Credit") in the amount of \$47,081,392, of which \$46,395,000 is to support the unpaid principal amount of the 2008 Series A Bonds, and the portion of the purchase price corresponding to the principal of the 2008 Series A Bonds, and of which \$686,392 is to support up to 45 days' interest on, and the portion of the purchase price corresponding to up to 45 days' accrued interest on, the 2008 Series A Bonds, at an assumed rate of twelve percent (12%) per annum;

(b) the irrevocable direct-pay letter of credit (such letter of credit, the "2008 Series B Letter of Credit") in the amount of \$26,623,135, of which \$26,235,000 is to support the unpaid principal amount of the 2008 Series B Bonds, and the portion of the purchase price corresponding to the principal of the 2008 Series B Bonds, and of which \$388,135 is to support up to 45 days' interest on, and the portion of the purchase price corresponding to up to 45 days' accrued interest on, the 2008 Series B Bonds, at an assumed rate of twelve percent (12%) per annum; and

(c) the irrevocable direct-pay letter of credit (such letter of credit, the "2008 Series C Letter of Credit") in the amount of \$4,527,203, of which \$4,445,000 is to support the unpaid principal amount of the 2008 Series C Bonds, and the portion of the purchase price corresponding to the principal of the 2008 Series C Bonds, and of which \$82,203 is to support up to 45 days' interest on, and the portion of the purchase price corresponding to up to 45 days' accrued interest on, the 2008 Series C Bonds, at an assumed rate of fifteen percent (15%) per annum.

Each Letter of Credit will terminate (the "Termination Date" with respect to such Letter of Credit) on the earliest of any of the following: (1) the close of business on December 15, 2011 (the initial "Expiration Date" with respect to each Letter of Credit), or if such Expiration Date is extended, the Expiration Date as so extended, (2) the date on which the principal amount of and interest on the related series of the 2008 Bonds shall have been paid in full, (3) the close of business on the second Business Day following conversion of the Rate Period for the related series of the 2008 Bonds from the Daily Rate Period or the Weekly Rate Period to a Rate Period other than the Daily Rate Period or the Weekly Rate Period, (4) the date on which the Bank honors the draft drawn on such Letter of Credit to purchase the related series of the 2008 Bonds following receipt by the Trustee of written notice from the Bank that an Event of Default has occurred and is continuing and a written request from the Bank that the related series of the 2008 Bonds be required to be tendered for purchase pursuant to the First Supplemental Indenture, (5) the date on which such Letter of Credit is surrendered to the Bank by the Trustee for cancellation following acceptance by the Trustee of an Alternate Credit Support Instrument therefor, or (6) the date the Bank honors the final drawings available to be made under such Letter of Credit.

Pursuant to the Indenture, the Trustee is authorized and directed to draw monies under each Letter of Credit to the extent available in accordance with the terms thereof to make timely payments of principal of and interest on the related series of the 2008 Bonds. The Trustee is also authorized and directed to draw monies in accordance with the provisions of the Indenture under each Letter of Credit to the extent available in accordance with the terms of such Letter of Credit in order to effect the purchase of the related series of the 2008 Bonds (or portions thereof in Minimum Authorized Denominations) on a Purchase Date. Upon declaration of acceleration of the 2008 Bonds following an Event of Default under the Indenture, the Trustee is authorized and directed to draw on the Letters of Credit to the extent available in an amount equal to the full unpaid principal of and accrued interest on the 2008 Bonds.

The Bank's obligation under each Letter of Credit will be automatically reduced immediately following the Bank's honoring any draft drawn under such Letter of Credit by an amount equal to the amount of such draft. Amounts drawn under a Letter of Credit to pay interest on the related series of 2008 Bonds will be reinstated on the tenth (10th) calendar day following such drawing, unless the Trustee has theretofore received notice from the Bank that (i) the Bank has not been reimbursed in full by the Board for the amount of such drawing, together with interest, if any, owing thereon pursuant to the Reimbursement Agreement, or (ii) an event of default under the Reimbursement Agreement has occurred and is then continuing. Amounts drawn under a Letter of Credit to pay the purchase price of the related series of 2008 Bonds will be reinstated only to the extent that the Board has reimbursed the Bank for all principal of and interest on any advance or loan made by the Bank to the Board in connection with such drawing. Amounts drawn under a Letter of Credit to pay the principal of 2008 Bonds in connection with a redemption will not be reinstated.

### **Alternate Credit Support Instruments**

The Board at its option may cause to be delivered to the Trustee, as a replacement for each Letter of Credit, an Alternate Credit Support Instrument. Any such Alternate Credit Support Instrument must be issued by a bank, a savings institution, an insurer or other financial institution, must require such institution to pay when due, to and upon request of the Trustee, the same amounts as are payable under the Letter of Credit to be replaced by such Alternate Credit Support Instrument and must have an effective date (the "Replacement Date") which shall be any date selected by the Board; provided, however, that such date allows the Trustee to comply with the notice requirements of the Indenture. The expiration date of the Alternate Credit Support Instrument shall have a term not less than the shorter of (i) 364 days from the Expiration Date of the Letter of Credit being replaced or 364 days from the Replacement Date (if the substitution is not being provided in connection with the stated expiration of the current Letter of Credit) or (ii) the remaining term of the related series of 2008 Bonds plus fifteen (15) days.

Prior to the replacement of any Letter of Credit with an Alternate Credit Support Instrument, the following conditions shall have been met: (i) the Trustee shall have received from the Board written notice of such replacement, including notice of the form of the Alternate Credit Support Instrument and an irrevocable commitment to issue such Alternate Credit Support Instrument from the issuer thereof, with the right to approve such form, not less than sixty (60) days prior to the Interest Payment Date next preceding the Letter of Credit termination date or the Letter of Credit substitution date (if the substitution is not being provided for in connection with the stated termination date of the current Letter of Credit); (ii) the Trustee shall have received the following not less than sixty (60) days prior to the Interest Payment Date next preceding the Letter of Credit termination date or the Letter of Credit substitution date (if the substitution is not being provided for in connection with the stated termination date of the current Letter of Credit) (A) the form of an opinion of counsel for the issuer of the Alternate Credit Support Instrument that it constitutes a legal, valid and binding obligation of the issuer in accordance with its terms, and (B) with respect to the Tax-Exempt Bonds, the form of an Opinion of Bond Counsel that such

replacement will not cause interest thereon to become subject to federal income taxation, both of which executed opinions shall be delivered no later than the Interest Payment Date preceding the effective date of the Alternate Credit Support Instrument.

### **The Reimbursement Agreement**

Under the Reimbursement Agreement, the Board agrees to cause the Bank to issue its Letters of Credit to the Trustee concurrently with the issuance and delivery of the 2008 Bonds. The issuance of the Letters of Credit is subject to the satisfaction of certain conditions set forth in the Reimbursement Agreement, including the receipt by the Bank of various certifications or documents from the Board, the Urban County Government and the Trustee, among other parties, and the delivery of certain legal opinions.

Under the Reimbursement Agreement, the Board agrees to pay to the Bank amounts that are drawn under the Letters of Credit, together with interest, if any, on such amounts at the rate or rates specified in the Reimbursement Agreement.

Fees and Expenses. Under the Reimbursement Agreement, the Board agrees to pay to the Bank for the issuance of the Letters of Credit certain fees and to pay all reasonable charges and expenses of the Bank incurred relative to the issuance, transfer, drawing upon or other actions with respect to the Letters of Credit or under the Reimbursement Agreement.

Certain Covenants of the Board. The Board covenants in the Reimbursement Agreement, among other things: to maintain its existence; to maintain certain insurance; to keep proper books of record and account; to furnish financial and other reports and information to the Bank; and to comply with certain financial and other covenants.

Events of Default and Remedies. The Reimbursement Agreement specifies numerous Events of Default, including failure by the Board to timely pay amounts payable to the Bank thereunder or to comply with other covenants or conditions of the Reimbursement Agreement, including any breach of representations or warranties, or the occurrence of certain acts of insolvency or bankruptcy, or the occurrence of a default under the Indenture or any of certain other agreements relating to the issuance of the 2008 Bonds.

If an Event of Default under the Reimbursement Agreement has occurred and is existing, the Bank may direct the Trustee to accelerate the 2008 Bonds under the Indenture and take any other remedial action available to it. If the 2008 Bonds are so accelerated, Bondholders will be required to mandatorily tender their 2008 Bonds to the Trustee, in exchange for payment of the principal of and accrued interest on the 2008 Bonds, payable from draws on the related Letters of Credit.

Amendment. The Reimbursement Agreement may be amended by the Board and the Bank without notice to or the consent of the Board, the Trustee or the Bondholders.

## **THE AIRPORT**

### **Management**

The Board provides for the daily management and operation of the Airport through the employment of an Executive Director and such staff as is deemed necessary to properly operate, manage, develop and maintain the Airport. The Executive Director is directly responsible to the Board for all of the Airport's business and operational activities. The Executive Director is assisted by four Directors –

one for Administration and Finance, one for Operations, one for Planning and Development and one for Marketing and Community Relations. In total, the Board has 84 full time and nine part time employees. There are six operating divisions, namely: Airport Services; Janitorial Services; Public Safety; Administration; Planning and Development; and Operations.

### **Airport Facilities**

The Airport is located on and includes nearly 1000 acres located 6 miles west of the City of Lexington and adjacent to US Highway 60, a major 6-lane east-west highway. It is the only Primary Commercial Service airport (which is defined by the FAA as having scheduled airline service and enplaning more than 10,000 passengers annually) located in the central part of the Commonwealth of Kentucky and which is served by both national and regional air carriers. The Airport has two runways: (1) Runway 4/22, which is 7,002 feet in length and used primarily for commercial air carrier operations; and (2) Runway 8/26, which is 3,501 feet in length used primarily for general aviation aircraft operations. As part of the 2008 Project, Runway 8/26 will be reconstructed and relocated. When relocated, Runway 8/26 will be redesignated as Runway 9/27 and new general aviation facilities will be constructed adjacent to Runway 9/27. See “THE 2008 PROJECT.”

The Airport is currently served by one major passenger airline, Delta Air Lines (“Delta”), and 14 regional airlines (Atlantic Southeast Airlines, Chautauqua, Comair and Freedom Airlines (each d/b/a The Delta Connection), Piedmont Airlines, PSA Airlines and Air Wisconsin (each d/b/a US Airways Express), Mesaba Airlines and Pinnacle Airlines (both d/b/a Northwest Airlink), Sky West Airlines (d/b/a United Express), American Eagle (d/b/a American Connection), ExpressJet, Commutair and Allegiant Air) connecting the Airport to several existing hubs of the major/national and regional airlines.

### **Terminal Facilities**

The Airport has an approximately 160,000 square foot, three-level Terminal Building with nine aircraft parking positions for boarding passengers by means of second level loading bridges and four parking positions for ground level loading of smaller commuter aircraft. The Terminal Building was originally constructed in 1976 and subsequently renovated and expanded in 1984 and 1990. The Airport also includes an Air Freight Terminal, comprised of approximately 5,000 square feet, which is currently used by air carriers and air freight handlers for air cargo/mail related purposes. The Airport is also a “U.S. Customs User Fee” Airport capable of clearing prearranged international flights. There is a permanent United States Customs presence on the Airport with services available 24 hours per day upon request. The United States Customs agents can also handle immigration and agricultural matters related to such flights pursuant to standard federal government interagency agreements. General Aviation (“GA”) services at the Airport are provided by two fixed based operators, which lease parcels, on which are located the necessary and appropriate facilities to support GA activity. As part of the 2008 Project, the main lobby areas and the curb front of the Terminal Building will be renovated. See “THE 2008 PROJECT.”

### **Parking**

The existing public automobile parking areas include both surface and multi-level parking facilities, which provide approximately 2,643 parking spaces divided into daily, hourly, economy and remote parking. The hourly parking areas, comprised of approximately 457 spaces, are located in a surface lot adjacent to the Airport’s loop road in front of the Terminal and on the ground level of the multi-level parking deck, which is also located adjacent to the loop road in front of the Terminal. The daily parking contains approximately 803 spaces, which are located on the second and third levels of the parking deck. The economy parking area has approximately 643 spaces and is located on the side of the

parking deck opposite of the Terminal. The remote parking areas have approximately 740 spaces and are located outside the Airport entrance loop road. In addition, there is a cell phone waiting parking lot, which is contiguous to the main Terminal entrance roadway, and in which visitors can wait for free until notified via cell phone that their parties have arrived, at which time they can pick them up at the Terminal curb front.

There are various employee parking areas appurtenant to the Terminal providing approximately 291 parking spaces for employees of the Airport and Airport tenants. The curb lane at the Terminal contains curbside parking spaces for the loading and unloading of vehicles, as well as spaces for taxis, limousines and hotel/motel courtesy vehicles. As part of the 2008 Project, the Terminal roadway relocation project will provide for additional automobile parking capacity with the Terminal loop road. See “THE 2008 PROJECT.”

In addition to the public and employee parking facilities, a rental care ready/return parking lot containing 138 parking spaces for automobiles to be rented or returned by rental car customers is conveniently located proximate to the baggage claim area of the Terminal.

The parking garage and the other public parking facilities of the Airport are managed by Republic Parking Systems, Inc. (the “Manager”), pursuant to a concession agreement (the “Parking Agreement”) that provides for the Manager to be paid a percentage of gross revenues generated by such parking facilities. Under the Parking Agreement, the Manager has responsibility for the managerial operation of the public parking facilities, including adjustment of parking rates, subject to the approval of the Board.

### **Rental Car Service Facilities**

Currently, there are four rental car service facilities located adjacent to the Terminal. Each of these service facilities is equipped with cleaning, fueling and servicing equipment. Each has approximately 40,000 square feet of at-grade parking for rental car fleet vehicles. These facilities are leased by the incumbent on-airport rental car companies for the servicing of rental cars used in conducting their rental car business.

### **Further Information Regarding Existing Airport Facilities**

See APPENDIX A for further information regarding existing Airport facilities.

## **THE 2008 PROJECT**

The proceeds of the 2008 Series A Bonds and 2008 Series B Bonds are intended to be used to finance the cost of: (1) designing and constructing certain airfield improvements, including the replacement of Runway 8/26, which consists, in part, of the construction of a 4,000 foot runway and taxiway system, apron areas, access roads, NAVAIDs, which Runway, upon completion, shall be designated Runway 9/27; (2) the relocation of Taxiway D, including, in part, the relocation of utilities and the removal of four buildings; (3) the relocation of Terminal Drive and an increase in the parking capacity at the Airport, including, in part, the relocation of existing utilities and the primary airfield power and control vault and the acquisition of approximately 13 acres of land (the “Terminal Drive Relocation Improvements”); (4) the construction of certain sanitary improvements, including, in part, a new force main; (5) certain Terminal interior renovations, including, in part, the design and renovation of baggage claim space and ticket lobby and public space; and (6) the design and renovation of certain Terminal curb front improvements, including, in part, the exterior of the passenger Terminal curbside and the removal and replacement of existing exterior column wraps, curbside canopy and lighting.

As described above under “SECURITY FOR THE 2003 BONDS – PFCs,” the Board has not yet received PFC “impose and use” approval from the FAA (“Impose and Use Approval”) under its PFC Application Number 7 for the entirety of the 2008 Project, except for the Terminal Drive Relocation Improvements (collectively, the “Impose Only Improvements”). The Board will not commence construction of the Impose Only Improvements until receipt of the Impose and Use Approval from the FAA, which is expected no later than April, 2009. If, for whatever reason, Impose and Use Approval for the Impose Only Improvements is not received from the FAA, it is possible that such Improvements will not be acquired and constructed and the proceeds of the Tax-Exempt Bonds allocated to such Improvements may be applied to redeem the Tax-Exempt Bonds in advance of maturity, unless the Board determines that there are alternate sources of funds to complete such Improvements and to use such funds for such purpose. See “DESCRIPTION OF THE 2008 BONDS – Optional Redemption.” The Board does not anticipate any delays in obtaining any other federal, state or local approvals, permits or licenses necessary to complete the 2008 Project.

The 2008 Series A Bonds and 2008 Series B Bonds are being issued in an amount the Board deems sufficient to pay for all costs of the 2008 Project based upon construction bids and the advice of its architects and engineers. See “APPENDIX A - REPORT OF AIRPORT CONSULTANT - The 2008 Project” for a more complete discussion of the 2008 Project and the sources of funding.

### **AIRPORT OPERATIONS**

The Feasibility Study attached as APPENDIX A hereto discusses the feasibility of the 2008 Project and contains, among other things, a discussion of historical air traffic at the Airport. Certain historical, operational and project information contained in Tables II-1, II-2, II-3, II-5, IV-2, IV-3, IV-4, IV-5, IV-6, IV-7, V-1 and V-2 of the Feasibility Study has been certified as to its accuracy by the Board. **APPENDIX A should be read in its entirety by any potential investor in the 2008 Bonds.** See “AIRPORT CONSULTANT.”

### **BONDHOLDER RISKS**

**The purchase and ownership of the 2008 Bonds may involve investment risk. Prospective purchasers of the 2008 Bonds should give careful consideration to the information set forth in this Official Statement, including, in particular, the matters referred to in the following summary.**

**In considering the matters set forth in this Official Statement, prospective investors should carefully review all investment considerations set forth throughout this Official Statement and should specifically consider risks associated with the 2008 Bonds. The Board’s ability to derive General Revenues from operation of the Airport sufficient to pay debt service on the 2008 Bonds depends upon many factors, many of which are not subject to the control of the Board. These factors include the financial strength of the air transportation industry in general, the financial strength of the firms in that industry that operate at the Airport and national economic conditions.**

#### **Certain Factors Affecting the Air Transportation Industry and the Airport**

The financial difficulties of most domestic airlines, including the bankruptcy of several airlines, the significant fluctuations in fuel prices, the terrorist attacks of September 11, 2001, the threat of future terrorist attacks, the conflicts in Iraq and Afghanistan, increased security requirements in air transportation and the slowing national economy, have significantly affected the North American transportation system, including operations of the Airport, and the financial condition of the airlines. Certain airlines have filed for protection under the Bankruptcy Code and most other airlines have recently reported financial difficulties. Potential investors are urged to review the airlines’ financial information

on file with the Securities and Exchange Commission (“SEC”) and the United States Department of Transportation. The slowing national economy, large debt levels, large unfunded pension obligations of some airlines and the age of aircraft fleets have hindered the airline industry’s financial recovery, and the industry continues to be vulnerable to an economic recession and other external factors or events beyond the airlines’ control.

Like many airport operators, the Board has experienced increased operating costs due to compliance with federally mandated and other security and operating changes. The Board cannot predict the likelihood of future incidents similar to September 11, 2001, the likelihood of future air transportation disruptions or the impact on the Airport or the airlines from such incidents or disruptions or national economic conditions.

### **Level of Airline Traffic**

The 2008 Bonds are secured, in part, by a pledge of the General Revenues of the Airport and the Pledged Funds held under the Trust Indenture. The General Revenues of the Airport are affected substantially by the economic health of the airline industry and the airlines serving the Airport. Historically, the financial performance of the airline industry generally has correlated with the strength of the national economy. Certain factors that may materially affect the air transportation industry, the Airport and the airlines include, but are not limited to: growth of population and the economic health of the region and the nation; airline service and route networks; national and international economic and political conditions; changes in demand for air travel, service and cost competition; mergers; the availability and cost of aviation fuel and other necessary supplies; levels of air fares, fixed costs and capital requirements; the cost and availability of financing; the capacity of the national air traffic control system; national and international disasters and hostilities; the cost and availability of employees; labor relations within the airline industry; regulation by the federal government; environmental risks and regulations; noise abatement concerns and regulations; the financial health and viability of the airline industry; bankruptcy and insolvency laws; acts of war or terrorism; and other risks. Many of these factors, most of which are outside the Board’s control, are discussed in detail in the Feasibility Report attached hereto as APPENDIX A. As a result of these and other factors, the U.S. airline industry as a whole experienced huge financial losses, with the major U.S. passenger airlines collectively recording net losses of over \$38 billion from 2001 through 2005.

Although the major airlines returned to profitability in 2006 and reported net profits of \$3.6 billion for the first three quarters of 2007, they reported an approximately net loss of \$97 million for the fourth quarter of 2007. The Air Transport Association projects that U.S. airlines may see losses in all of 2008. In large part, that net loss was due to the increased cost of aviation fuel. See “- Cost of Aviation Fuel” below. Further, many airlines have filed for bankruptcy, ceased operations and/or merged with other airlines. In particular, since December 2007, 10 airlines have ceased operations and one has filed for bankruptcy, and as of October 1, 2008, all of the United States major airlines, with the exception of Southwest Airlines, have speculative grade credit ratings, indicating a material risk of bankruptcy. In addition, all the major legacy carriers have taken many actions to restructure their route networks and flight schedules and to reduce costs, including reducing their workforce, renegotiating their labor agreements, consolidating connecting activity and replacing mainline jets with regional jets.

The total number of enplaned passengers at the Airport declined each year from Fiscal Year 2004 through Fiscal Year 2008 at an average annual rate of 4.1%. The most notable decline occurred between Fiscal Years 2004 and 2005, which was at a rate of 8.3%. The Airport Consultant states that the general state of the local and national economies and the shifting in airline fare strategies at the Airport and competing airports are possible factors in the decline in passengers. If aviation activity and enplaned passenger traffic at the Airport are slower than currently forecast, a corresponding reduction would occur

both in forecast General Revenues (absent an increase in Airport rentals, fees and charges) and in forecast PFCs and CFCs. See “APPENDIX A - REPORT OF AIRPORT CONSULTANT - Air Traffic Analysis - Historical Passenger Traffic” and “-Forecast of Passenger Enplanement Activity.”

### **Cost of Aviation Fuel**

Airline earnings are significantly affected by changes in the price of aviation fuel. Aviation fuel prices have reached an all-time high in 2008. According to the Air Transport Association, fuel, along with labor costs, is one of the largest cost components of airline operations and continues to be an important and uncertain determinant of an air carrier’s operating economics. The cost of aviation fuel has risen sharply in response both to political instability abroad as well as in response to increased demand for petroleum products around the world. According to the Feasibility Report, based on information provided by the Air Transport Association, the United States Energy Information Administration and the United States Department of Transportation, aviation fuel prices increased from \$1.16 per gallon in 2004 to \$3.38 per gallon through July 2008, representing an average annual growth rate of 30.7%. Although the price of aviation fuel has declined since then, as of September 2008, it nevertheless has increased 22% in 2008 alone. The average aviation fuel prices in the first half of 2008 averaged \$133.40 per barrel compared to \$80.20 per barrel during the same time period in 2007. According to the Feasibility Report, at the projected level of aviation fuel consumption in 2008, every penny paid for a gallon of aviation fuel costs the United States airline industry approximately \$180 million annually.

Further, every dollar increase per barrel results in an additional \$445 million in U.S. airline expenses. The Air Transport Association reports that U.S. airline fuel expense increased from \$16.4 billion in 2000 to \$41.2 billion in 2007 and is expected to exceed \$60.0 billion in 2008. The airline industry paid \$10.4 billion more in 2005 than in 2004, \$5.4 billion more in 2006 than in 2005, and \$2.7 billion more in 2007 than in 2006. While historically fuel expenses have ranged from 10%-15% of U.S. passenger airline operating costs, they now account for between 35% and 50% of such costs (compared to 23.4% for labor). The higher cost of fuel is the principal reason for a possible projected loss for the domestic airline industry in 2008.

In order to alleviate the risk of rising fuel costs, some airlines have hedged fuel prices through the purchase of oil futures contracts. The amount of hedged fuel cost, however, has varied tremendously by airline and is limited by an individual airline’s financial condition. In addition, airlines are seeking ways of becoming more fuel efficient, and some airlines have found ways to save millions of dollars by using newer, more fuel efficient airplanes, using only a single engine for taxi, lowering cruise speeds, reducing onboard weight, serving more direct routes and implementing other measures. From time to time, U.S. airlines have attempted to pass the higher fuel costs on to consumers by increasing the fuel surcharge. Many of these attempts were unsuccessful, however, as many airlines refused to match the increases in a number of instances.

As a result of increased fuel costs and the weakening economy, all of the legacy carriers, including Northwest Airlines (“Northwest”) and Delta, have announced substantial reductions in capacity, including removing numerous aircraft from their fleets, as well as job eliminations. Northwest recently announced that it would cut 8.5% to 9.5% of its flights in the fourth quarter of 2008 and will cut 2,500 jobs in such quarter. Delta also recently announced that it would cut 3% of its domestic flights, in addition to the 10% it previously cut in the spring of 2008.

There has been no shortage of aviation fuel since the “fuel crisis” of 1974, but any increase in fuel prices causes an increase in airline operating costs. Fuel prices continue to be susceptible to, among other factors, political unrest in various parts of the world, Organization of Petroleum Exporting Countries’ policy, the rapid growth of economies such as China and India, the levels of inventory carried

by industries, the amounts of reserves maintained by governments, disruptions to production and refining facilities and weather. Significant and prolonged increases in the cost of aviation fuel are likely to have an adverse impact on air transportation industry profitability and may result in the reduction of service or future bankruptcies by certain airlines. The Board is unable to predict the impact of the current cost of aviation fuel on airline operations at the Airport or the impact of a renewed rise in the cost of aviation fuel on airline operations at the Airport. See “APPENDIX A - REPORT OF AIRPORT CONSULTANT - Air Traffic Analysis - Factors Affecting Future Airline Traffic.”

### **Airline Consolidation and Mergers**

Published news reports have discussed the possibility of consolidation and merger of the legacy carriers. Following its emergence from bankruptcy protection in September 2005, US Airways merged with America West Airlines. In April 2008, Delta and Northwest announced plans to merge, and on October 29, 2008, they closed their merger transaction after the United States Department of Justice stated that it would not block the merger. The pilots of both airlines have approved a collective bargaining agreement, which will help the carriers to move forward with their merger plans. The Board is not able to predict whether any other mergers will occur, what impact, if any, any such mergers may have on the operations of any merged carriers at the Airport, or the effect thereof on the Airport, including, among other things, enplanements at the Airport and General Revenues. See “APPENDIX A - REPORT OF AIRPORT CONSULTANT - Air Traffic Analysis - Factors Affecting Future Air Traffic - Airline Consolidations.”

### **Effect of Airline Bankruptcies**

General. Since December 2000, numerous airlines have filed for bankruptcy protection, including, among others: US Airways (which first filed for bankruptcy protection in August 2002 and emerged from this bankruptcy protection on March 31, 2003, but filed for bankruptcy protection a second time on September 12, 2004, and in September 2005, emerged from bankruptcy protection and eventually merged with America West Airlines in 2005); Northwest (filed for bankruptcy protection on September 14, 2005 and emerged from bankruptcy protection on May 31, 2007); Delta, including its subsidiary Comair (filed for bankruptcy protection on September 14, 2005 and emerged from bankruptcy protection on April 30, 2007); Trans World Airlines (“TWA”) (which was integrated into American Airlines (“American”) after substantially all of TWA’s assets and certain liabilities were purchased by American); UAL Corporation, the parent of United Airlines (filed for bankruptcy protection in December 2002 and emerged from bankruptcy protection in February 2006); ATA Holdings Corp. (“ATA”) (filed for Chapter 11 bankruptcy protection and ATA Airlines, Inc., an affiliate of ATA, ceased operations in early April 2008); Air Canada (which emerged from bankruptcy protection in September 2004); Aloha Airlines (ceased operations after filing for bankruptcy protection in late March 2008 and subsequently failing to secure financing to maintain operations); and Frontier Airlines (filed for Chapter 11 bankruptcy protection on April 10, 2008). In addition, Skybus recently ceased operations, citing rising fuel costs and a slowing economic environment as the cause. It is not possible to predict the impact on the Airport of any future bankruptcies, liquidations or major restructurings of other airlines.

During the pendency of a bankruptcy proceeding, a debtor airline may not, absent a court order, make any payments to the Board on account of goods and services provided prior to the bankruptcy. Thus, the Board’s stream of payments from a debtor airline would be interrupted to the extent of pre-petition goods and services, including accrued rent and landing fees.

With respect to an airline in bankruptcy proceedings in a foreign country, the Board is unable to predict what types of orders and/or relief could be issued by foreign bankruptcy tribunals or the extent to which any such orders would be enforceable in the United States.

PFCs. Pursuant to the Air 21 Act, the FAA has approved the Board's applications to require airlines to collect and remit to the Board a \$4.50 PFC for each enplaning revenue passenger at the Airport. See "SECURITY FOR THE 2008 BONDS - PFCs."

The PFC Enabling Act, provides that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (*e.g.*, the Board) imposing the PFCs, except for any handling fee (which is currently \$0.11 per PFC) or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFCs separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. Airlines generally are permitted, however, to commingle PFCs with other revenues and also are entitled to retain interest earned on PFCs until such PFCs are remitted. If an airline is in liquidation or bankruptcy proceedings, however, it is prohibited from commingling PFCs with other revenues and from granting a security interest in the PFCs to a third party. The bankruptcy courts have not fully addressed such trust arrangements. Therefore, the Board cannot predict how a bankruptcy court might rule on this matter in the event of a bankruptcy filing by one of the airlines operating at the Airport. It is possible that the Board could be held to be an unsecured creditor with respect to unremitted PFCs held by an airline that has filed for bankruptcy protection. Additionally, the Board cannot predict whether an airline that files for bankruptcy protection would have properly accounted for the PFCs or whether the bankruptcy estate would have sufficient moneys to pay the Board in full for the PFCs owed by such airline. PFCs are not General Revenues and thus, are not pledged to the payment of the 2008 Bonds. See "SECURITY FOR THE 2008 BONDS - PFCs."

Airline Information. Certain airlines operating at the Airport (or their parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and, as such, are required to file periodic reports, including financial and operational data (the "SEC Reports"), with the SEC. The SEC Reports can be read and copied at the SEC's Public Reference Rooms, which can be located by calling the SEC at 1-800-SEC-0330. In addition, electronically filed SEC Reports can be obtained from the SEC's web site at <http://www.sec.gov>. Each domestic airline is required to file periodic reports of financial and operating statistics with the United States Department of Transportation. Such reports can be inspected at the Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, Room 4201, 400 Seventh Street, S.W., Washington, DC 20590, and copies of such reports can be obtained from the Department of Transportation at prescribed rates. Non-U.S. airlines also provide certain information concerning their operations and financial affairs, which may be obtained from the respective airlines.

None of the Board, the Urban County Government, the Underwriter nor the Remarketing Agent undertake any responsibility for and make no representations as to the accuracy or completeness of the content of information available from the SEC or the United States Department of Transportation as discussed in the preceding paragraph, including, but not limited to, updates of such information or links to other internet sites accessed through the SEC's website.

## **Geopolitical Risks**

The terrorist attacks in the United States and other parts of the world, the conflicts in Iraq and Afghanistan and the increased threat of further terrorist attacks decreased passenger traffic levels commencing in 2001. Although passenger traffic has rebounded and since 2005 has exceeded prior September 11, 2001 levels, the Board cannot assess the threat of terrorism and the probability of another attack on American soil or against Americans traveling or American interests abroad. Should new attacks occur against the air transportation industry, the travel industry, cities, utilities, infrastructure, office buildings or manufacturing plants, the effects on travel demand could be substantial.

## **Aviation Security Concerns and Related Costs**

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of international hostilities (such as those that have occurred and continue to occur in the Middle East), terrorist attacks, increased threat levels declared by the Department of Homeland Security and world health concerns, such as the SARS outbreak in 2003, may influence passenger travel behavior and air travel demand. These concerns have intensified in the aftermath of the events of September 11, 2001. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel modes.

The Aviation and Transportation Security Act (the “Aviation Security Act”) requires that all United States airports use explosive detection systems (“EDS”) approved by the Transportation Security Administration of the Department of Homeland Security (the “TSA”) to screen all checked baggage. EDS equipment purchased by the federal government has been installed at the Airport. The Aviation Security Act also requires that eventually all passenger bags, mail and cargo be screened to prevent the carriage of weapons (including chemical and biological weapons), explosives or incendiary devices; however, as of the date hereof, no regulations regarding these enhanced security measures have been proposed. Under the Board’s direction, the Airport was one of the first major airports in the country to screen 100% of all checked baggage and was a model with respect to such screening for many other airports in the country. The Board continues to follow and implement security initiatives based on the policy and guidelines established by the TSA and is currently in compliance with federally mandated security requirements. However, TSA has broad discretion to modify security requirements from time to time.

Because of the implementation of the Congressional mandate, effective January 1, 2003, for the screening of all checked baggage for explosives, as well as the impact on airport operations of procedures mandated under “Level Yellow” (elevated), “Level Orange” (high) and “Level Red” (severe) national threat levels declared by the Department of Homeland Security under the Homeland Security Advisory System, there is the potential for significantly increased inconvenience and delays at many airports. Since its inception the threat level has never been below Level Yellow nor above Level Orange (except that between August 10, 2006 and August 13, 2006, the threat level was raised to Level Red for flights originating in the United Kingdom and bound for the United States). Historically, only minor delays have been experienced at the Airport as a result of the security procedures; however, this may change as a result of increased passenger traffic or other factors such as requirements for additional forms of screening or reductions of the TSA workforce.

To the extent that the Board incurs substantial security costs in the future, such costs could adversely affect the Board’s financial condition. The Board cannot predict the likelihood or impact of any future government-required security measures.

## **Regulations and Restrictions Affecting the Airport**

The operations of the Airport are affected by a variety of contractual, statutory and regulatory restrictions and limitations, including the federal acts authorizing the imposition, collection and use of PFCs and extensive federal legislation and regulations applicable to all airports and airlines in the United States. For example, in the aftermath of the events of September 11, 2001, the Airport also has been required to implement enhanced security measures mandated by the FAA, the Department of Homeland Security and the TSA, and because of increased aircraft maintenance and inspection requirements of the

FAA, numerous flight cancellations by major U.S. carriers have recently occurred. See “- Aviation Security Concerns and Related Costs” above.

### **Loss of PFCs**

The FAA also has the power to terminate the authority to impose PFCs, if (i) the Board’s PFCs are not used for approved projects, (ii) project implementation does not commence within the time period specified in the FAA’s regulations or (iii) the Board otherwise violates FAA regulations. The Board’s authority to impose a PFC may also be terminated if the Board violates certain provisions of the Airport Noise and Capacity Act of 1990 (the “ANCA”) and its implementing regulations relating to the implementation of noise and access restrictions for certain types of aircraft. The regulations under ANCA also contain procedural safeguards to ensure that the Board’s authority to impose a PFC would not be summarily terminated. The Board’s plan of funding for the 2008 Project is premised on certain assumptions with respect to the timing and amounts of the Board’s PFC Application Number 7 and the availability of PFCs to pay debt service on the Tax-Exempt Bonds. In the event that PFCs are lower than those expected or that the portion of the 2008 Project consisting of the Impose Only Improvements is not determined to be PFC-eligible, the Board may elect to delay certain projects or seek alternative sources of funding, including the possible issuance of a greater principal amount of additional Obligations under the Trust Indenture. See “THE 2008 PROJECT.” It is not possible to predict whether future restrictions or limitations on Airport operations will be imposed, whether future legislation or regulations will affect anticipated federal funding or PFC revenue collections for capital projects for the Airport or whether such restrictions or legislation or regulations would adversely affect General Revenues.

### **Travel Substitutes**

Teleconference, video-conference and web-based meetings have improved in quality and price and are often considered satisfactory alternatives to face-to-face business meetings. In addition, leisure and business travelers may choose alternative modes of transportation, such as cars. Although the impact cannot be accurately quantified, it is possible that business travel to and from the Airport may be negatively affected by this trend.

### **2008 Project**

The estimated costs of, and the projected schedule for, the 2008 Project depend on various sources of funding, including PFCs and federal and state grants, and are subject to a number of uncertainties. The ability of the Board to complete the 2008 Project may be adversely affected by various factors including (1) estimating errors, (2) design and engineering errors, (3) changes to the scope of the 2008 Project, (4) delays in contract awards, (5) material and/or labor shortages, (6) unforeseen site conditions, (7) adverse weather conditions, (8) contractor defaults, (9) labor disputes, (10) unanticipated levels of inflation and (11) environmental issues. A delay in the completion of the 2008 Project could delay the collection of revenues and increase the cost thereof and may cause the rescheduling of other projects. In addition, the Board expects to collect certain nonairline revenues, including, in particular, revenues from parking facilities, that the Board expects will begin operation upon completion of the 2008 Project. A delay in the completion or operation of such parking facilities or the 2008 Project could delay the collection of such nonairline revenues. See “APPENDIX A - REPORT OF AIRPORT CONSULTANT - Financial Analysis - Financial Forecast - Airport Revenue - Additional Parking Revenues.” There can be no assurance that the cost of the 2008 Project will not exceed the currently projected dollar amount or that the completion of the 2008 Project will not be delayed beyond the currently projected completion date. Any schedule delays or cost increases could result in the need to issue additional bonds and may result in increased costs per enplaned passenger to the airlines, which may place the Airport at a competitive disadvantage to other airports. See “THE 2008 PROJECT.”

## **Credit Ratings of the Bank**

There can be no assurance that the credit ratings of the Bank will continue at their current levels. The credit ratings on the 2008 Bonds could be downgraded or withdrawn if the Bank is downgraded, placed on credit watch or has its ratings suspended or withdrawn or refuses to perform under any of the Letters of Credit. For information on the Bank, see APPENDIX F.

## **Enforceability of the Letters of Credit**

Section 105 of the Bankruptcy Code empowers a bankruptcy court to issue such orders as are necessary or appropriate to carry out the provisions of the Bankruptcy Code. Court decisions discussing the enforceability of letters of credit indicate that it is possible that a bankruptcy court acting pursuant to Section 105 or other equitable powers under the Bankruptcy Code could enjoin a drawing by the Trustee under a Letter of Credit or an Alternate Credit Support Instrument or the payment by the Trustee to holders of the 2008 Bonds of amounts drawn under a Letter of Credit or an Alternate Credit Support Instrument under various circumstances, including the bankruptcy or insolvency of, or a similar event with respect to, the Board.

A Letter of Credit or an Alternate Credit Support Instrument also will not, and is not intended to, protect holders of the 2008 Bonds from events affecting the Bank or the issuer of an Alternate Credit Support Instrument or the creditworthiness of the Bank or the issuer of an Alternate Credit Support Instrument, including the bankruptcy or insolvency of the Bank or the issuer of an Alternate Credit Support Instrument.

## **Interest Rate Cap Agreements**

The Board entered into the Interest Rate Cap Agreements in order to provide a hedge against future interest rate risk with regard to the Prior Bonds, and as a result of the refunding of the Prior Bonds with the proceeds of the 2008 Bonds, the Interest Rate Cap Agreements are intended by the Board to continue providing a hedge against future interest rate risk with regard to the 2008 Bonds. The ability of the Board to realize the benefit of the Interest Rate Cap Agreements will be dependent on the continuing creditworthiness of the Counterparty to the Interest Rate Cap Agreements. In the event that the Counterparty, due to financial difficulties or otherwise, is unable to honor its obligations under any of its Interest Rate Cap Agreements, the Board could lose the benefit of its hedging strategy in addition to the premiums paid on behalf of the Board in connection with the execution and delivery of the Interest Rate Cap Agreements. There can be no assurance that the Counterparty will be able to honor its obligations under the Interest Rate Cap Agreements. See “PLAN OF FINANCE - Interest Rate Cap Agreements.”

## **Assumptions in the Feasibility Report**

The Feasibility Report incorporates numerous assumptions as to the utilization of the Airport and other matters and states that any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material. See “AIRPORT CONSULTANT” and “APPENDIX A - REPORT OF AIRPORT CONSULTANT.”

## **Forward-Looking Statements**

This Official Statement, and particularly the information contained under the captions “INTRODUCTION,” “PLAN OF FINANCE,” “THE AIRPORT,” “THE 2008 PROJECT” and

“AIRPORT CONSULTANT” and in “APPENDIX A - REPORT OF AIRPORT CONSULTANT,” contain statements relating to future results that are “forward looking statements” as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words “estimate,” “forecast,” “intend,” “expect” and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Among the factors that may cause projected revenues and expenditures to be materially different from those anticipated are an inability to incur debt at assumed rates, construction delays, increases in construction costs, general economic downturns, factors affecting the airline industry in general, federal legislation and/or regulations and regulatory and other restrictions, including, but not limited to, those that may affect the ability to undertake the timing or the costs of the 2008 Project. Any forecast is subject to such uncertainties. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

### **AIRPORT CONSULTANT**

In connection with the issuance of the 2008 Bonds, the Board has caused the Feasibility Report to be prepared by Newton & Associates, Inc., which is attached as APPENDIX A hereto. The references herein to the Feasibility Report do not purport to be complete in all respects, and the Feasibility Report, included as APPENDIX A to this Official Statement, should be read in its entirety for complete information with respect to the subjects discussed therein. The Feasibility Report contains projections of future activity at the Airport included herein in reliance on the authority of the Airport Consultant as an expert in the aviation industry. Such projections are based on assumptions made by the Airport Consultant concerning future events and circumstances which the Airport Consultant believes are significant to the projections. The achievement of any projection may be affected by fluctuating economic conditions and depends upon the occurrence of future events, which cannot be assured. Therefore, the actual results achieved may vary from the projections, and such variations could be material.

### **LITIGATION**

There is no litigation pending in any court or, to the best of the knowledge of the Board, threatened, questioning the corporate existence of the Board or the Urban County Government or which would restrain or enjoin the issuance or delivery of any of the 2008 Bonds, or which questions or concerns the proceedings of the Board or the Urban County Government taken in connection with the 2008 Bonds or the pledge or application of any General Revenues, Pledged Funds or Lease Rental Payments provided for their payment, or which contests the powers of any such entities with respect to the foregoing.

On August 27, 2006, Comair Flight 5191 attempted to depart the Airport, bound for Atlanta, Georgia. It crashed on a farm situated adjacent to the Airport. With one exception, all persons on board the aircraft died. Persons purporting to represent at least 24 occupants of Flight 5191 have notified the Airport that they are considering or intend to make some sort of claim against the Airport relating to Flight 5191. Dozens of lawsuits have arisen from the crash of Flight 5191. The Airport has been named as a third party defendant in some of the lawsuits and as a defendant in at least four pending lawsuits. Claims against the Airport have been made on behalf of the pilot, the co-pilot, the flight attendant and Comair. The Airport has notified its insurer and the insurer is providing a defense. At this time, the Board is unable to assess whether the likelihood of an unfavorable outcome of the lawsuits is either probable or remote. See the first paragraph in note 12 of the audited financial statements of the Board for the Fiscal Years ended June 30, 2008 and 2007 set forth in APPENDIX C. In its accident report on Flight 5191, the National Transportation Safety Board did not find any act or omission to act on the part of the

Board or any of its officers or employees to have been among the probable causes, or the contributing causes, of the accident.

## **TAX TREATMENT**

### **Federal Income Taxes**

The Internal Revenue Code of 1986, as amended (the “Code”) establishes certain requirements that must be met subsequent to the issuance and delivery of the Tax-Exempt Bonds for interest thereon to be and remain excluded from gross income of the owners thereof for federal income tax purposes under Section 103(a) of the Code. Noncompliance with such requirements may cause interest on the Tax-Exempt Bonds to be included in gross income of the owners thereof retroactive to the date of issuance of the Tax-Exempt Bonds, regardless of when such noncompliance occurs.

The Board has covenanted to do and perform all acts and things permitted by law and necessary to assure that interest paid on the Tax-Exempt Bonds be and remain excluded from gross income of the owners thereof for federal income tax purposes under Section 103(a) of the Code (the “Covenants”). The Tax Regulatory and No-Arbitrage Certificate executed by the Board with respect to the Tax-Exempt Bonds (the “Tax Certificate”), which will be delivered concurrently with the delivery of the Tax-Exempt Bonds, will contain provisions and procedures regarding compliance with the requirements of the Code. The Board, in executing the Tax Certificate, will certify to the effect that the Board expects and intends to comply with the provisions and procedures contained therein.

In rendering the opinions described below with respect to the Tax-Exempt Bonds, Peck, Shaffer & Williams LLP, Covington, Kentucky (“Bond Counsel”), has relied upon the Covenants and has assumed the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2008 Bonds may adversely affect the tax status of interest on the Tax-Exempt Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Tax-Exempt Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Tax-Exempt Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Bond Counsel.

### **Tax Opinions**

In the opinion of Bond Counsel, under existing law, including current statutes, regulations, rulings and judicial decisions and assuming continuing compliance by the Board with the Covenants and the Tax Certificate, interest on the Tax-Exempt Bonds is excludible from gross income for federal income tax purposes under Section 103(a) of the Code, except for interest on any 2008 Series A Bonds during any period that it is held by a “substantial user” of the facilities financed with proceeds of such 2008 Series A Bonds or a “related person” of such “substantial user” as such quoted terms are defined for purposes of Section 147(a) of the Code.

In the further opinion of Bond Counsel, under present law, interest on the 2008 Series A Bonds is an item of tax preference under Section 57(a) of the Code in computing the federal alternative minimum tax for individuals and corporations, and interest on the 2008 Series B Bonds is taken into account in

determining the adjusted current earnings under Section 56(g) of the Code in computing the federal alternative minimum tax for corporations.

Bond Counsel is also of the opinion that, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, interest on the Tax-Exempt Bonds is exempt from income taxation by the Commonwealth of Kentucky, and the 2008 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities.

In the further opinion of Bond Counsel, under present law, interest on the 2008 Series C Bonds (the "Taxable Bonds") is fully includible in gross income for federal income tax purposes.

Ownership of the 2008 Bonds may result in certain collateral federal income tax consequences to certain Bondholders.

A copy of the opinion of Bond Counsel for the 2008 Bonds is set forth in APPENDIX E hereto.

### **Certain Federal Tax Consequences**

The following is a discussion of certain federal income tax matters under existing statutes. It does not purport to deal with all aspects of federal taxation that may be relevant to particular bondholders of the 2008 Bonds. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion, and each bondholder or potential bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing of the 2008 Bonds on the tax liabilities of the individual or entity.

Although Bond Counsel has rendered an opinion that, with certain assumptions, interest on the Tax-Exempt Bonds is excludible from gross income for federal and Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Tax-Exempt Bonds may otherwise affect a bondholder's federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the bondholder or the bondholder's other items of income or deduction.

For example, ownership or disposition of the Tax-Exempt Bonds may result in other collateral federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, and increasing the federal tax liability of certain individual recipients of Social Security or Railroad Retirement benefits under Section 86 of the Code. Ownership of the Tax-Exempt Bonds may also result in the limitation of interest, and certain other deductions for financial institutions and certain other taxpayers under Section 265 of the Code. Finally, residence of the holder of the Tax-Exempt Bonds in a state other than the Commonwealth of Kentucky or being subject to tax in a state other than the Commonwealth of Kentucky may result in income or other tax liability being imposed by such states or their political subdivision based on the interest or other income from the Tax-Exempt Bonds.

### **Changes in Federal and State Tax Law**

From time to time, legislative proposals are pending in Congress that if enacted would alter or amend one or more of the federal tax matters referred to above in certain respects or adversely affect the market value of the 2008 Bonds. It cannot be predicted whether or in what form any of such proposals,

either pending or that could be introduced, may be enacted and there can be no assurance that such proposals will not apply to the 2008 Bonds.

In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced that, if implemented or concluded in a particular manner, could adversely affect the market value of the 2008 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the 2008 Bonds or the market value thereof would be impacted thereby.

### **Information Reporting Requirement**

Interest on tax-exempt obligations such as the Tax-Exempt Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations, such as the 2008 Taxable Bonds. In general, such information reporting requirements are satisfied if the bondholder completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or the bondholder is one of a limited class of exempt recipients, such as corporations. Backup withholding (i.e., the requirement for the payor to deduct and withhold a tax, calculated in the manner determined under the Code, from the interest payment) may be imposed on payments made to any bondholder who fails to provide the required information, including an accurate taxpayer identification number, to any person required to collect such information under Section 6049 of the Code. Neither the compliance with this reporting requirement nor backup withholding, in and of itself, affects or alters the excludability of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

THE FEDERAL TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A BONDHOLDER'S PARTICULAR SITUATION. IT IS NOT INTENDED TO ADDRESS ALL ASPECTS OF FEDERAL TAXATION THAT MAY BE RELEVANT TO BONDHOLDERS. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF HOLDING AND DISPOSING OF THE 2008 BONDS UNDER FEDERAL OR APPLICABLE STATE OR LOCAL LAWS, INCLUDING THE EFFECT OF ANY PENDING OR PROPOSED LEGISLATION, REGULATORY INITIATIVES OR LITIGATION. FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO INVESTORS WHO ARE NOT U.S. PERSONS.

BOND COUNSEL'S OPINION IS BASED ON EXISTING LEGISLATION AND REGULATIONS AS INTERPRETED BY RELEVANT JUDICIAL AND REGULATORY AUTHORITIES AS OF THE DATE OF ISSUANCE AND DELIVERY OF THE 2008 BONDS. SUCH OPINION IS FURTHER BASED ON BOND COUNSEL'S KNOWLEDGE OF FACTS AS OF THE DATE THEREOF. BOND COUNSEL ASSUMES NO DUTY TO UPDATE OR SUPPLEMENT ITS OPINION TO REFLECT ANY FACTS OR CIRCUMSTANCES THAT MAY THEREAFTER COME TO BOND COUNSEL'S ATTENTION OR TO REFLECT ANY CHANGES IN ANY LAW THAT MAY THEREAFTER OCCUR OR BECOME EFFECTIVE. MOREOVER, BOND COUNSEL'S OPINIONS ARE NOT A GUARANTEE OF RESULT AND ARE NOT BINDING ON THE INTERNAL REVENUE SERVICE (THE "SERVICE"); RATHER, SUCH OPINIONS REPRESENT BOND COUNSEL'S LEGAL JUDGMENT BASED UPON ITS REVIEW OF EXISTING LAW AND IN RELIANCE UPON THE REPRESENTATIONS AND COVENANTS REFERENCED ABOVE THAT IT DEEMS RELEVANT TO SUCH OPINIONS.

THE SERVICE HAS AN ONGOING AUDIT PROGRAM TO DETERMINE COMPLIANCE WITH RULES THAT RELATE TO WHETHER INTEREST ON STATE OR LOCAL OBLIGATIONS

IS INCLUDABLE IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. NO ASSURANCE CAN BE GIVEN WHETHER OR NOT THE SERVICE WILL COMMENCE AN AUDIT OF ANY COMPONENT OF THE 2008 BONDS. IF AN AUDIT IS COMMENCED, IN ACCORDANCE WITH ITS CURRENT PUBLISHED PROCEDURES, THE SERVICE IS LIKELY TO TREAT THE ISSUER AS THE TAXPAYER AND THE BONDHOLDERS MAY NOT HAVE A RIGHT TO PARTICIPATE IN SUCH AUDIT. PUBLIC AWARENESS OF ANY FUTURE AUDIT OF THE 2008 BONDS COULD ADVERSELY AFFECT THE VALUE OF THE 2008 BONDS DURING THE PENDENCY OF THE AUDIT REGARDLESS OF THE ULTIMATE OUTCOME OF THE AUDIT.

### **APPROVAL OF LEGAL PROCEEDINGS**

The authorization, issuance and sale of the 2008 Bonds are subject to the approving opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, substantially in the form set forth in APPENDIX E hereto. Certain legal matters will be passed upon for the Board by its counsel, Stites & Harbison, PLLC, Louisville, Kentucky. Certain legal matters in connection with the public offering of the 2008 Bonds will be passed upon for the Underwriter by Barnes & Thornburg LLP, Indianapolis, Indiana, counsel to the Underwriter. Certain legal matters in connection with the issuance of the Letters of Credit will be passed upon for the Bank by Frost Brown Todd LLC, Louisville, Kentucky, counsel to the Bank.

### **RATINGS**

Moody's Investors Service, Inc. ("Moody's"), has assigned its short-term rating and long-term rating of "VMIG1" and "Aaa," respectively, to the 2008 Bonds, on the understanding that the Letters of Credit will be issued by the Bank concurrently with the delivery of the 2008 Bonds. Such short-term rating and long-term rating of the 2008 Bonds are based solely on the credit strength of the Bank. Moody's has also assigned its underlying long-term municipal bond rating of "Aa2" to the 2008 Bonds, based upon its analysis of the credit strength of the Board and the Urban County Government, with respect to its obligation to make Lease Rental Payments under the Lease. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), has assigned its short-term rating and long-term rating of "A-1+" and "AA," respectively, to the 2008 Bonds, on the understanding that the Letters of Credit will be issued by the Bank concurrently with the delivery of the 2008 Bonds. S&P's short-term rating and long-term rating of the 2008 Bonds are based solely on the credit strength of the Bank.

Any explanation of the significance of such ratings may be obtained from Moody's and S&P. Such ratings reflect only the views of the rating agency assigning such rating. An explanation of the ratings may be obtained from Moody's at 7 World Trade Center at 250 Greenwich Street, New York, New York 10004, and from S&P at 55 Water Street, New York, New York 10004. Such ratings are not a recommendation to buy, sell or hold any of the 2008 Bonds. There is no assurance that such ratings will remain in effect for any given period of time or that they may not be lowered, suspended or withdrawn entirely by such rating agencies if in their judgment, circumstances so warrant. Any such downward change in or suspension or withdrawal of such ratings may have an adverse effect on the market prices or the marketability of the 2008 Bonds. Neither the Board nor the Underwriter has undertaken any responsibility either to bring to the attention of the registered owners of the 2008 Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

### **UNDERWRITING**

J. P. Morgan Securities Inc. (the "Underwriter") has agreed to purchase the 2008 Bonds subject to certain conditions set forth in the Bond Purchase Agreement with the Board, provided that the

Underwriter will be obligated to purchase all the 2008 Bonds if any 2008 Bonds are purchased. The Underwriters have agreed to purchase the 2008 Series A Bonds at a price of \$46,134,348.38, the 2008 Series B Bonds at a price of \$26,087,609.22 and the 2008 Series C Bonds at a price of \$4,420,027.55 (reflecting, respectively, underwriter's discounts of \$260,651.62, \$147,390.78 and \$24,972.45, respectively). The Underwriter has agreed to make a bona fide public offering of all the 2008 Bonds at the price of par.

## **REMARKETING**

The 2008 Bonds shall be remarketed by the Remarketing Agent pursuant to the Remarketing Agreement.

## **CERTAIN RELATIONSHIPS**

JPMorgan Chase Bank, N.A., which is providing the three Letters of Credit pursuant to the Reimbursement Agreement, is the Counterparty on all eight Interest Rate Cap Agreements, and J.P. Morgan Securities Inc., which is serving as the Underwriter and the Remarketing Agent, are direct or indirect subsidiaries of JPMorgan Chase & Co.

## **CONTINUING DISCLOSURE**

### **General**

The Board will enter into a Continuing Disclosure Undertaking (the "Undertaking") for the benefit of the beneficial owners of the 2008 Bonds to send certain information annually and to provide notice of certain events to certain information repositories. The Board acknowledges that the primary offering of the 2008 Bonds is initially exempt from Rule 15c2-12 (the "Rule") promulgated by the SEC pursuant to the Exchange Act, but has voluntarily entered into the Undertaking as if the primary offering of the 2008 Bonds was not initially exempt from the Rule. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies, are set forth below.

A failure by the Board to comply with the Undertaking will not constitute a default under the 2008 Bonds, the Resolutions or the Indenture and beneficial owners of the 2008 Bonds are limited to the remedies described in the Undertaking. See "– Consequences of Failure of the Board to Provide Information" below. A failure by the Board to comply with the Undertaking must be reported in accordance with the terms of the Undertaking.

The following is a brief summary of certain provisions of the Undertaking of the Board and does not purport to be complete. The statements made under this caption are subject to the detailed provisions of the Undertaking, copies of which are available from the Board upon request.

### **Annual Financial Information Disclosure**

The Board covenants that it will disseminate its Annual Financial Information and Audited Financial Statements (as described below) to each Nationally Recognized Municipal Securities Information Repository (each, a "NRMSIR") then recognized by the SEC for purposes of the Rule and to any public or private repository designated by the Commonwealth of Kentucky as the state depository (the "SID") and recognized as such by the SEC for purposes of the Rule. Currently, the Commonwealth of Kentucky has not designated an SID. The Board is required to deliver such information so that such entities receive the information by the dates specified in the Undertaking.

Delta and the Urban County Government are at present the only Obligated Persons (as defined below) other than the Board. Delta is required to file SEC Reports with the SEC under the Exchange Act as more fully described under the caption “BONDHOLDER RISKS - Effect of Airline Bankruptcies - Airline Information.” The Board has no responsibility for the accuracy or completeness of any SEC Report filed by Delta or by any future Obligated Person. The Urban County Government currently files its audited financial statements with each NRMSIR in connection with separate undertakings executed by the Urban County Government. Unless no longer required by the Rule, the Board will use reasonable efforts to cause the Urban County Government to file the information included in APPENDIX B hereto with each NRMSIR and any SID (if the Urban County Government is not otherwise required to file its audited financial statements under its separate undertakings). Unless no longer required by the Rule, the Board agrees to use its reasonable efforts to cause each Obligated Person, other than the Board and the Urban County Government (to the extent that such Obligated Person is not otherwise required to file SEC Reports under the Exchange Act), to file annual information substantially equivalent to that contained in the SEC Reports with each NRMSIR and any SID.

“Annual Financial Information” means (1) all of the information contained in Tables II-5 (to the extent expected debt service changes materially after the sale of the 2008 Bonds), IV-2, IV-3, IV-4, IV-5, IV-6, V-1 and V-2 to the Feasibility Report, (2) with respect to the Urban County Government, the information contained in APPENDIX B to this Official Statement, and (3) with respect to each Obligated Person other than the Board and the Urban County Government, if such Obligated Person does not file SEC Reports, information substantially equivalent to that contained in the SEC Reports. If any of the Annual Financial Information that is published by a third party is no longer publicly available, the Board shall include a statement to that effect as part of the Annual Financial Information for the year in which such lack of availability arises.

“Audited Financial Statements” means the audited financial statements of the Board prepared in accordance with government accounting standards applicable to governmental units as in effect from time to time.

“Obligated Person” means (1) the Board, (2) the Urban County Government, (3) each airline or other entity at any time using the Airport (a) that is obligated under an airport use agreement, lease or other agreement to pay a portion of the debt service on the 2008 Bonds and (b) has paid amounts equal to at least 20% of the General Revenues of the Airport for each of the prior two Fiscal Years and (4) any person who is either generally or through an enterprise, a fund or an account of such person committed by contract or other arrangement to support payment of not less than 20% of debt service coming due on the 2008 Bonds in the succeeding Fiscal Year.

Annual Financial Information exclusive of Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, not more than 210 days after the last day of the Board’s Fiscal Year, which currently is June 30. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included and Audited Financial Statements will be filed when available.

### **Events Notification; Material Events Disclosure**

The Board covenants that it will disseminate to each NRMSIR or to the Municipal Securities Rulemaking Board (the “MSRB”) and to the SID, if any, in a timely manner the disclosure of the occurrence of an Event (as described below) that is material, as materiality is interpreted under the Exchange Act. The “Events,” certain of which may not be applicable to the 2008 Bonds, are:

1. principal and interest payment delinquencies;

2. non-payment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the security;
7. modifications to rights of security holders;
8. bond calls (other than mandatory, scheduled redemptions, not otherwise contingent upon the occurrence of an event, the terms of which redemptions are set forth in detail in this Official Statement);
9. defeasances;
10. release, substitution or sale of property securing repayment of the securities; and
11. rating changes.

#### **Consequences of Failure of the Board to Provide Information**

The Board shall give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any, of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

In the event of a failure of the Board to comply with any provision of the Undertaking, the beneficial owner of any 2008 Bond may seek mandamus or specific performance by court order to cause the Board to comply with its obligations under the Undertaking. A default under the Undertaking shall not be deemed a default under the 2008 Bonds, the Resolutions or the Indenture, and the sole remedy under the Undertaking in the event of any failure of the Board or the Issuer to comply with the Undertaking shall be an action to compel performance.

#### **Amendment; Waiver**

Notwithstanding any other provision of the Undertaking, the Board may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) (i) the amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Board or type of business conducted;

(ii) the Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not materially impair the interests of the beneficial owners of the 2008 Bonds, as determined by parties unaffiliated with the Board (such as the

Trustee or bond counsel), or by approving vote of the beneficial owners of the 2008 Bonds pursuant to the terms of the Indenture at the time of the amendment; or

- (b) the amendment or waiver is otherwise permitted by the Rule.

### **Termination of Undertaking**

The Undertaking shall be terminated if the Board shall no longer have any legal liability for any obligation on or relating to repayment of the 2008 Bonds under the Indenture. If this provision is applicable, the Board shall give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any.

### **Additional Information**

Nothing in the Undertaking shall be deemed to prevent the Board from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event, in addition to that which is required by the Undertaking. If the Board chooses to include any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event in addition to that which is specifically required by the Undertaking, the Board shall not have any obligation under the Undertaking to update such other information or include it in any future Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event.

## **FINANCIAL STATEMENTS**

The audited financial statements of the Board for the Fiscal Years ended June 30, 2008 and 2007 set forth in APPENDIX C have been examined by Potter & Company, LLP, Lexington, Kentucky, independent certified public accountants, whose report thereon appears in such APPENDIX. Such audited financial statements are set forth therein in reliance upon such report and in reliance upon the knowledge and experience of such firm as auditors.

## **OTHER MATTERS**

The information set forth herein has been obtained from the Board and other sources which are considered reliable. There can be no assurance that any of the assumptions or estimates contained herein will be realized. The references to resolutions and other documents contained in this Official Statement are made subject to all the provisions of such resolutions and other documents. For further information, reference is made to such documents, copies of which may be obtained from the Underwriter upon request.

This Official Statement has been approved and the execution and delivery hereof has been authorized by the Lexington-Fayette Urban County Airport Board.

Lexington-Fayette Urban County Airport Board

By: /s/ Bernard Lovely, Jr.  
Chair

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**APPENDIX A**

**REPORT OF AIRPORT CONSULTANT**

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**REPORT OF THE AIRPORT CONSULTANT**

**Prepared for**

**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**

**In Connection With The  
Proposed Issuance of its  
Variable Rate General Airport Revenue and Revenue Refunding Bonds, Series 2008  
(Lexington-Fayette Urban County Government General Obligations)**

**BLUE GRASS AIRPORT**

**November 25, 2008**

**Prepared by:**

**Newton & Associates, Inc.**  
AVIATION INDUSTRY CONSULTANTS

# Newton & Associates, Inc.

AVIATION INDUSTRY CONSULTANTS

November 25, 2008

Mr. Michael A. Gobb, AAE  
Executive Director  
Blue Grass Airport  
4000 Terminal Drive  
Lexington, KY 40510

RE: Report of the Airport Consultant  
Lexington-Fayette Urban County Airport Board  
Variable Rate General Airport Revenue and Revenue Refunding Bonds, Series 2008  
Blue Grass Airport

Dear Mr. Gobb:

Newton & Associates, Inc. (“NAI”) is pleased to submit the attached Report of the Airport Consultant (“Report”) on certain aspects of the proposed issuance by the Lexington-Fayette Urban County Airport Board (“Board”) of approximately \$77,075,000 of its 2008 Variable Rate General Airport Revenue and Revenue Refunding Bonds (“2008 Bonds”).

The 2008 Bonds are to be issued pursuant to the General Bond Resolution and the 2008 Series Bond Resolution (the “2008 Resolution”) adopted by the Board on October 15, 2008, and the Trust Indenture, as supplemented and amended by the First Supplemental Trust Indenture, both dated as of November 1, 2008 (the “2008 Indenture”). The 2008 Bonds will comprise one series of bonds subject to AMT (the “2008 Series A Bonds”), one series of tax-exempt bonds (the “2008 Series B Bonds”) and one series of taxable bonds (the “2008 Series C Bonds”).

The proceeds of the 2008 Bonds are to be used to: (i) refund each series of the Prior Bonds (as hereinafter defined) issued by the Lexington-Fayette Urban County Airport Corporation (“Corporation”) pursuant to the Mortgage Deed of Trust 1994, the Mortgage Deed of Trust 1998 and the Mortgage Deed of Trust 2003 (collectively, the “Prior Indenture”) (the “2008 Refunding”); (ii) fund, in whole or in part, certain Airfield, general aviation and Terminal area improvements at the Airport (“2008 Project”); (iii) fund the debt service reserve fund required under the 2008 Indenture; and (iv) pay certain 2008 Bonds costs of issuance. The elements of the 2008 Project and the 2008 Refunding are described in more detail in the body of the Report.

## The 2008 Project

The estimated total cost of planning, designing and constructing the 2008 Project is \$58,740,492, of which \$9,053,000 would be funded with Airport Improvement Program (“AIP”) entitlement grants, \$9,000,000 would be funded with AIP discretionary grants, \$9,000,000 would be funded

with Commonwealth of Kentucky (“State”) grants and \$31,687,492 would be funded with a portion of the proceeds of the 2008 Series A Bonds and the 2008 Series B Bonds.

### The 2008 Refunding

The Board plans to refund the bonds outstanding issued under the Prior Indenture as the 1994 Series B Bonds (“1994 Bonds”), the 1998 Series A Bonds, the 1998 Series B Bonds, the 1998 Series C Bonds (collectively, the “1998 Bonds”), the 2003 Series A Bonds and the 2003 Series B Bonds (collectively, the “2003 Bonds”, and together with the 1994 Bonds and the 1998 Bonds, the “Prior Bonds”).

The 2008 Refunding will be accomplished by depositing, concurrently with the issuance of the 2008 Bonds, a portion of the proceeds thereof, together with other monies legally available therefore, in the Sinking Fund created pursuant to the Prior Indenture. Upon such deposit into the Sinking Fund, no Bonds will remain outstanding under the Prior Indenture.

### Security for the 2008 Bonds

Payments of principal of and interest on the 2008 Bonds will be equally secured by a pledge of General Revenues derived by the Board from the operation of the Airport (after the application of General Revenues in the manner provided in Section 4.01 of the 2008 Indenture), plus amounts obtained from the collection of a Passenger Facility Charge (“PFC”) approved by the Federal Aviation Administration (“FAA”), a rental car contract facility charge (“CFC”) imposed by the Board, and amounts payable to the Board by the Lexington-Fayette Urban County Government in connection with the lease of the Airport from the Board pursuant to the Lease Agreement, dated as of November 1, 2008 (the “2008 Lease”), between the Board, as Lessor, and the Lexington-Fayette Urban County Government, as Lessee. Pursuant to the 2008 Indenture, all General Revenues are to be deposited by the Board in the General Operating Fund and applied to the purposes and in the order of priority set forth in Section 4.01 of the 2008 Indenture. Under the 2008 Lease, the Lexington-Fayette Urban County Government is obligated to make payments (“Lease Payments”) to the Board equal to the debt service payable each year on the 2008 Bonds to the extent that funds otherwise available to the Board are not sufficient to pay such debt service. The obligation of the Lexington-Fayette Urban County Government under the 2008 Lease will be a full faith and credit general obligation in that the Lexington-Fayette Urban County Government will be required to make the Lease Payments during any year in which the 2008 Lease is in effect, if necessary, to enable the Board to pay the debt service on the 2008 Bonds in such year. The 2008 Lease will be effective prior to or upon the issuance of the 2008 Bonds and through the final maturity date or earlier redemption of the 2008 Bonds.

### Financial Feasibility Analysis

At the request of the Board, NAI has examined the financial feasibility of the Board issuing the 2008 Bonds to finance the 2008 Project and the 2008 Refunding as described in detail in the body of the Report, and the Board’s ability to pay the principal of and interest on the 2008 Bonds

(“Debt Service”). In assessing the financial feasibility of the Board’s issuance of the 2008 Bonds, NAI has:

1. Examined the historical financial performance of the Airport from Fiscal Year ending June 30, 2003 to Fiscal Year ending June 30, 2008<sup>1</sup> (the “Study Period”);
2. Determined the historical relationship between Airport passenger enplanements and Airport General Revenues;
3. Performed an analysis of the Airport’s Air Service Area and forecast passenger demand for air service at the Airport from Fiscal Year ending June 30, 2009 to Fiscal Year ending June 30, 2013 (the “Forecast Period”);
4. Estimated future operating and maintenance (“O&M”) expenses at the Airport during the Forecast Period, considering the scope of the 2008 Project and the 2008 Refunding, and assumed projected general price level increases based upon the average annual growth of O&M expenses experienced during the Study Period;
5. Estimated the General Revenues to be generated by the Airport during the Forecast Period if the 2008 Project is financed and completed and the 2008 Refunding is completed as described in the body of the Report and if the assumptions upon which our analysis is based are realized;
6. Estimated the amount of PFCs to be collected and remitted to the Board during the Forecast Period and expected to be available to pay the PFC eligible portion of the 2008 Bonds Debt Service;
7. Estimated the amount of CFCs to be collected and remitted to the Board during the Forecast Period by the rental car companies doing business from the passenger terminal at the Airport and expected to be available to pay the 2008 Series C Bonds Debt Service; and
8. Prepared a pro-forma forecast of Airport General Revenues and O&M expenses to test the sufficiency of estimated General Revenues during the Forecast Period to pay the Airport’s O&M and non-debt related capital expenses projected to be incurred during the Forecast Period and to pay the Debt Service on the 2008 Bonds estimated to be payable during the Forecast Period.

In conducting this analysis, we have estimated General Revenues and expenses based upon the following assumptions.

---

<sup>1</sup> Fiscal Year ending June 30, 2008 is based on the Board’s budget.

**ASSUMPTIONS AND CONDITIONS UNDERLYING  
FORECAST REVENUE AND EXPENSES**

- The principal amount of the 2008 Bonds will not exceed \$77,075,000 and the proceeds, along with other sources of funding expected by the Board to become available for the 2008 Project, will be sufficient to complete the 2008 Project and the 2008 Refunding;
- Debt Service on the 2008 Bonds will not be more than the amounts projected during the Forecast Period;
- Airlines will continue to serve the Airport and the passenger enplanement traffic will continue at levels equal to or greater than those projected during the Forecast Period;
- No international conflicts or terrorist attacks will occur which directly or indirectly compromise the safety and operation of the United States commercial air transportation system;
- The Board will set parking rates as necessary to produce incremental parking revenues sufficient to pay the Debt Service, and O&M expense allocable to the Terminal Drive Relocation element of the 2008 Project;
- There will be no competitive off-Airport parking facilities within three miles of the entrance to the Airport terminal and the Board will impose and collect an access fee for all off-Airport parking services which would discharge and pick-up parking patrons on Airport property;
- The Board will impose and collect CFCs in an amount at least equal to the Debt Service on the 2008 Series C Bonds;
- The Board will not increase the Airport's O&M expenditures during the Forecast Period at a rate greater than that set forth in the pro-forma forecast of Airport General Revenues and expenses unless General Revenues are realistically expected to exceed the forecast amount, and the Board will reduce O&M expenditures in any year, as necessary, to accommodate General Revenues anticipated to fall below the forecast amounts;
- The Board's PFC Application No. 7 will be approved by the FAA, and airlines will continue to collect and remit to the Board PFCs in at least the amounts estimated during the Forecast Period;
- The Board will continue to adopt and manage annual Airport operating budgets which result in fair and reasonable airline rates and charges at the Airport; and
- Neither the Board, the Lexington-Fayette Urban County Government, the Remarketing Agent nor the Credit Support Provider will act in any manner which would constitute an event of default as set forth in the 2008 Indenture, the Credit Support Instruments as

Mr. Michael A. Gobb, AAE

November 25, 2008

Page 5

defined in the 2008 Indenture or other applicable instrument which would result in an increase in the interest rates on the 2008 Bonds above the rates assumed by NAI in forecasting debt service payments during the Forecast Period, or an acceleration of the payment of the 2008 Bonds.

In our opinion, the techniques employed for this analysis are consistent with industry practice for airport facilities and with respect to issues of airport revenue bonds. In making these projections and formulating the Report, NAI has relied upon the accuracy of certain information and estimates provided by the Board, the Board's staff, and other professionals engaged by the Board in connection with the issuance of the 2008 Bonds.

The projection of passenger enplanements is based on the Airport's historical passenger enplanement growth and NAI's own analysis. The estimated cost of designing and constructing the individual elements of the 2008 Project was provided by the Board's staff. The estimated 2008 Bonds sizing including the 2008 Refunding, interest rates, sources and uses of funds and estimated debt service, remarketing and letter of credit fees on the 2008 Bonds were provided by J.P. Morgan Securities Inc.

While we believe the information and assumptions relied upon for the purposes of this Report to be accurate and reasonable, some variations from estimated costs, General Revenues, expenses and trends are inevitable and such variations may be material and adversely impact the Board's future financial performance.

Subject to the foregoing, however, the Airport is expected to generate General Revenues, as defined in the 2008 Indenture, in each of the years of the Forecast Period sufficient to make all required payments and deposits as set forth in the body of the Report.

Based upon the stated assumptions and analysis, NAI concludes that it is feasible to proceed with issuance of 2008 Bonds in the principal amount of approximately \$77,075,000 and to use the proceeds thereof for the 2008 Project and the 2008 Refunding as particularly described in the body of the Report.

Sincerely,

NEWTON & ASSOCIATES, INC.

A handwritten signature in black ink, appearing to read "Nancy E. Newton". The signature is written in a cursive, flowing style.

Nancy E. Newton  
President

Attachment

**ATTACHMENT**

## TABLE OF CONTENTS

I.	INTRODUCTION .....	10
A.	PURPOSE AND SCOPE.....	10
B.	THE AIRPORT.....	11
1.	General Description/Location of the Airport.....	11
2.	Airport Ownership and Management.....	11
3.	The Land Comprising the Airport.....	11
4.	Existing Facilities.....	12
II.	THE 2008 REFUNDING and 2008 PROJECT .....	16
A.	THE 2008 REFUNDING.....	16
B.	THE 2008 PROJECT.....	16
1.	Relocate Runway 8/26 .....	16
2.	Taxiway D Realignment .....	17
3.	Terminal Drive Relocation .....	17
4.	Sanitary Sewer Improvements .....	18
5.	Terminal Interior Renovations – Phase II.....	18
6.	Terminal Curb Front Improvements .....	18
C.	THE 2008 PROJECT PLAN OF FINANCE .....	18
D.	THE 2008 REFUNDING PLAN OF FINANCE.....	20
E.	THE 2008 BONDS .....	21
F.	ESTIMATED SOURCES AND USES .....	21
G.	2008 BOND DEBT SERVICE .....	24
H.	SECURITY FOR THE BONDS .....	28
III.	ECONOMIC BASE OF THE AIR SERVICE AREA.....	29
A.	AIR SERVICE AREA DESCRIPTION .....	29
B.	POPULATION .....	32
1.	Historical Population .....	32
2.	Population Projection.....	32
C.	EMPLOYMENT.....	33
1.	Labor Force.....	34
2.	Unemployment Rate .....	35
3.	Industry Group Employment .....	36
D.	INCOME / SALES .....	39
1.	Personal Income.....	39
2.	Personal Income Projection .....	40
3.	Per Capita Income.....	41
4.	Per Capita Income Projection .....	41
5.	Retail Sales.....	42
6.	Retail Sales Projection .....	42
E.	OTHER .....	43
1.	Gross State Product.....	43
2.	Education .....	43
3.	Equine .....	43
4.	Tourism.....	44
5.	Bourbon.....	44

F.	SUMMARY .....	44
IV.	AIR TRAFFIC ANALYSIS .....	46
A.	IMPORTANCE OF AIR TRAFFIC .....	46
B.	LEVEL OF EXISTING AIRLINE SERVICE.....	46
C.	HISTORICAL PASSENGER TRAFFIC .....	50
1.	Historical Passenger Enplanements and Airline Market Share .....	51
2.	Origin and Destination Markets.....	53
D.	AIRCRAFT OPERATIONS.....	55
E.	AIRLINE LANDED WEIGHTS .....	57
F.	FACTORS AFFECTING FUTURE AIR TRAFFIC.....	59
1.	National Economic Conditions .....	59
2.	State of the Airline Industry.....	61
3.	Airline Consolidations .....	63
4.	Capacity of National Air Transportation System.....	63
5.	Airport Capacity.....	64
6.	Role of Low Cost Carriers .....	64
7.	Role of Regional Airlines .....	64
8.	Availability and Cost of Insurance .....	66
9.	Aviation Taxes and Security Costs.....	66
10.	Existence and Location of Competing Airports.....	69
G.	FORECAST OF PASSENGER ENPLANEMENT ACTIVITY .....	70
V.	FINANCIAL ANALYSIS .....	73
A.	AIRPORT FINANCIAL FRAMEWORK.....	73
1.	General.....	73
2.	Airport Financial Status – Prior Bonds.....	73
B.	HISTORICAL AIRPORT REVENUES.....	74
1.	Historical Airline Revenues.....	74
2.	Historical Public Parking Revenues.....	74
3.	Ground Transportation Revenues .....	74
4.	Concession/Rental/Miscellaneous Revenues.....	74
5.	General Aviation Revenues .....	75
6.	Air Freight Revenues .....	75
7.	ARFF Training Facility Revenues.....	75
8.	Interest Income.....	75
9.	Passenger Facility Charges .....	75
10.	Contract Facility Charges .....	76
C.	HISTORICAL AIRPORT EXPENSE.....	76
1.	Historical Operating and Maintenance Expense.....	76
2.	Historical Debt Service Expense .....	77
3.	Historical Capital Expense (Non-Debt).....	77
D.	FINANCIAL FORECAST.....	79
1.	Airport Revenue.....	81
2.	Airport Expense .....	87
E.	SENSITIVITY ANALYSIS .....	88

VI.	SUMMARY OF ASSUMPTIONS AND CONCLUSION .....	90
A.	ASSUMPTIONS AND CONDITIONS UNDERLYING FORECAST REVENUE AND EXPENSES .....	90
B.	CONCLUSION.....	91

## TABLES

Table II-1	Preliminary Funding Plan .....	A-19
Table II-2	Local Funding Plan .....	A-20
Table II-3	Sources and Uses of Bond Funds – 2008 Project .....	A-22
Table II-4	Estimated Sources and Uses of Bond Funds - 2008 Refunding .....	A-23
Table II-5	Estimated Debt Service – 2008 Project .....	A-25
Table II-6	Estimated Debt Service – 2008 Refunding .....	A-26
Table II-7	Allocation of Average Annual Debt Service - 2008 Project .....	A-27
Table III-1	Population - Air Service Area .....	A-32
Table III-2	Employment - Air Service Area .....	A-33
Table III-3	Labor Force - Air Service Area .....	A-34
Table III-4	Unemployment - Air Service Area .....	A-35
Table III-5	Non-Agricultural Employment by Industry Sector .....	A-37
Table III-6	Major Air Service Area Employers .....	A-38
Table III-7	New Business Expansions or Relocations.....	A-39
Table III-8	Personal Income - Air Service Area .....	A-40
Table III-9	Per Capita Income - Air Service Area .....	A-41
Table III-10	Retail Sales - Air Service Area .....	A-42
Table IV-1	Aircraft Mix Trends .....	A-49
Table IV-2	Historical Passenger Enplanements .....	A-50
Table IV-3	Scheduled Passenger Enplanements .....	A-52
Table IV-4	Top Origin and Destination Markets .....	A-54
Table IV-5	Aircraft Operations .....	A-56
Table IV-6	Scheduled Airline Landed Weight (1,000 lb Units) .....	A-58
Table IV-7	Historical Trends in Aviation Taxes .....	A-68
Table IV-8	Forecast of Enplaned Passengers .....	A-71
Table V-1	Historical Airport Revenues and Expenses .....	A-78
Table V-2	Historical Airline Cost per Enplaned Passenger.....	A-79
Table V-3	Forecast Airport Revenues and Expenses .....	A-80
Table V-4	Forecast Airline Cost Per Enplaned Passenger .....	A-81
Table V-5	Forecast Passenger Facility Charge Collections .....	A-86
Table V-6	Sensitivity Analysis .....	A-89
Exhibit “A”	Airport Property Map .....	A-15
Figure III-1	Regional Service Area .....	A-30
Figure III-2	Air Service Area .....	A-31
Figure IV-1	Trends in GDP .....	A-60

## I. INTRODUCTION

### A. PURPOSE AND SCOPE

This Report of the Airport Consultant (“Report”) has been prepared for the Lexington-Fayette Urban County Airport Board (“Board”) by Newton & Associates, Inc. (“NAI” or “Airport Consultant”) in connection with the Board’s proposed issuance of its: (i) Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series A (Lexington-Fayette Urban County Government General Obligation) (AMT) (the “2008 Series A Bonds”); (ii) Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series B (Lexington-Fayette Urban County Government General Obligation (non-AMT) (the “2008 Series B Bonds”); and (iii) Variable Rate General Airport Taxable Revenue Refunding Bonds, 2008 Series C (Lexington-Fayette Urban County Government General Obligation) (Taxable) (“2008 Series C Bonds”), in the amounts and for the purposes as hereinafter more particularly described.

The 2008 Series A Bonds, the 2008 Series B Bonds and the 2008 Series C Bonds (collectively the “2008 Bonds”) are to be issued pursuant to the General Bond Resolution and the 2008 Series Bond Resolution (the “2008 Resolution”) adopted by the Board on October 15, 2008, and the Trust Indenture, as supplemented and amended by the First Supplemental Trust Indenture (the “2008 Indenture”), both dated as of November 1, 2008, between the Board and The Bank of New York Mellon Trust Company, N.A., and are to be secured on a parity basis principally by and paid from revenues (“General Revenues”) (including certain Passenger Facility Charges, or “PFCs”, and certain Contract Facility Charges, or “CFCs” both of which are hereinafter more particularly described) derived from the operation of the Blue Grass Airport (“Airport”). Capitalized terms not otherwise defined herein shall have the meaning given them in the 2008 Resolution and the Indenture.

The proceeds of the 2008 Bonds are to be used to: (i) refund each outstanding series of the Prior Bonds (as hereinafter defined) issued by the Lexington-Fayette Urban County Airport Corporation (“Corporation”) pursuant to the Mortgage Deed of Trust 1994, the Mortgage Deed of Trust 1998 and the Mortgage Deed of Trust 2003 (collectively, the “Prior Indenture”) (the “2008 Refunding”); (ii) fund, in whole or in part, certain Airfield, general aviation and Terminal area improvements on the Airport (“2008 Project”); (iii) fund the debt service reserve fund required under the 2008 Indenture; and (iv) pay certain 2008 Bonds costs of issuance.

The test as to the financial feasibility of the Board’s issuance of its 2008 Bonds is the Airport’s ability to generate General Revenues, along with certain PFCs and CFCs, during the Forecast Period (later defined herein) sufficient: (a) to pay (i) Operation and Maintenance Expenses, (ii) the debt service on the 2008 Bonds, and (iii) any non-operating expenses of the Airport; and (b) to otherwise satisfy the requirements of the 2008 Indenture.

In applying the test of feasibility, NAI has considered, and this Report describes, the demographic characteristics of the Airport’s Air Service Area as hereinafter defined, the demand for air service at the Airport, and the financial performance of the Airport all for the period from July 1, 2003 to June 30, 2008, or the most recent five year period for which complete data were available (“Study Period”). This Report also includes an analysis of factors likely to affect future

air traffic at the Airport and in the United States, a forecast of passenger enplanements at the Airport, and forecast revenues and expenses of the Airport for the period July 1, 2008 to June 30, 2013 (“Forecast Period”) and concludes with NAI’s findings regarding the financial feasibility of the Board’s issuance of the 2008 Bonds to complete the 2008 Refunding and finance, in part, the cost of the 2008 Project.

## **B. THE AIRPORT**

### **1. General Description/Location of the Airport**

The Airport comprises a passenger Terminal complex; two intersecting runways, taxiways, navigational aids and supporting land areas; a general aviation apron and supporting buildings and hangars; and other aviation-related hangars, buildings and land areas. The Airport is located adjacent to U.S. Highway 60, a major six lane east-west highway, approximately six miles west of the City of Lexington, Fayette County, Commonwealth of Kentucky, within the jurisdictional boundaries of the merged Urban County Government.

The City of Lexington and the Fayette County area are the center for economic, educational, health and cultural activities in central Kentucky. The Airport is the only primary commercial service airport (which is defined by the Federal Aviation Administration (“FAA”) as having scheduled airline service and enplaning more than 10,000 passengers annually) located in central Kentucky.

### **2. Airport Ownership and Management**

Pursuant to Chapter 183 of the Kentucky Revised Statutes, the Board establishes, maintains, operates and expands necessary, desirable or appropriate airport or air navigation facilities at the Airport. The Board consists of ten members who are appointed by the Mayor of the Urban County Government to four year staggered terms.

The Board provides for the daily management and operation of the Airport through the employment of an Executive Director and such staff as deemed necessary to properly operate, manage, develop and maintain the Airport. The Executive Director, Mr. Michael A. Gobb, is directly responsible to the Board for all of the Airport’s business and operational activities. The Executive Director is assisted by Mr. John S. Rhodes, Director of Administration and Finance, Mr. John G. Coon, Director of Operations, Mr. John P. Slone, Director of Planning and Development and Mr. Brian Ellestad, Director of Marketing and Community Relations.

### **3. The Land Comprising the Airport**

The Airport is located on and includes nearly 1,000 acres located in the Bluegrass Region of Kentucky, six miles west of the City of Lexington and in the western-most quadrant of Fayette County. (See **Exhibit “A”** – Airport Property Map.)

#### **4. Existing Facilities**

The Airport's existing facilities are described in general below and depicted on **Exhibit "A"**:

##### **a. Airfield**

The Airfield consists of: (i) two intersecting runways aligned in a northeasterly and southwesterly direction; (ii) associated aircraft taxiways; (iii) aircraft navigational aids; and (iv) an aircraft rescue and fire fighting ("ARFF") facility (collectively, the "Airfield").

Runway 4/22 is 7,002 feet in length, 150 feet in width, of asphalt composition and grooved. It is used primarily for commercial air carrier operations. The runway is equipped with high intensity runway lights, centerline lights, two instrument landing systems and approach radar and is served by a parallel taxiway system. Runway 8/26 is 3,501 feet in length and 150 feet in width, and used primarily for general aviation aircraft operations.

The taxiway system consists of a taxiway parallel to Runway 4/22 and a series of connector taxiways allowing access to Runway 8/26, the passenger Terminal building, air freight areas and the general aviation area. As part of the 2008 Project, Runway 8/26 will be reconstructed and relocated. When relocated, Runway 8/26 will be re-designated as Runway 9/27 and new general aviation facilities will be constructed adjacent to Runway 9/27 (see Section II, Description of the 2008 Project, herein).

FAA personnel operate the air traffic control tower located east of the passenger Terminal building 24 hours per day. A very high frequency omni-directional range transmitter station is located 7.6 nautical miles southeast of the Airport.

##### **b. Terminal Area**

The "Terminal Area" consists of the passenger Terminal building, an aircraft parking apron, public automobile parking facilities, a rental car parking lot and service facilities, employee parking lots, aviation leased facilities, Airport maintenance facilities, general aviation facilities, and public roadways.

##### **i. Passenger Terminal Building**

The existing passenger terminal building ("Terminal") was originally constructed in 1976 and underwent an extensive renovation and expansion by January 1990.

Today, the Terminal is a three-level building consisting of approximately 160,000 square feet, which provides space for airline ticket counters, airline offices, Transportation Security Administration ("TSA") passenger and baggage screening facilities, a main lobby, baggage claim lobby and baggage conveyors, food, beverage, retail and service concessions, administrative offices of the Board, and various support facilities.

The Terminal has 13 aircraft parking positions designed for boarding passengers by means of second level loading bridges and four parking positions for ground level loading.

As part of the 2008 Project, the main lobby areas and the curb front of the passenger Terminal building will be renovated.

## **ii. Automobile Parking Facilities**

The existing public automobile parking facilities include both surface and multi-level parking facilities. Together, the parking facilities are comprised of approximately 2,643 parking spaces divided into daily, hourly, economy and remote parking areas for special event and valet parking. The hourly parking areas contain approximately 457 spaces in a surface lot adjacent to the Airport's loop road in front of the Terminal and on the ground level of the multi-level parking deck also located adjacent to the loop road in front of the Terminal. The daily parking area contains approximately 803 spaces located on the second and third levels of the parking deck. The economy parking area consists of approximately 643 spaces and is located on the side of the parking deck opposite the Terminal. The remote parking areas consist of approximately 740 spaces and are located outside the Airport loop road. Additionally, there is a cell phone waiting parking lot located to the right of and contiguous to the main Terminal entrance roadway. Visitors can wait for free in this lot and, when notified via cell phone that their parties have arrived, they can be picked up at the Terminal curb front (see Section II, Description of the 2008 Project, herein).

There are various employee parking areas within the Terminal area providing approximately 291 parking spaces for employees of the Airport and Airport tenants. The loop road's curb lane at the Terminal contains curbside parking spaces for the loading and unloading of vehicles, as well as spaces for taxis, limousines and hotel/motel courtesy vehicles.

As part of the 2008 Project, the Terminal roadway relocation project will provide for additional automobile parking capacity within the Terminal loop road (see Section II, Description of the 2008 Project, herein).

## **iii. Rental Car/Ready Return Parking**

In addition to the public and employee parking facilities, a rental car ready/return parking lot containing approximately 200 parking spaces for automobiles to be rented or returned by rental car customers is conveniently located proximate to the baggage claim area of the Terminal.

## **iv. Rental Car Service Facilities**

There are four rental car service facilities located within the Terminal area. Each of these facilities is equipped with cleaning, fueling and servicing equipment and each has approximately 40,000 square feet of at-grade parking for rental car fleet vehicles. These facilities are currently leased by Murphy Leasing Company d/b/a Avis Rent A Car System, Enterprise Rent-A-Car Company of Kentucky, The Hertz Corporation and National Car Rental System (collectively

“Rental Car Companies”) for the servicing of rental cars used in conducting their rental car businesses at the Airport.

**c. Airport Maintenance Facilities**

The Airport has three maintenance buildings proximate to the Airfield and Terminal. These buildings are used to house and maintain the Airport’s maintenance equipment and tools and to perform various maintenance duties. These facilities are specifically: Building 1 - maintenance service and repair facility for the Airport’s fleet of vehicles and equipment; Building 2 - Airport vehicle and equipment storage facility; and Building 3 - dry storage for sand, salt and various chemicals.

**d. General Aviation Facilities**

General Aviation (“GA”) services at the Airport, such as aircraft maintenance, aircraft painting and avionics services for general aviation aircraft and small multi-engine turboprop aircraft, are provided by the Airport’s two fixed base operators (“FBO”) which lease parcels on which the necessary and appropriate facilities to support GA activity are located. The FBOs also provide aircraft fueling, cleaning and ground handling services, as well as limited mechanical support to the commercial air carriers. As part of the 2008 Project, and specifically the Runway 8/26 relocation, certain new general aviation facilities will be constructed adjacent to the new Runway 9/27 (see Section II, Description of the 2008 Project, herein).

**e. Air Freight Facilities**

The Airport’s air freight facilities include an air freight terminal comprising approximately 5,000 square feet which is currently used by air carriers and air freight handlers for air cargo/mail related purposes.

**f. United States Customs**

The Airport is designated a “U.S. Customs User Fee” airport capable of clearing prearranged international flights. There is a permanent United States Customs presence on the Airport with services available 24 hours per day upon request. The U.S. Customs agents can also handle immigration and agricultural matters related to such flights pursuant to standard federal government interagency agreements.



## **II. THE 2008 REFUNDING AND 2008 PROJECT**

The 2008 Bonds are to be issued to produce proceeds necessary to: (i) complete the 2008 Refunding; (ii) fund certain costs of the 2008 Project; (iii) fund the debt service reserve fund required under the 2008 Indenture; and (iv) pay certain 2008 Bonds costs of issuance.

### **A. THE 2008 REFUNDING**

The bonds issued under the Prior Indenture were the 1994 Series B Bonds (“1994 Bonds”), the 1998 Series A Bonds, the 1998 Series B Bonds, the 1998 Series C Bonds (collectively, the “1998 Bonds”), the 2003 Series A Bonds and the 2003 Series B Bonds (collectively, the “2003 Bonds”, and together with the 1994 Bonds and 1998 Bonds, the “Prior Bonds”).

Proceeds from the 1994 Bonds were used to refund certain outstanding short-term debt, reimburse the Board for certain costs incurred in completing various improvements to the Airport including an employee parking lot and to purchase a new chiller for the Airport’s Terminal building HVAC system.

Proceeds from the 1998 Bonds were used to pay the cost of constructing a multi-level automobile parking deck adjacent to the Terminal building. At the time of issuance, it was anticipated that the parking deck would be used primarily for public parking, but that rental car companies doing business on the Airport would use the remaining portion of the parking deck for rental car ready/return functions. Accordingly, the proceeds from the 1998 Series A Bonds were used to pay that portion of the construction cost attributable to the public parking portion of the parking deck and proceeds from the 1998 Series B Bonds were used to pay a portion of the parking deck then anticipated to be used by the Rental Car Companies. As of the date of this Report, no portion of the parking deck has been used for any rental car related purpose. Proceeds of the 1998 Series C Bonds were used to refund an outstanding bank note.

Proceeds from the 2003 Series A Bonds were used to pay, in part, various Airfield, Terminal concourse additions and other Terminal area related improvements. Proceeds of the 2003 Series B Bonds were used to fund, in part, the costs of constructing a rental car ready/return automobile parking facility. Part of the cost of the ready/return facility was to relocate an air freight building located on the site of the ready/return facility.

### **B. THE 2008 PROJECT**

#### **1. Relocate Runway 8/26**

The replacement of Runway 8/26 includes the construction of a 4,000 feet by 75 feet runway and taxiway system, apron areas, access roads, NAVAIDs, and removal of existing Runway 8/26 and related areas. The major components of the proposed project include, but are not limited to, the following items:

- (i) Construct 4,000 feet long x 75 feet wide Runway 9/27 with parallel taxiway network to B-II criteria, and provide Runway/Taxiway centerline separations and Runway Safety Areas (RSA) to C-II criteria;
- (ii) Remove existing Runway 8/26 and associated taxiway pavements;
- (iii) Remove existing Taxiway C pavement west of Runway 4/22;
- (iv) Construct an access road to GA facilities;
- (v) Construct other infrastructure and drainage improvements associated with the construction of the access road;
- (vi) Construct new Taxiway B;
- (vii) Construct remote large aircraft parking area;
- (viii) Construct approximately 72,000 square yard GA apron;
- (ix) Provide infrastructure for self-service fuel system (by others);
- (x) Construct one 8-unit and one 10-unit T-Hangar buildings (NON-AIP/PFC);
- (xi) Relocate existing or install new Runway 22 Glide Slope;
- (xii) Relocate the low level wind shear alert system, automated surface observing system, stand-alone weather sensor and remote transmitter/receiver facilities;
- (xiii) Potentially relocate Runway 22 Precision Approach Path Indicator (PAPI) system;
- (xiv) Install new visual navigational aids (PAPIs and REILs) and Medium Intensity Runway Light / Medium Intensity Taxiway Light systems for Runway 9/27 and associated taxiways; and
- (xv) Provide landscape screening and features to mitigate potential visual impacts to NHRP listed cultural resources, per forthcoming EA/SHPO MOA/FAA NEPA finding.

## **2. Taxiway D Realignment**

This project includes the design and construction related to the relocation of Taxiway D. To accommodate the proposed new Taxiway D alignment, utilities will have to be relocated and four buildings will have to be removed.

## **3. Terminal Drive Relocation**

This project consists of relocating Terminal Drive and increasing parking capacity at the Airport. Terminal Drive is to be relocated into the adjacent property to the southwest and into the Runway Protection Zone (“RPZ”) of existing Runway 8/26 to the north. (Runway 8/26 will be relocated to proposed Runway 9/27 which will eliminate the RPZ.) The Airport will provide buffering and screening by use of berms and landscaping to shield the view of Airport improvements from Man O War Boulevard.

Improvements will require earthwork, bituminous pavements, curb and gutter, drainage pipe and structures, storm water detention, lighting, relocation of existing utilities and relocation of the primary Airfield power and control vault, relocation of access control fencing, landscaping and

erosion control. Approximately 17 acres of property on the southeast will also need to be acquired.

#### **4. Sanitary Sewer Improvements**

This project will include the construction of a new force main from the Airport's main pump station to the Mint Lane pump station near Dunbar High School. This project also includes approximately 9,000 linear feet of six inch PVC pipe and minor improvements to the Airport's main pump station.

#### **5. Terminal Interior Renovations – Phase II**

This project includes the design and renovation of 13,000 square feet of baggage claim space and 22,000 square feet of ticket lobby and public space. This project includes the repairing and/or replacement of the existing flooring, replacing the existing ceiling system, and completing wall finishes in the baggage claim and ticket lobby. The existing lighting fixtures will be replaced with energy efficient fixtures and the existing restroom will be enlarged.

#### **6. Terminal Curb Front Improvements**

This project includes the design and renovation of the exterior of the passenger Terminal curbside. The Terminal curb front improvements include the removal and replacement of approximately 6,000 square feet of existing exterior column wraps and approximately 28,000 square feet of curbside canopy and the replacement of inadequate curbside lighting. Also included will be the replacement of curbside signage.

### **C. THE 2008 PROJECT PLAN OF FINANCE**

The estimated total cost of planning, designing and constructing the 2008 Project ("Project Cost") is \$58,740,492, of which \$9,053,000 would be funded with Airport Improvement Program ("AIP") entitlement grants, \$9,000,000 would be funded with AIP discretionary grants, \$9,000,000 would be funded with Commonwealth of Kentucky ("State") grants and \$31,687,492 would be funded with a portion of the proceeds of the 2008 Series A Bonds and the 2008 Series B Bonds, together with interest earnings thereon, all as set forth in detail on **Table II-1 and Table II-2**, hereof.

As shown on Table II-2, \$20,728,492 would be PFC eligible 2008 Bonds and \$10,959,000 would be non-PFC eligible 2008 Bonds.

**TABLE II-1**  
**2008 BONDS**  
**BLUE GRASS AIRPORT**  
**PRELIMINARY FUNDING PLAN**

Project	Project Funding Plan					
	Anticipated FAA AIP Grants			Total AIP Grants	State Grants	Local Share Requirement
	Project Cost	Entitlement AIP Grants	Discretionary AIP Grants			
Replace Runway 8-26						
Land Acquisition	\$5,433,000	\$0	\$1,811,000	\$1,811,000	\$1,811,000	\$1,811,000
Grading and Drainage	9,467,000	0	3,155,667	3,155,667	3,155,667	3,155,666
Paving, Lighting and NAVAIDs	12,100,000	0	4,033,333	4,033,333	4,033,333	4,033,334
Subtotal Runway 9/27	<u>27,000,000</u>	<u>0</u>	<u>9,000,000</u>	<u>9,000,000</u>	<u>9,000,000</u>	<u>9,000,000</u>
Taxiway D Relocation	10,419,000	9,053,000	0	9,053,000	0	1,366,000
Terminal Drive Relocation	10,959,000	0	0	0	0	10,959,000
Sanitary Sewer Improvements	1,000,000	0	0	0	0	1,000,000
Terminal Interior Renovations Phase II						
Bag Claim	2,782,230	0	0	0	0	2,782,230
Lobby	4,031,738	0	0	0	0	4,031,738
Subtotal Terminal Interior Renov.	<u>6,813,968</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,813,968</u>
Terminal Curbfront Improvements	<u>2,548,524</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,548,524</u>
	<u>\$58,740,492</u>	<u>\$9,053,000</u>	<u>\$9,000,000</u>	<u>\$18,053,000</u>	<u>\$9,000,000</u>	<u>\$31,687,492</u>

Prepared by Newton & Associates, Inc.  
Source: Lexington-Fayette Urban County Airport Board

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**TABLE II-2**  
**2008 BONDS**  
**BLUE GRASS AIRPORT**  
**LOCAL FUNDING PLAN**

Project	Local Share Requirement	Local Share Funding			Total Project Fund	Total Local Share
		PFC Bonds	Non-PFC Bonds			
Replace Runway 8-26						
Land Acquisition	\$1,811,000	\$1,811,000	\$0	\$1,811,000	\$1,811,000	
Grading and Drainage	3,155,666	3,155,666	0	3,155,666	3,155,666	
Paving, Lighting and NAVAIDs	4,033,334	4,033,334	0	4,033,334	4,033,334	
Subtotal Runway 9/27	<u>9,000,000</u>	<u>9,000,000</u>	0	9,000,000	9,000,000	
Taxiway D Relocation	1,366,000	1,366,000	0	1,366,000	1,366,000	
Terminal Drive Relocation	10,959,000	0	10,959,000	10,959,000	10,959,000	
Sanitary Sewer Improvements	1,000,000	1,000,000	0	1,000,000	1,000,000	
Terminal Interior Renovations Phase II						
Bag Claim	2,782,230	2,782,230	0	2,782,230	2,782,230	
Lobby	4,031,738	4,031,738	0	4,031,738	4,031,738	
Subtotal Terminal Interior Renov.	<u>6,813,968</u>	<u>6,813,968</u>	0	6,813,968	6,813,968	
Terminal Curbfront Improvements	<u>2,548,524</u>	<u>2,548,524</u>	0	2,548,524	2,548,524	
	<u>\$31,687,492</u>	<u>\$20,728,492</u>	<u>\$10,959,000</u>	<u>\$31,687,492</u>	<u>\$31,687,492</u>	

Prepared by Newton & Associates, Inc.  
Source: Lexington-Fayette Urban County Airport Board

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#### **D. THE 2008 REFUNDING PLAN OF FINANCE**

The 2008 Refunding will be accomplished by depositing, concurrently with the issuance of the 2008 Bonds, a portion of the proceeds thereof, together with other monies legally available therefore, in the Sinking Fund created pursuant to the Prior Indenture. Upon such deposit into the Sinking Fund, no Bonds will remain outstanding under the Prior Indenture.

## **E. THE 2008 BONDS<sup>2</sup>**

The 2008 Bonds will be the first obligations issued under the 2008 Indenture with an estimated aggregate principal amount of \$77,075,000. The 2008 Bonds are to consist of an estimated \$46,395,000 principal amount of 2008 Series A Bonds; an estimated \$26,235,000 principal amount of 2008 Series B Bonds; and an estimated \$4,445,000 principal amount of 2008 Series C Bonds. The 2008 Series A Bonds, the 2008 Series B Bonds and the 2008 Series C Bonds shall mature, bear interest and be subject to optional and mandatory redemption as provided in the 2008 Indenture.

The net proceeds of the 2008 Bonds will be used to: (i) refund the Prior Bonds; (ii) fund, in part, the 2008 Project; (iii) reimburse the Board for any capital expenditures that it has made for the 2008 Project prior to the issuance of the 2008 Bonds; (iv) fund the debt service reserve fund for the 2008 Bonds; and (v) fund certain costs of issuance of the 2008 Bonds.

## **F. ESTIMATED SOURCES AND USES**

The estimated sources and uses of the proceeds of the 2008 Bonds are set forth on **Table II-3** with respect to the 2008 Project and **Table II-4** with respect to the 2008 Refunding.

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<sup>2</sup> This discussion is being provided only for general information purposes. The defined terms herein shall have the meanings given them in the Indenture, unless otherwise defined herein. Please see the Indenture for a complete description and understanding of the 2008 Bonds.

**TABLE II-3**  
**2008 BONDS**  
**BLUE GRASS AIRPORT**  
**SOURCES AND USES OF BOND FUNDS - 2008 PROJECT**

Project	2008 Bonds - 2008 Project						
	Series A - AMT <sup>1</sup>			Series B - Tax Exempt <sup>2</sup>			Total
	PFC	Non-PFC	Total	PFC	Non-PFC	Total	
<b>SOURCES:</b>							
Bond Proceeds	\$10,070,442	\$5,299,558	\$15,370,000	\$12,226,388	\$6,488,612	\$18,715,000	\$34,085,000
<b>TOTAL SOURCES</b>	<b>\$10,070,442</b>	<b>\$5,299,558</b>	<b>\$15,370,000</b>	<b>\$12,226,388</b>	<b>\$6,488,612</b>	<b>\$18,715,000</b>	<b>\$34,085,000</b>
<b>USES:</b>							
<u>Project Fund Deposits:</u>							
Replace Runway 8-26							
Land Acquisition	\$0	\$0	\$0	\$1,811,000	\$0	\$1,811,000	\$1,811,000
Grading and Drainage	0	0	0	3,155,666	0	3,155,666	3,155,666
Paving, Lighting and NAVAIDs	0	0	0	4,033,334	0	4,033,334	4,033,334
Subtotal Runway 9/27	\$0	\$0	\$0	\$9,000,000	\$0	\$9,000,000	\$9,000,000
Taxiway D Relocation	\$0	\$0	\$0	\$1,366,000	\$0	\$1,366,000	\$1,366,000
Terminal Drive Relocation	\$0	\$4,927,000	\$4,927,000	\$0	\$6,032,000	\$6,032,000	\$10,959,000
Sanitary Sewer Improvements	\$0	\$0	\$0	\$1,000,000	\$0	\$1,000,000	\$1,000,000
Terminal Interior Renovations Phase II							
Bag Claim	\$2,782,230	\$0	\$2,782,230	\$0	\$0	\$0	\$2,782,230
Lobby	4,031,738	0	4,031,738	0	0	0	4,031,738
Subtotal Terminal Interior Renov.	\$6,813,968	\$0	\$6,813,968	\$0	\$0	\$0	\$6,813,968
Terminal Curbfront Improvements	\$2,548,524	\$0	\$2,548,524	\$0	\$0	\$0	\$2,548,524
Total Project Fund Deposits	\$9,362,492	\$4,927,000	\$14,289,492	\$11,366,000	\$6,032,000	\$17,398,000	\$31,687,492
Less: Interest - Project Fund	(\$132,926)	(\$69,952)	(\$202,878)	(\$161,371)	(\$85,641)	(\$247,012)	(\$449,890)
Net Project Fund Deposits	\$9,229,566	\$4,857,048	\$14,086,614	\$11,204,629	\$5,946,359	\$17,150,988	\$31,237,602
<u>Financing Costs:</u>							
Debt Service Reserve Fund	\$714,055	\$375,771	\$1,089,826	\$866,925	\$460,082	\$1,327,007	2,416,833
Cost of Issuance	126,821	66,739	193,560	154,834	82,171	237,005	430,564
Total Financing Costs	\$840,876	\$442,510	\$1,283,386	\$1,021,759	\$542,253	\$1,564,012	\$2,847,398
<b>TOTAL USES</b>	<b>\$10,070,442</b>	<b>\$5,299,558</b>	<b>\$15,370,000</b>	<b>\$12,226,388</b>	<b>\$6,488,612</b>	<b>\$18,715,000</b>	<b>\$34,085,000</b>

<sup>1</sup> Average interest rate of 4.48% from J.P. Morgan Securities Inc. based on 10-Year Average of SIFMA + 190 basis points.

<sup>2</sup> Average interest rate of 4.33% from J.P. Morgan Securities Inc. based on 10-Year Average of SIFMA + 175 basis points.

Source: J.P. Morgan Securities Inc. Run dated 11/17/08.  
 Compiled by and PFC Allocations by Newton & Associates, Inc.

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**TABLE II-4**  
**2008 BONDS**  
**BLUE GRASS AIRPORT**  
**ESTIMATED SOURCES AND USES OF BOND FUNDS - 2008 REFUNDING**

	Airport Revenue Bonds - 2008 Refunding			
	Series A 2008 AMT Refunding Bonds <sup>1</sup>	Series B 2008 Non-AMT Refunding Bonds <sup>2</sup>	Series C 2008 Taxable Refunding Bonds <sup>3</sup>	Total 2008 Refunding Bonds
<b>SOURCES:</b>				
Bond Proceeds	\$31,025,000	\$7,520,000	\$4,445,000	\$42,990,000
DSRF Release	\$3,535,668	\$654,564	\$431,526	\$4,621,757
<b>TOTAL SOURCES</b>	<b>\$34,560,668</b>	<b>\$8,174,564</b>	<b>\$4,876,526</b>	<b>\$47,611,757</b>
<b>USES:</b>				
Refunding Escrow Deposits Cash Deposit	\$31,963,859	\$7,544,160	\$4,436,250	\$43,944,269
Other Fund Deposits Debt Service Reserve Fund	2,199,861	533,214	383,184	3,116,259
Delivery Date Expenses Cost of Issuance	396,948	97,190	57,091	551,230
<b>TOTAL USES</b>	<b>\$34,560,668</b>	<b>\$8,174,564</b>	<b>\$4,876,526</b>	<b>\$47,611,757</b>

<sup>1</sup> Average interest rate of 4.48% from J.P. Morgan Securities Inc. based on 10-Year Average of SIFMA + 190 basis points.  
<sup>2</sup> Average interest rate of 4.33% from J.P. Morgan Securities Inc. based on 10-Year Average of SIFMA + 175 basis points.  
<sup>3</sup> Average interest rate of 5.45% from J.P. Morgan Securities Inc. based on 1-Year Average of LIBOR + 175 basis points.

Prepared by Newton & Associates, Inc. 11/21/08  
Source: J.P. Morgan Securities Inc. c:\...\LEX\...\Section 2 and 5 Tables Draft 5 v5

## G. 2008 BOND DEBT SERVICE

Because the interest rates on the 2008 Bonds will be determined periodically on each series' respective Interest Rate Determination Date, for the purposes of this Report, it has been assumed herein that debt service on the 2008 Bonds will be based upon an annual interest rate of 4.48% for the 2008 Series A Bonds<sup>3</sup>, 4.33% for the 2008 Series B Bonds<sup>4</sup> and 5.45% for the 2008 Series C Bonds.<sup>5</sup>

The estimated debt service on the 2008 Bonds provided by J.P. Morgan Securities Inc. is set forth on **Table II-5** (2008 Project) and **Table II-6** (2008 Refunding). According to J.P. Morgan Securities Inc., the 2008 Series A Bonds would be fully retired on July 1, 2038 and total interest expense on the 2008 Series A Bonds would be \$32,738,725, the 2008 Series B Bonds would be fully retired on July 1, 2038 and the total interest expense on the 2008 Series B Bonds would be \$21,174,732, the 2008 Series C Bonds would be fully retired on July 1, 2033 and total interest expense on the 2008 Series C Bonds would be \$3,966,015.

In addition to the annual debt service on the 2008 Bonds, the Board will also pay certain annual remarketing fees, letter of credit and ongoing expenses associated with each series of the 2008 Bonds, which estimated fees are included in the debt service set forth on Table II-5 and Table II-6.

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<sup>3</sup> Estimated by J.P. Morgan Securities Inc. based on 10-year average of SIFMA +190 basis points.

<sup>4</sup> Estimated by J.P. Morgan Securities Inc. based on 10-year average of SIFMA +175 basis points.

<sup>5</sup> Estimated by J.P. Morgan Securities Inc. based on 10-year average of 1-Month LIBOR +175 basis points.

**TABLE II-5**  
**2008 BONDS**  
**BLUE GRASS AIRPORT**  
**ESTIMATED DEBT SERVICE - 2008 PROJECT**

Period Ending	Series A AMT (2008 Project)*			Series B Tax-Exempt (2008 Project)*			Total New Money Debt Service
	PFC 65.5%	Non-PFC 34.5%	Subtotal Series A	PFC 65.3%	Non-PFC 34.7%	Subtotal Series B	
7/1/2009	\$321,381	\$169,126	\$490,507	\$370,793	\$196,782	\$567,576	\$1,058,083
7/1/2010	569,430	299,662	869,091	663,849	352,308	1,016,158	1,885,249
7/1/2011	569,430	299,662	869,091	663,849	352,308	1,016,158	1,885,249
7/1/2012	734,039	386,287	1,120,327	874,074	463,876	1,337,951	2,458,277
7/1/2013	737,934	388,337	1,126,271	871,486	462,502	1,333,988	2,460,260
7/1/2014	736,969	387,829	1,124,798	872,357	462,965	1,335,322	2,460,120
7/1/2015	736,378	387,518	1,123,896	872,831	463,216	1,336,047	2,459,943
7/1/2016	739,438	389,128	1,128,566	873,686	463,670	1,337,356	2,465,922
7/1/2017	739,354	389,084	1,128,437	871,845	462,693	1,334,538	2,462,976
7/1/2018	739,635	389,232	1,128,866	872,155	462,858	1,335,012	2,463,879
7/1/2019	737,750	388,240	1,125,990	873,136	463,378	1,336,514	2,462,504
7/1/2020	737,306	388,007	1,125,313	874,630	464,171	1,338,800	2,464,113
7/1/2021	737,825	388,279	1,126,104	871,910	462,728	1,334,638	2,460,742
7/1/2022	739,439	389,129	1,128,568	873,929	463,799	1,337,728	2,466,296
7/1/2023	739,021	388,909	1,127,930	872,379	462,976	1,335,355	2,463,286
7/1/2024	738,534	388,653	1,127,187	874,465	464,084	1,338,549	2,465,735
7/1/2025	736,530	387,598	1,124,129	874,218	463,952	1,338,170	2,462,299
7/1/2026	737,678	388,202	1,125,881	871,700	462,616	1,334,317	2,460,198
7/1/2027	737,228	387,965	1,125,193	874,066	463,872	1,337,938	2,463,131
7/1/2028	739,142	388,972	1,128,114	871,952	462,750	1,334,701	2,462,815
7/1/2029	739,427	389,122	1,128,549	871,512	462,516	1,334,029	2,462,578
7/1/2030	736,362	387,510	1,123,872	873,749	463,704	1,337,453	2,461,325
7/1/2031	736,464	387,563	1,124,028	872,785	463,192	1,335,977	2,460,004
7/1/2032	736,760	387,719	1,124,479	871,625	462,576	1,334,202	2,458,680
7/1/2033	737,789	388,260	1,126,049	874,138	463,910	1,338,048	2,464,097
7/1/2034	738,567	388,670	1,127,237	871,449	462,483	1,333,931	2,461,169
7/1/2035	738,125	388,437	1,126,562	874,073	463,875	1,337,948	2,464,511
7/1/2036	736,858	387,771	1,124,629	874,510	464,107	1,338,617	2,463,247
7/1/2037	737,765	388,248	1,126,014	874,721	464,219	1,338,940	2,464,954
7/1/2038	737,341	388,025	1,125,365	871,288	462,397	1,333,685	2,459,050
	<u>\$21,379,898</u>	<u>\$11,251,145</u>	<u>\$32,631,044</u>	<u>\$25,269,160</u>	<u>\$13,410,485</u>	<u>\$38,679,646</u>	<u>\$71,310,689</u>

\* Includes estimated Letter of Credit fees and Remarketing fees.

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Source: J.P. Morgan Securities Inc.

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**TABLE II-6**  
**2008 BONDS**  
**BLUE GRASS AIRPORT**  
**ESTIMATED DEBT SERVICE - 2008 REFUNDING**

Period Ending	Series A AMT (2008 Refunding)*			Series B Tax-Exempt (2008 Refunding)*			Series C Taxable*	Total Refunding Debt Service
	PFC 45.9%	Non-PFC 54.1%	Subtotal Series A	PFC 92.2%	Non-PFC 7.8%	Subtotal Series B	CFC 100%	
7/1/2009	\$893,873	\$1,053,023	1,946,896	\$279,292	\$23,769	303,061	212,669	\$2,462,627
7/1/2010	1,396,391	1,645,013	3,041,404	483,121	41,116	524,237	357,972	3,923,612
7/1/2011	1,366,014	1,609,228	2,975,241	472,508	40,213	512,721	348,385	3,836,348
7/1/2012	885,130	1,042,724	1,927,855	490,446	41,740	532,186	350,999	2,811,040
7/1/2013	960,520	1,131,537	2,092,057	499,504	42,511	542,014	371,478	3,005,550
7/1/2014	1,080,200	1,272,525	2,352,725	483,997	41,191	525,188	357,987	3,235,900
7/1/2015	1,133,284	1,335,061	2,468,345	499,531	42,513	542,044	362,090	3,372,479
7/1/2016	1,112,083	1,310,085	2,422,168	491,359	41,817	533,177	345,985	3,301,329
7/1/2017	1,114,583	1,313,030	2,427,613	507,413	43,184	550,597	352,790	3,331,000
7/1/2018	1,006,230	1,185,385	2,191,615	508,327	43,261	551,588	362,315	3,105,518
7/1/2019	1,054,901	1,242,722	2,297,623	516,431	43,951	560,382	364,895	3,222,900
7/1/2020	1,050,838	1,237,936	2,288,774	523,480	44,551	568,031	361,776	3,218,581
7/1/2021	1,030,933	1,214,487	2,245,420	514,464	43,784	558,247	367,244	3,170,911
7/1/2022	1,033,213	1,217,173	2,250,387	529,454	45,059	574,513	372,706	3,197,606
7/1/2023	1,028,199	1,211,265	2,239,464	532,039	45,280	577,319	379,317	3,196,100
7/1/2024	1,033,254	1,217,222	2,250,476	541,897	46,118	588,015	382,018	3,220,510
7/1/2025	1,059,227	1,247,819	2,307,046	537,686	45,760	583,446	386,767	3,277,259
7/1/2026	1,061,553	1,250,558	2,312,111	548,096	46,646	594,742	392,909	3,299,763
7/1/2027	1,093,256	1,287,907	2,381,163	542,905	46,204	589,110	382,512	3,352,784
7/1/2028	1,114,319	1,312,720	2,427,039	574,435	48,888	623,322	404,642	3,455,003
7/1/2029	723,466	852,277	1,575,743	565,958	48,166	614,124	384,178	2,574,046
7/1/2030	728,331	858,007	1,586,338	576,403	49,055	625,458	406,248	2,618,044
7/1/2031	744,145	876,638	1,620,783	594,930	50,632	645,562	389,782	2,656,126
7/1/2032	745,789	878,574	1,624,363	595,164	50,652	645,815	403,900	2,674,078
7/1/2033	763,421	899,345	1,662,766	612,072	52,091	664,163	415,520	2,742,448
	<u>\$25,213,153</u>	<u>\$29,702,261</u>	<u>\$54,915,414</u>	<u>\$13,020,912</u>	<u>\$1,108,152</u>	<u>\$14,129,064</u>	<u>\$9,217,085</u>	<u>\$78,261,563</u>

\* Includes estimated Letter of Credit fees and Remarketing fees.

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Source: J.P. Morgan Securities Inc.

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In addition to PFCs to be applied to the payment of PFC eligible debt service on that portion of the 2008 Bonds attributable to the 2008 Refunding, the Board, upon approval by the FAA, intends to apply PFCs to the payment of PFC eligible debt service on that portion of the 2008 Bonds attributable to the 2008 Project. **Table II-7** sets forth an allocation of the PFC eligible and Non-PFC eligible debt service on that portion of the 2008 Bonds attributable to the 2008 Project.

<b>TABLE II-7</b>								
<b>2008 BONDS</b>								
<b>BLUE GRASS AIRPORT</b>								
<b>ALLOCATION OF MAXIMUM ANNUAL DEBT SERVICE - 2008 PROJECT</b>								
<b>Allocation of Maximum Annual Debt Service - 2008 Project</b>								
Project	Project Fund Requirement	Series A (AMT)			Series B (Tax-Exempt)			Total 2008 Project
		PFC	Non-PFC	Total	PFC	Non-PFC	Total	
Replace Runway 8-26								
Land Acquisition	\$1,811,000	\$0	\$0	\$0	\$139,374	\$0	\$139,374	\$139,374
Grading and Drainage	3,155,666	0	0	0	242,858	0	242,858	242,858
Paving, Lighting and NAVAIDs	4,033,334	0	0	0	310,403	0	310,403	310,403
Subtotal Runway 9/27	9,000,000	0	0	0	692,635	0	692,635	692,635
Taxiway D Relocation	1,366,000	0	0	0	105,127	0	105,127	105,127
Terminal Drive Relocation	10,959,000	0	389,232	389,232	0	464,219	464,219	853,451
Sanitary Sewer Improvements	1,000,000	0	0	0	76,959	0	76,959	76,959
Terminal Interior Renovations Phase II								
Bag Claim	2,782,230	219,795	0	219,795	0	0	0	219,795
Lobby	4,031,738	318,506	0	318,506	0	0	0	318,506
Subtotal Terminal Interior Renov.	6,813,968	538,302	0	538,302	0	0	0	538,302
Terminal Curbfront Improvements	2,548,524	201,333	0	201,333	0	0	0	201,333
<b>Estimated Total</b>	<b>\$31,687,492</b>	<b>\$739,635</b>	<b>\$389,232</b>	<b>\$1,128,866</b>	<b>\$874,721</b>	<b>\$464,219</b>	<b>\$1,338,940</b>	<b>\$2,467,806</b>

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## H. SECURITY FOR THE BONDS

The 2008 Bonds will be equally secured by a pledge of General Revenues derived by the Board from the operation of the Airport (after the application of General Revenues in the manner provided in Section 4.01 of the 2008 Indenture), plus amounts obtained from the collection of a PFC approved by the FAA, a rental car CFC imposed by the Board, and amounts payable to the Board by the Lexington-Fayette Urban County Government in connection with the lease of the Airport from the Board pursuant to the Lease Agreement, dated as of November 1, 2008, (the “2008 Lease”), between the Board, as Lessor, and the Lexington-Fayette Urban County Government, as Lessee. Pursuant to the 2008 Indenture, all General Revenues are to be deposited by the Board in the General Operating Fund and applied to the purposes and in the order of priority set forth in Section 4.01 of the 2008 Indenture. Under the 2008 Lease, the Lexington-Fayette Urban County Government is obligated to make payments (“Lease Payments”) to the Board equal to the debt service payable each year on the 2008 Bonds to the extent that funds otherwise available to the Board are not sufficient to pay such debt service. The obligation of the Lexington-Fayette Urban County Government under the 2008 Lease will be a full faith and credit, general obligation in that the Lexington-Fayette Urban County Government will be required to make the Lease Payments during any year in which the 2008 Lease is in effect, if necessary, to enable the Board to pay the debt service on the 2008 Bonds in such year. The 2008 Lease will be effective prior to or upon the issuance of the 2008 Bonds and through the final maturity date or earlier redemption of the 2008 Bonds.<sup>6</sup>

In addition, the 2008 Bonds will be secured by a debt service reserve fund having an amount equal to the debt service reserve requirement as required by the 2008 Indenture.

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<sup>6</sup> This discussion is being provided only for general information purposes. The defined terms herein shall have the meanings given them in the 2008 Lease, unless otherwise defined herein. Please see the 2008 Lease for a complete description and understanding of the 2008 Lease.

### **III. ECONOMIC BASE OF THE AIR SERVICE AREA**

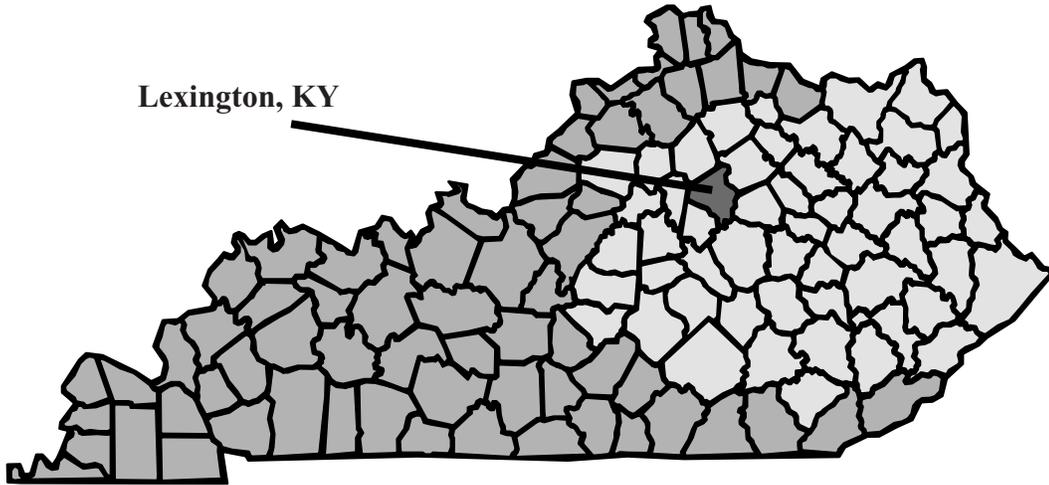
The primary geographical area served by an airport is commonly referred to as the air service area. The demand for air service is dependent upon the demographic and economic strength of an airport's air service area. This relationship is even greater at an origination and destination airport which has historically been the principal component of demand for air service at the Airport and is expected to remain the catalyst which will continue to attract air service to the Airport.

In this section of the Report, a description of the Airport's Air Service Area is provided along with the historical trends of the characteristics of certain elements of the economic base of the Airport's Air Service Area. The demographic and economic trends of the Airport's Air Service Area examined in this Report include population, employment, income and retail sales. This section concludes with a summary of NAI's findings with respect to the strength of the economic base of the Airport's Air Service Area.

#### **A. AIR SERVICE AREA DESCRIPTION**

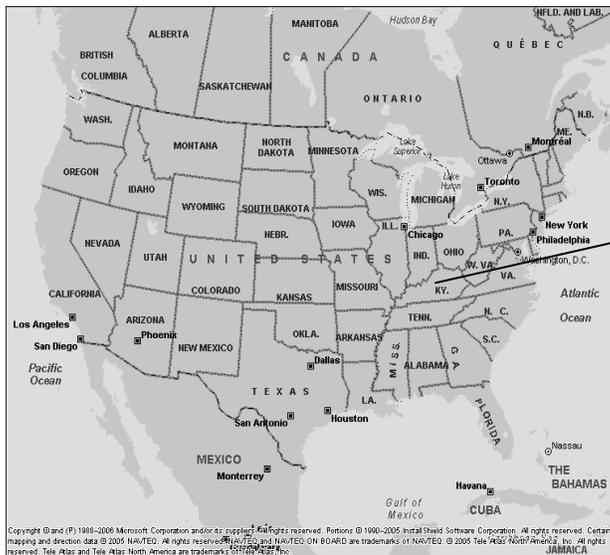
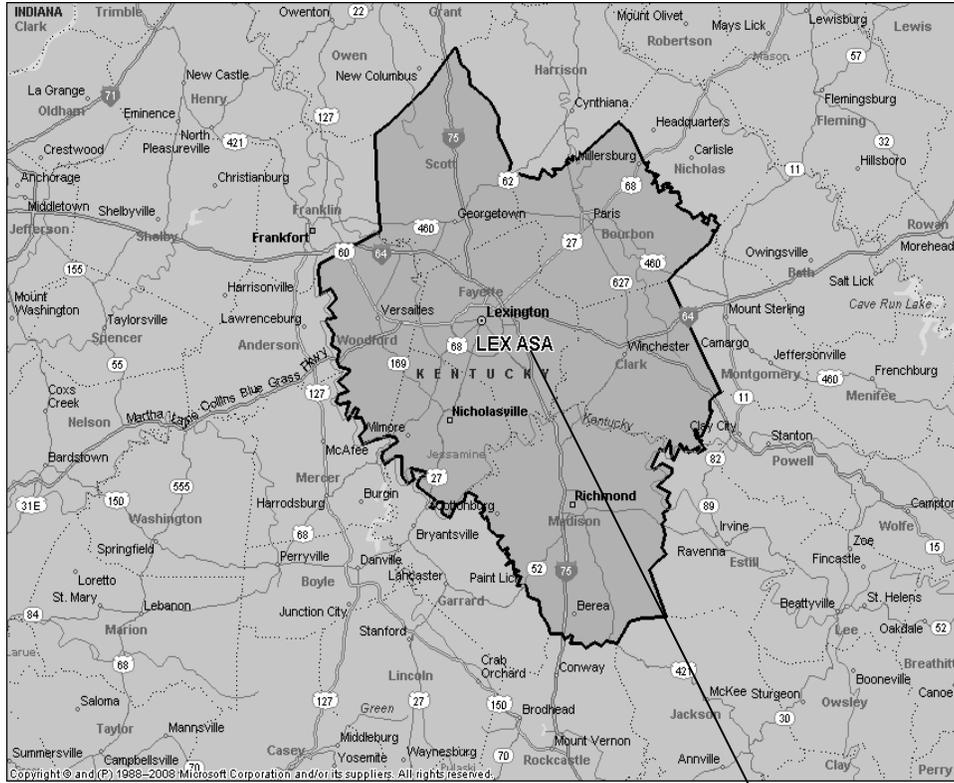
Sabre Airline Solutions is currently performing a market assessment for the Airport. The preliminary results suggest that the Airport serves 54 counties in Central and Eastern Kentucky as depicted in **Figure III-1**. For the purposes of this Report, however, the primary air service area for the Airport is defined as the seven counties contiguous to the Airport which are: (i) Bourbon County; (ii) Clark County; (iii) Fayette County; (iv) Jessamine County; (v) Madison County (vi) Scott County; and (vii) Woodford County (collectively the "Air Service Area" or "ASA"). Six of these counties comprise the Lexington-Fayette Metropolitan Statistical Area ("MSA") as defined by the United States Office of Management and Budget. **Figure III-2** depicts the location of the Airport and its Air Service Area.

**Figure III-1  
Blue Grass Airport  
Regional Service Area**



**COMMONWEALTH OF KENTUCKY**

**Figure III-2  
Blue Grass Airport  
Air Service Area**



There are two alternative airports offering commercial air service less than two hours driving time from the Airport: (i) Louisville International Airport which is located in Louisville, Kentucky (70 miles to the north west) and (ii) Greater Cincinnati/Northern Kentucky International Airport located in Covington, Kentucky (84 miles to the north east). Section IV of this Report discusses the potential effects these airports may have on the Airport's Air Service Area.

## B. POPULATION

### 1. Historical Population

According to Woods & Poole Economics, Inc. (The 2007 Complete Economic and Demographic Source, "CEDDS"), estimated population in the Air Service Area, as summarized in **Table III-1**, has increased from 500,530 in 2004 to approximately 528,134 in 2008, representing an average annual increase of 1.35%. This growth in population was greater than that of the State (0.79%) and the United States (1.04%) over the same period.

### 2. Population Projection

According to the same source and also summarized on Table III-1, the population of the Air Service Area is projected to increase from the 2008 level of 528,134 residents to approximately 556,290 residents in 2013, representing an average annual increase of 1.04% over the Forecast Period. This growth rate is greater than the State growth rate which is projected to increase at an average annual rate of 0.67% and comparable to the growth rate of 0.96% estimated for the United States.

TABLE III-1								
BLUE GRASS AIRPORT 2008 BONDS								
AIR SERVICE AREA								
POPULATION								
County	Historical					Average Annual Growth Rate	Projected	
	2004	2005	2006	2007	2008		2013	Average Annual Growth Rate
Bourbon	19,660	19,850	19,840	19,920	19,994	0.42%	20,110	0.12%
Clark	34,380	34,830	35,280	35,790	36,220	1.31%	38,400	1.18%
Fayette	266,340	267,930	270,790	274,130	276,800	0.97%	290,390	0.96%
Jessamine	42,260	43,400	44,790	45,580	46,260	2.29%	49,690	1.44%
Madison	76,050	77,740	79,020	80,040	80,870	1.55%	85,100	1.02%
Scott	37,950	39,530	41,610	42,400	43,090	3.23%	46,560	1.56%
Woodford	23,890	24,140	24,390	24,670	24,900	1.04%	26,040	0.90%
Air Service Area	500,530	507,420	515,720	522,530	528,134	1.35%	556,290	1.04%
Kentucky	4,140,427	4,172,608	4,206,074	4,244,552	4,272,572	0.79%	4,417,311	0.67%
United States (000's)	293,638.2	296,507.1	299,398.5	303,096.7	306,045.0	1.04%	321,059.9	0.96%

Source: Woods & Poole Economics, Inc. 23-Oct-08

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## C. EMPLOYMENT

According to the Kentucky Department for Labor Services (Workforce Kentucky), total employment in the Air Service Area increased by an average annual rate of 1.62% from 252,117 in 2004 to an estimated 268,857 in 2008. This rate of growth in total employment is greater than that of the State over the same period (0.92%) which grew from approximately 1,856,121 in 2004 to an estimated 1,925,245 in 2008. Employment in the United States grew at an average annual rate of 1.34% over the Study Period. **Table III-2** summarizes the historical employment trends for the Air Service Area, the State and the United States.

<b>TABLE III-2</b>						
<b>BLUE GRASS AIRPORT</b>						
<b>2008 BONDS</b>						
<b>AIR SERVICE AREA</b>						
<b>EMPLOYMENT</b>						
<b>County</b>	<b>Historical</b>					<b>Average Annual Growth Rate</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008*</b>	
Bourbon	9,133	9,232	9,332	9,484	9,389	0.69%
Clark	15,775	16,054	16,405	16,673	16,506	1.14%
Fayette	137,816	139,181	142,077	144,393	142,948	0.92%
Jessamine	20,113	20,765	21,625	21,987	21,758	1.98%
Madison	38,066	39,283	40,648	40,423	40,092	1.30%
Scott	18,734	19,539	20,861	21,201	20,989	2.88%
Woodford	12,480	12,687	12,895	13,105	12,974	0.98%
Air Service Area	252,117	256,741	263,843	267,266	264,656	1.22%
Kentucky	1,856,121	1,873,160	1,911,045	1,932,028	1,912,419	0.75%
United States	139,252,000	141,730,000	144,427,000	146,047,000	145,909,000	1.17%

\* Employment Figures reported as of August 2008.

Source: Workforce Kentucky 23-Oct-08

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## 1. Labor Force

The labor force in the Air Service Area grew at an average annual rate of 1.90% (263,882 to 284,486) over the Study Period. This growth in the Air Service Area labor force is greater than that of both the State (1.25%) and the United States (1.48%) for the same period, as depicted in **Table III-3**.

<b>TABLE III-3</b>						
<b>BLUE GRASS AIRPORT</b>						
<b>2008 BONDS</b>						
<b>AIR SERVICE AREA</b>						
<b>LABOR FORCE</b>						
<b>County</b>	<b>Historical</b>					<b>Average Annual Growth Rate</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008*</b>	
Bourbon	9,605	9,778	9,830	9,969	9,988	0.98%
Clark	16,646	17,006	17,371	17,525	17,596	1.40%
Fayette	143,849	145,860	148,659	150,449	150,511	1.14%
Jessamine	21,054	21,814	22,717	23,004	23,037	2.28%
Madison	40,115	41,364	42,738	42,455	42,480	1.44%
Scott	19,638	20,536	21,911	22,183	22,295	3.22%
Woodford	<u>12,975</u>	<u>13,253</u>	<u>13,476</u>	<u>13,632</u>	<u>13,615</u>	<u>1.21%</u>
Air Service Area	263,882	269,611	276,702	279,217	279,522	1.45%
Kentucky	1,965,314	1,993,680	2,029,448	2,043,770	2,045,279	1.00%
United States	147,401,000	149,320,000	151,428,000	153,124,000	155,387,000	1.33%

\* Employment Figures reported as of August 2008.

Source: Workforce Kentucky 23-Oct-08

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## 2. Unemployment Rate

**Table III-4** depicts the historical trend in the rate of unemployment in the Air Service Area, the State and the United States for the period 2004 to 2008. During this period, the rate of unemployment grew in the Air Service Area, the State and the United States which is reflective of the general slow-down in U.S. and world wide economic activity as more thoroughly discussed in Section IV, Factors Affecting Future Air Traffic. The annual rate of unemployment for the Air Service Area in 2008 (5.49%) was lower than that of the State (6.78%) and the United States (6.03%).

<b>TABLE III-4</b>					
<b>BLUE GRASS AIRPORT</b>					
<b>2008 BONDS</b>					
<b>AIR SERVICE AREA</b>					
<b>UNEMPLOYMENT</b>					
<b>Historical</b>					
<b>County</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008*</b>
Bourbon	4.90%	5.60%	4.10%	4.90%	6.00%
Clark	5.20%	5.60%	5.60%	4.90%	6.20%
Fayette	4.20%	4.60%	4.40%	4.00%	5.00%
Jessamine	4.50%	4.80%	4.80%	4.50%	5.60%
Madison	5.10%	5.00%	4.90%	4.80%	5.60%
Scott	4.60%	5.00%	4.80%	4.40%	5.90%
Woodford	<u>3.80%</u>	<u>4.30%</u>	<u>4.30%</u>	<u>3.90%</u>	<u>4.70%</u>
Air Service Area	4.46%	4.77%	4.65%	4.28%	5.32%
Kentucky	5.56%	6.05%	5.83%	5.47%	6.50%
United States	5.53%	5.08%	4.62%	4.62%	6.10%
* Employment Figures reported as of August 2008					
Source: Workforce Kentucky				23-Oct-08	
Compiled by Newton & Associates, Inc.		c:\...\lex\2008 Bonds\Section III Tables v4.xls dnz			

### 3. Industry Group Employment

An examination of employment by industry group illustrates the diversity of employment in the Air Service Area. **Table III-5** summarizes the number of full and part-time nonagricultural employees by major industry sector (as defined by the U.S. Department of Labor) for the Air Service Area, the State and the United States. The percentage of employment by industry sector is also included in Table III-5.

As shown in Table III-5, in 2008, the Services Sector, the broadest sector of employment which includes health care institutions, research and development firms, personal services, business services and employment agencies among others, is the largest nonagricultural employment sector in the Air Service Area (34.66%), followed by Retail Trade (16.90%), Civilian Government Sector (15.21%) and Manufacturing (13.07%).

Over the Study Period, the Services Sector of employment experienced the greatest growth in employment in the Air Service Area with an average annual growth rate of 3.14%. The Transportation, Utilities and Communications Sector of employment in the Air Service Area experienced the second highest rate of growth in employment (2.85%).

#### a. Services

As shown on Table III-5, the Services Sector employs the largest percentage of employed persons in the Air Service Area (34.66%), the State (31.66%) and the United States (37.37%). Employment in the Services Sector grew at an average annual rate of 3.14% over the period 2004 to 2008 in the Air Service Area.

#### b. Retail Trade

Retail Trade employment in the Air Service Area has decreased from 59,030 in 2004 to 58,175 in 2008, representing an average annual growth rate of -0.36%. While Retail Trade experienced negative growth, it is the second highest employment sector in terms of total employed persons (16.90%). Retail Trade is also the second greatest employment sector for both the State (18.13%) and the United States (16.88%).

#### c. Government

The Government Sector of employment employs the third largest percentage of employed persons in the Air Service Area (15.21%) and the State (13.94%). This sector of employment employs 12.17% of the population in the United States.

#### d. Manufacturing

As shown on Table III-5, Manufacturing Industry Sector employment within the Air Service Area has grown at an estimated average annual rate of 1.20% from 2004 to 2008. Employment in the Manufacturing Industry Sector for 2008 was 13.07% compared with the State (12.60%) and the United States (8.65%). Manufacturing firms employing at least 750 employees within

the Air Service Area include Toyota Motor Manufacturing, Lexmark International, The Trane Company and Osram Sylvania according to the Lexington Chamber of Commerce.

**e. Transportation, Utilities and Communications**

The number of persons employed in the Transportation, Utilities and Communications Sector expressed as a percentage of total nonagricultural employment in the Air Service Area is 3.60%. The percent of employment in the State is 5.48% and the United States is 4.80%. Employment in the Transportation, Utilities and Communication Sector increased at an average annual rate of 2.85% over the Study Period.

Two major Interstates, I-64 (east/west) and I-75 (north/south), intersect in the City of Lexington. In addition, major highway access is also provided by U.S. Highways 60, 68 and 27.

**TABLE III-5  
BLUE GRASS AIRPORT  
2008 BONDS  
NON-AGRICULTURAL EMPLOYMENT  
BY INDUSTRY SECTOR**

Industry Sector	Air Service Area					Kentucky		United States	
	2004	Percent Of Total 2004	2008	Percent Of Total 2008	Avg. Ann. Growth Rate	2008	Percent Of Total 2008	2008	Percent Of Total 2008
Construction <sup>2</sup>	19,410	6.05%	21,030	6.11%	2.02%	164,070	7.10%	11,563,790	6.18%
Manufacturing	42,920	13.38%	45,010	13.07%	1.20%	291,420	12.60%	16,198,830	8.65%
Transportation, Utilities & Communications	11,090	3.46%	12,410	3.60%	2.85%	126,780	5.48%	8,988,900	4.80%
Wholesale Trade	13,370	4.17%	14,340	4.17%	1.77%	98,040	4.24%	8,509,250	4.54%
Retail Trade	59,030	18.40%	58,175	16.90%	-0.36%	419,310	18.13%	31,605,120	16.88%
Finance, Insurance & Real Estate	20,230	6.30%	21,610	6.28%	1.66%	158,280	6.84%	16,941,530	9.05%
Services	105,419	32.85%	119,300	34.66%	3.14%	732,130	31.66%	70,645,750	37.73%
Government <sup>3</sup>	<u>49,410</u>	15.40%	<u>52,375</u>	15.21%	1.47%	<u>322,360</u>	13.94%	<u>22,777,980</u>	12.17%
<b>Total</b>	<u>320,879</u>	100.00%	<u>344,250</u>	100.00%	1.77%	<u>2,312,390</u>	100%	<u>187,231,150</u>	100%

<sup>1</sup> Measured in 2004 Dollars

<sup>2</sup> Construction and Mining are Combined

<sup>3</sup> Excludes Military

Source: Woods & Poole Economics, Inc.

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**f. Major Employers**

**Table III-6** sets forth the major employers (employing at least 750 employees) in the Air Service Area in 2008.

<b>TABLE III-6</b> <b>BLUE GRASS AIRPORT</b> <b>2008 BONDS</b> <b>MAJOR AIR SERVICE AREA EMPLOYERS</b>		
Total Employees	Employer	Type of Business
5,000 or More	University of Kentucky	Education
	Toyota Motor Manufacturing	Manufacturing
2,500 to 4,999	Fayette Co. Public Schools	Education
	Lexington-Fayette Urban Co. Gov't.	Public Administration
	Lexmark International <sup>1</sup>	Manufacturing
	St. Joseph Healthcare	Services
750 to 2,499	Central Baptist Hospital	Services
	ACS	Services
	Veterans Medical Center	Services
	Lexington Clinic	Services
	The Trane Company	Manufacturing
	L-3 Communications Integrated Systems	Services
	Kentucky Utilities	Utility
	Osram Sylvania	Manufacturing
	Wal-Mart	Retail
	Valvoline Company	Transportation
	Amazon.com	Retail
	ALLTEL	Communications
<sup>1</sup> Headquartered in Air Service Area		
Source: Woods & Poole Economics, Inc.		23-Oct-08
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**g. New Business Expansions or Relocations**

**Table III-7** sets forth the number of new business expansions, the number of jobs created and the total investment in the area as reported by the Kentucky Cabinet for Economic Development (May 20, 2008) for the period 2005 to present. According to the Kentucky Cabinet for Economic Development, 168 firms expanded or relocated their businesses generating 3,847 jobs and invested more than \$1.6 billion dollars in the area.

TABLE III-7			
BLUE GRASS AIRPORT 2008 BONDS			
NEW BUSINESS EXPANSIONS OR RELOCATIONS			
2005 - PRESENT			
County	Number of Companies	Reported	
		Jobs	Investment
Bourbon	9	95	\$22,089,000
Clark	14	189	75,268,000
Fayette	89	2,591	191,985,323
Jessamine	11	293	26,340,372
Madison	16	250	721,641,950
Scott	22	354	547,446,271
Woodford	7	75	26,900,000
	168	0	3,847
			\$1,611,670,916

Source: Kentucky Cabinet for Economic Development (05/20/08)

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**D. INCOME / SALES**

**1. Personal Income**

Personal income is income received by persons from all sources, from participation in production, from both the government and business transfer payments, and from government interest, which is treated like a transfer payment. Persons consist of individuals, nonprofit institutions serving individuals, private uninsured welfare funds and private trust funds. Personal income is the sum of wages and salaries, other labor income, proprietors' income, rental income of persons, dividend income, personal interest income and transfer payments less personal contributions for social insurance. As depicted on **Table III-8**, the average annual growth rate in

personal income for the period 2004 through 2008 for the Air Service Area (2.14%) was less than the average annual growth rate of the State (2.44%) but comparable to that of the United States (2.18%), according to Woods & Poole Economics, Inc.

**TABLE III-8**  
**BLUE GRASS AIRPORT**  
**2008 BONDS**  
**AIR SERVICE AREA**  
**PERSONAL INCOME**  
(Millions)

County	Historical					Average Annual Growth Rate	Projected	
	2004	2005	2006	2007	2008		2013	Average Annual Growth Rate
Bourbon	\$568.45	\$583.74	\$593.72	\$602.57	\$611.67	1.85%	\$661.59	1.58%
Clark	962.96	980.47	1,033.34	1,054.87	1,076.97	2.84%	1,196.81	2.13%
Fayette	9,214.63	9,370.81	9,508.12	9,703.69	9,904.37	1.82%	10,989.16	2.10%
Jessamine	1,089.98	1,116.74	1,121.69	1,146.08	1,171.15	1.81%	1,307.26	2.22%
Madison	1,675.22	1,723.30	1,895.75	1,930.81	1,966.80	4.09%	2,162.33	1.91%
Scott	1,076.16	1,124.32	1,174.47	1,206.03	1,238.17	3.57%	1,411.16	2.65%
Woodford	905.59	914.30	864.37	879.91	895.86	-0.27%	983.03	1.87%
Air Service Area	<u>\$15,492.99</u>	<u>\$15,813.68</u>	<u>\$16,191.46</u>	<u>\$16,523.96</u>	<u>\$16,864.99</u>	2.14%	<u>\$18,711.34</u>	2.10%
Kentucky	\$111,873.00	\$114,665.60	\$118,386.90	\$120,751.50	\$123,178.90	2.44%	\$136,332.80	2.05%
United States	\$9,716,351.00	\$9,934,921.00	\$10,143,733.00	\$10,363,970.00	\$10,590,199.00	2.18%	\$11,816,705.00	2.22%

Measured in 2004 Dollars

Source: Woods & Poole Economics, Inc.

23-Oct-08

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## 2. Personal Income Projection

According to the same source and also depicted on Table III-8, the average annual growth rate of personal income in the Air Service Area (2.10%) is projected to grow at a rate greater than that of the State (2.05%) and slightly behind the United States (2.22%) over the Forecast Period 2008 to 2013.

### 3. Per Capita Income

As shown on **Table III-9**, per capita income for the Air Service Area has increased from an estimated \$29,362 in 2004 to an estimated \$33,621 in 2008, representing an average annual growth rate of 3.44%. While per capita income for the Air Service Area saw positive growth, it grew at a slower pace than that of the State (4.50%) and the United States (3.98%) over the same time period.

### 4. Per Capita Income Projection

Income per capita is projected to grow in the Air Service Area at an average annual rate of 4.03% as depicted on Table III-9. This projected growth rate is comparable to that of both the State (4.38%) and the United States (4.24%) during the Forecast Period.

TABLE III-9								
BLUE GRASS AIRPORT 2008 BONDS								
AIR SERVICE AREA								
PER CAPITA INCOME								
County	Historical					Average Annual Growth Rate	Projected	
	2004	2005	2006	2007	2008		2013	Average Annual Growth Rate
Bourbon	\$28,916	\$30,250	\$31,634	\$32,884	\$34,285	4.35%	\$42,560	4.42%
Clark	28,008	28,961	30,965	32,031	33,236	4.37%	40,320	3.94%
Fayette	34,598	35,982	37,116	38,473	39,999	3.69%	48,955	4.12%
Jessamine	25,721	26,741	26,472	27,327	28,299	2.42%	34,035	3.76%
Madison	22,029	22,806	25,361	26,217	27,185	5.40%	32,870	3.87%
Scott	28,355	29,261	29,839	30,916	32,121	3.17%	39,207	4.07%
Woodford	37,905	38,973	37,468	38,762	40,224	1.50%	48,827	3.95%
Air Service Area	\$29,362	\$30,425	\$31,265	\$32,373	\$33,621	3.44%	\$40,968	4.03%
Kentucky	\$27,020	\$28,272	\$29,752	\$30,920	\$32,227	4.50%	\$39,925	4.38%
United States	\$33,090	\$34,471	\$35,813	\$37,164	\$38,681	3.98%	\$47,612	4.24%

Source: Woods & Poole Economics, Inc. 23-Oct-08

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## 5. Retail Sales

As depicted on **Table III-10**, the average annual growth rate in retail sales in the Air Service Area was slightly higher than that of the State and the United States during the Study Period. Retail sales grew from \$7,198,180 in 2004 to an estimated \$8,029,230 in 2008 according to Woods & Poole Economic, Inc. The average annual growth rate in retail sales for the Air Service Area was 2.77% for the period, compared with that of the State (2.32%) and the United States (2.59%). Table III-10 summarizes the historical trend in retail sales in the Air Service Area, the State and the United States.

## 6. Retail Sales Projection

According to the same source, retail sales within the Air Service Area are projected to increase over the period 2008 to 2013 at a rate of 2.17%. This projected rate of growth in retail sales is slightly higher than the average annual growth rate projected for the State (1.79%) and the United States (2.11%).

TABLE III-10 BLUE GRASS AIRPORT 2008 BONDS AIR SERVICE AREA RETAIL SALES (Millions)								
County	Historical					Average Annual Growth Rate	Projected	
	2004	2005	2006	2007	2008		2013	Average Annual Growth Rate
Bourbon	\$170.60	\$175.74	\$178.85	\$181.13	\$183.39	1.82%	\$195.50	1.29%
Clark	484.59	500.78	516.51	528.72	541.00	2.79%	606.32	2.31%
Fayette	4,499.79	4,617.62	4,752.75	4,853.92	4,955.50	2.44%	5,496.33	2.09%
Jessamine	572.44	599.70	630.26	647.07	664.00	3.78%	754.00	2.57%
Madison	866.10	903.18	934.88	955.40	976.04	3.03%	1,085.82	2.15%
Scott	421.27	447.58	479.74	493.21	506.80	4.73%	578.97	2.70%
Woodford	183.39	188.98	194.46	198.48	202.50	2.51%	223.97	2.04%
Air Service Area	\$7,198.18	\$7,433.58	\$7,687.45	\$7,857.93	\$8,029.23	2.77%	\$8,940.91	2.17%
Kentucky	\$46,851.75	\$48,223.48	\$29,568.56	\$50,462.37	\$51,357.89	2.32%	\$56,129.55	1.79%
United States	\$3,572,659.00	\$3,685,367.00	\$3,794,331.00	\$3,875,741.00	\$3,957,496.00	2.59%	\$4,392,483.00	2.11%

Source: Woods & Poole Economics, Inc. 23-Oct-08

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## **E. OTHER**

### **1. Gross State Product**

According to the Bureau of Economic Analysis, the State's Gross State Product ("GSP") exceeded \$154 billion during 2007 and has increased every year since 1997 in constant dollars. Overall, the Gross State Product grew from \$131.7 billion in 2004 to \$154.1 billion in 2007 or 5.38%, which tracks favorably with that of the United States over the same period (5.79%). The most recent data available for the Lexington MSA is from 2005 and depicts that the seven county area had a combined Gross County Product of approximately \$20 billion.

### **2. Education**

The Air Service Area is home to 15 colleges and universities and is ranked 11<sup>th</sup> in the nation for the most educated workforce in 2007, according to the Greater Lexington Chamber of Commerce.

### **3. Equine**

According to the Lexington Convention and Visitor's Bureau, Lexington / Fayette County is known as the "Horse Capital of the World". There are over 500 horse farms in the Bluegrass area and about 150 in Lexington / Fayette County alone. The Air Service Area boasts the Kentucky Horse Park, a 1,032 acre complex complete with a museum, interactive exhibits, a working farm and carriage tours. Additionally, the park is home to the National Horse Center and a number of top equine management associations including the Kentucky Thoroughbred Association. In addition to the Kentucky Horse Park, the Keeneland Race Course, the Red Mile Harness Track and Calumet Farms (where eight Kentucky Derby winners and two Triple Crown champions were raised) among many others, can be toured with advance notice.

The equine industry not only attracts tourists, it is also a significant part of the Air Service Area's economy. Six counties in the Air Service Area, Bourbon, Clark, Fayette, Jessamine, Scott and Woodford, are also within the Equine Resource Area ("ERA") in the Bluegrass Region and over two dozen national equine organizations are headquartered in this area. A study by Deloitte Consulting LLP for the American Horse Council Foundation in 2005 determined that the equine industry had an economic effect on the United States of approximately \$39 billion annually and over \$102 billion considering the multiplier effect. These figures do not include spectator spending which would result in an even greater figure. This study further stated that in the State, the equine industry produced goods and services of over \$2.3 billion and accounted for approximately 52,000 direct and indirect full-time equivalent jobs.

In 2010, the FEI (Federation Equestre Internationale) World Equestrian Games will be held at the Kentucky Horse Park. This is the first time the competition has ever been held in North America and will also be the first time that all events of the competition will be held in one location. It is anticipated that the FEI World Equestrian Games will generate 600,000 ticket sales and have an economic impact of \$150 million. Participants in this competition are expected to come from over 60 nations.

#### **4. Tourism**

According to the Lexington Convention and Visitor's Bureau, Lexington is known for its "horses, history and hooch", and was founded in 1775, 17 years before Kentucky became a state. Because of its central location, Lexington is within 700 miles of two thirds of the population of the United States and is situated at the intersections of east/west Interstate 64 and north/south Interstate 75. On November 1, 2007, the Governor's office announced that tourism had become a \$10.1 billion industry. Hotel room revenue grew 10% during the first three quarters of 2007, when compared to the first three quarters of 2006, (national average is 7%) and occupied rooms in Kentucky grew 2.1% during the same period (national average is 0%). Furthermore, the Governor's office reported that in the past three years, tourism has increased by 23.8%.

#### **5. Bourbon**

Bourbon is America's only native spirit and, according to the Kentucky Distillers Association, almost all bourbon (approximately 95.0%) is produced in the State. As early as 1775, Kentuckians were making corn whiskey; and by today's standards, bourbon is a whiskey made from a mash containing at least 51.0% corn. Three distilleries are located in the ASA: Labrot & Graham (Woodford Reserve), Wild Turkey Distillery (Austin Nichols Distillers) and Buffalo Trace. A report by the Distilled Spirits Council of the United States outlines sales by revenue and volume for the years 2002 to 2007. In 2002, 13.1 million 9-liter cases of bourbon were sold in the United States generating just over \$1.3 billion in revenues for distillers. In 2007, these numbers increased to 14.9 million cases and \$1.7 billion in revenues, representing a growth rate of approximately 3.22% in sales volume and 1.07% in revenue over the period.

### **F. SUMMARY**

#### Population

The Air Service Area's estimated population grew at rates greater than that of the State and the United States over the Study Period (1.35%, 0.79% and 1.04% respectively). This trend is projected to continue over the Forecast Period (1.04%, 0.67% and 0.96% respectively).

#### Employment

Employment and labor force in the Air Service Area have increased over the Study Period, at average annual rates of 1.62% and 1.90% respectively. These growth rates are greater than that of the State and the United States. The average annual rate of unemployment in the Air Service Area in 2008 (5.49%) is lower than that of both the State (6.78%) and the United States (6.03%).

#### Income

Income in the Air Service Area grew at rates comparable to those of both the State and the United States over the Study Period (2.14%, 2.44% and 2.18% respectively). This trend is projected to continue over the Forecast Period (2.10%, 2.05% and 2.22% respectively).

Per capita income in the Air Service Area grew at rates lower than that of the State and the United States (3.44%, 4.50% and 3.98% respectively). Per capita income is projected to grow by

4.03% during the Forecast Period and while still slightly behind that of the State and the United States, this growth rate compares favorably (4.38% and 4.24%, respectively).

#### Retail Sales

The average annual growth rate in retail sales for the Air Service Area is 2.77% during the Study Period, which is greater than that of the State (2.32%) and the United States (2.59%). This trend in retail sales growth is expected to continue over the Forecast Period at rates of 2.17%, 1.79% and 2.11% respectively.

#### Other

Gross State Product grew 5.38% over the period 2004 to 2007 and compared favorably with the United States over the same period (5.79%).

The equine industry is an important part of the Air Service Area's and the State's economy providing approximately 52,000 direct and indirect jobs and goods and services of over \$2.3 billion.

Tourism has become a \$10.1 billion industry in the State and has grown 23.8% over the last three years (2005 to 2007). Hotel room revenue grew 10% during the first three quarters of 2007 when compared to the first three quarters of 2006, which is greater than the national average of 7% during the same period.

Bourbon sales grew to \$1.7 billion in revenues in 2007 representing an average annual growth rate of 3.22% growth from 2002.

#### Conclusion

Based upon the analysis discussed and set forth herein, NAI believes that the economic base of the Air Service Area is a strong and growing component of the economy in the State and the United States and therefore feels it is reasonable to expect that the Air Service Area's economy will remain stable and continue to generate demand for air service at the Airport during the Forecast Period.

#### **IV. AIR TRAFFIC ANALYSIS**

The Airport is currently served by one major airline and 13 regional airlines which operate under the livery of six different air carriers that provide scheduled passenger airline service. Several charter operators also serve the Airport from time to time. This section describes the importance of air traffic, historical passenger airline service, existing and projected air traffic, and other factors that may affect the future demand for air service at the Airport.

##### **A. IMPORTANCE OF AIR TRAFFIC**

The principal determinant of a commercial airport's ability to be financially self-sufficient is the passenger demand for air service at an airport. Demand for air service at an airport translates directly into airline activity and airport revenues. Airlines pay landing fees, terminal rentals and other user fees for the right to enplane and deplane passengers, their baggage and/or air cargo. Passengers spend money to park and rent automobiles, and to purchase food, beverages and merchandise from the Airport concessionaires. Because of this relationship between passengers and Airport revenues, the future financial strength of the Airport will depend in large measure upon the future demand for passenger air service at the Airport. This, in turn, will depend upon the continued growth of economic activity in the Air Service Area and the ability of the Airport to provide adequate facilities to meet the air transportation demands of the traveling public, among other considerations.

In Section III of this Report, Economic Base of the Air Service Area, the Air Service Area was described geographically and in terms of certain historical and projected socioeconomic indicators such as population, employment, major industry sectors, income, retail sales and tourism. NAI's analysis of this information suggests that the Air Service Area is a healthy and growing part of the State and the United States and should continue to support demand for air service at the Airport. The analysis contained in this section of the Report is important in assessing the future demand for air service at the Airport. This section concludes with NAI's findings in this regard and sets forth a forecast of passenger air traffic at the Airport over the Forecast Period.

##### **B. LEVEL OF EXISTING AIRLINE SERVICE**

Since the Airline Deregulation Act of 1978, most major airlines have developed "hub-and-spoke" systems in order to fill aircraft. In a hub-and-spoke system, passengers from numerous cities throughout the major airlines' networks are directed each day into a small number of "hub" airports where they connect on flights to "spoke" airports in other cities, thereby creating economies-of-scale and allowing airlines to increase frequency, profitability and serve cities that would otherwise go without service in a "point-to-point" system. Within this system of hub-and-spoke airports, the Airport is considered an origination and destination ("O&D") or "spoke" airport. Most of the scheduled air service provided at the Airport is to the connecting passenger hubs of the airlines serving the Airport and/or their major airline partners.

As of August 2008, Delta Air Lines (“Delta”) is the only major passenger<sup>7</sup> airline providing scheduled service at the Airport. Delta provides one daily non-stop jet departure from the Airport to its hub in Atlanta. Delta offers approximately 7.8% of the scheduled seats departing from the Airport. Combined with its regional code-sharing affiliated airlines,<sup>8</sup> Delta and its affiliate airlines provide approximately 38.3% of the scheduled seat capacity at the Airport.

The Airport is served by 13 airlines classified for the purpose of this Report as “regional airlines”.<sup>9</sup> Atlantic Southeast Airlines (“ASA”), Chautauqua, Comair and Freedom Airlines are each doing business as (“d/b/a”) The Delta Connection. ASA provides four daily, non-stop departures to its hub in Atlanta on regional jet aircraft and one daily non-stop regional jet departure to its hub in Cincinnati. Comair provides three daily, non-stop regional jet departures to its hub in Cincinnati, one daily, non-stop departure on regional jet aircraft each to Atlanta, Washington, DC (Ronald Reagan International Airport), and LaGuardia International Airport in New York. Chautauqua and Freedom Airlines each provide one daily, non-stop regional jet service to Cincinnati.

Mesaba Airlines (“Mesaba”) and Pinnacle Airlines (“Pinnacle”), each d/b/a Northwest Airlink, currently serve the Airport. Pinnacle provides five daily, non-stop departures to its hub in Detroit on regional jet aircraft and two daily, non-stop departures to Northwest Airlines’ hub in Memphis, each on regional jet aircraft. Mesaba provides daily, non-stop service to Memphis on turbo-prop aircraft.

Three regional airlines, Piedmont Airlines (“Piedmont”), PSA Airlines and Air Wisconsin, each d/b/a US Airways Express, currently serve the Airport. Piedmont provides one daily, non-stop departure to US Airways’ hub in Charlotte on turboprop aircraft. PSA Airlines provides four daily, non-stop departures to US Airways’ hub in Charlotte on regional jet aircraft and Air Wisconsin also provides one daily non-stop departure to Charlotte on a regional jet.

Sky West Airlines (d/b/a United Express) provides four daily, non-stop departures to United Airlines’ hub at O’Hare International Airport in Chicago on regional jet aircraft. ExpressJet provides two daily, non-stop regional jet departures to Continental’s hubs in Houston and at Newark International Airport in Newark. Commutair provides two daily non-stop departures to Continental’s hub in Cleveland on turbo-prop aircraft.

American Eagle (d/b/a American Connection) provides three daily non-stop departures to its hub at Dallas/Fort Worth International Airport in Dallas and two daily non-stop departures to O’Hare International Airport in Chicago. Both markets are served by regional jet aircraft.

On November 6, 2008, Allegiant Air began providing the Airport with non-stop jet service to two different Florida destinations. The low fare carrier announced on September 16, 2008 that it

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<sup>7</sup> A “major airline” is defined by the ATA as an airline with over \$1 billion in annual revenues.

<sup>8</sup> Regional code-sharing affiliated airlines include regional airlines wholly or partially owned by a major airline or independent regional airlines that have operating agreements with major airlines to feed passengers into major airline hub airports.

<sup>9</sup> A “regional airline” is defined by the ATA as an airline with less than \$100 million in annual revenues and whose aircraft fleet is generally composed of turboprop and/or regional jet aircraft having 60 seats or less.

would provide two weekly departures to the Sanford Orlando International Airport in Orlando and two weekly departures to the St. Petersburg / Clearwater International Airport in St. Petersburg. Allegiant Air utilizes MD-80 series jet aircraft with 150 seats on each new route and is the only low cost air service from the Airport to the State of Florida.

The Airport's scheduled seat capacity by airline as of August 2008 is depicted on **Table IV-1**. A comparison of the Airport's current seat capacity with that of August 2006 and August 2004 is also provided on Table IV-1 for the purpose of identifying recent trends with respect to the availability of scheduled seats by type of aircraft operating at the Airport. The average number of weekly departing seats on narrow-body jets decreased from 4,380 in August 2004 to 994 in August 2008, an average annual rate of decrease of 31.0%. Similarly, the average number of weekly departing seats on turboprop aircraft decreased from 3,064 in August 2004 to 721 in August 2008, representing an average annual decrease of 30.4%. During the same time period, the average number of weekly departing seats on regional jet aircraft at the Airport increased at an average annual rate of 0.7% from 10,692 in August 2004 to 10,982 in August 2008.

As also shown on Table IV-1, the number of daily departures has decreased from 44 in August 2004 to 38 in August 2008, representing an average annual decrease of 3.6%. As will be further discussed in the following sections of this Report, historical enplanements decreased by an average annual rate of 4.1% from FY 2004 to FY 2008. Despite the large decrease in the total number of seats serving the Airport, the daily departures and annual enplanements have not reduced at the same level. This historical rate of seat capacity reduction, compared with the more moderate decline in historical aircraft departures and historical enplaned passengers, suggests that during the Study Period airlines serving the Airport have removed unnecessary seat capacity at the Airport, more closely watching passenger demand and increasing air service efficiency. This reduction of seat capacity to more closely match passenger demand and increase operating efficiency is consistent with an industry-wide trend over this same time period.

**TABLE IV-1**  
**BLUE GRASS AIRPORT**  
**2008 BONDS**  
**AIRCRAFT MIX TRENDS**

Airline	Direct Service	Daily Departures	Narrow-body Seats/Week	Regional Jet Seats/Week	Turboprop Seats/Week	Totals
Delta Air Lines	ATL	1	994	0	0	994
Atlantic Southeast Airlines /1	ATL/CVG	5	0	1,650	0	1,650
Chautauqua 1/	CVG	1	0	200	0	200
Comair /1	ATL/CVG/LGA/DCA	5	0	1,770	0	1,770
Freedom /1	CVG	1	0	250	0	250
<b>DELTA TOTAL</b>		12	994	3,870	0	4,864
Air Wisconsin /2	CLT	1	0	300	0	300
PSA /2	CLT	4	0	1,250	0	1,250
Piedmont /2	PIT	0	0	0	74	74
<b>US AIRWAYS TOTAL</b>		5	0	1,550	74	1,624
Mesaba /3	DTW	1	0	0	245	245
Pinnacle /3	DTW/MEM	7	0	2,195	0	2,195
<b>NORTHWEST TOTAL</b>		8	0	2,195	245	2,440
Commutair /4	CLE	2	0	0	402	402
Express Jet /4	IAH/EWR	3	0	865	0	865
<b>CONTINENTAL EXP TOTAL</b>		5	0	865	402	1,267
American Eagle	ORD/DFW	5	0	1,452	0	1,452
Sky West /5	ORD	4	0	1,050	0	1,050
<b>AIRPORT TOTAL (AUGUST 2008)</b>		38	994	10,982	721	12,697
<b>AIRPORT TOTAL (AUGUST 2006)</b>		48	700	15,045	476	16,221
<b>AIRPORT TOTAL (AUGUST 2004)</b>		44	4,380	10,692	3,064	18,136
<b>DIFFERENCE 2004 - 2008</b>		-7	-3,386	290	-2,343	-5,439
<b>AVERAGE ANNUAL GROWTH RATE (DECREASE)</b>			-31.0%	0.7%	-30.4%	-8.5%
/1 d/b/a Delta Connection			Aircraft Mix % Share (August 2008):			
/2 d/b/a US Airways Express			8%	86%	6%	100%
/3 d/b/a Northwest Airlink			Aircraft Mix % Share (August 2006):			
/4 d/b/a Continental Express			4%	93%	3%	100%
/4 d/b/a United Express			Aircraft Mix % Share (August 2004):			
			24%	59%	17%	100%

Source: OAG, August 2004, August 2006, August 2008.  
 Compiled by Newton & Associates, Inc.

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 October 23, 2008

## C. HISTORICAL PASSENGER TRAFFIC

An analysis of the Airport's historical passenger activity is a useful guide in projecting future levels of passenger activity. NAI has examined historical passenger traffic at the Airport for a 16 year period, from January 1992 through December 2007. **Table IV-2** depicts domestic passenger enplanement activity at the Airport and for the United States from calendar year 1992 through calendar year 2007. Total enplaned passengers at the Airport have grown from 453,253 in calendar year 1992 to 527,231 in calendar year 2007, representing an average annual growth rate of 1.0% which was less than the rate experienced in the U.S. as a whole during the same time period (3.2%). Calendar year-to-date enplanements through September 2008 (378,141) have decreased by 3.7% over the same period in 2007 (392,729). Based on an annualization of nine months of actual data, NAI has estimated calendar year 2008 enplanements to be 504,188, which represents a 4.4% decrease over calendar year 2007.

<b>TABLE IV-2</b>				
<b>BLUE GRASS AIRPORT 2008 BONDS</b>				
<b>HISTORICAL PASSENGER ENPLANEMENTS BLUE GRASS AIRPORT AND THE UNITED STATES</b>				
Calendar Years	Blue Grass Airport		United States	
	Enplanements	% Change	Domestic Enpls (000)	% Change
1992	453,253		429,200	
1993	447,439	-1.3%	470,400	9.6%
1994	415,369	-7.2%	511,300	8.7%
1995	433,188	4.3%	531,100	3.9%
1996	482,489	11.4%	558,100	5.1%
1997	543,840	12.7%	578,300	3.6%
1998	541,636	-0.4%	590,400	2.1%
1999	520,444	-3.9%	610,900	3.5%
2000	507,923	-2.4%	641,200	5.0%
2001	439,857	-13.4%	625,800	-2.4%
2002	486,852	10.7%	575,100	-8.1%
2003	579,135	19.0%	587,800	2.2%
2004	582,188	0.5%	628,500	6.9%
2005	545,394	-6.3%	669,400	6.5%
2006	513,164	-5.9%	668,400	-0.1%
2007	527,231	2.7%	689,400	3.1%
Average Annual % Change:				
1992-2007	1.0%		3.2%	
1999-2007	0.2%		1.5%	
2002-2007	1.6%		3.7%	
Source: Airport Enplanements: Lexington-Fayette Urban County Airport Board			October 23, 2008	
United States Enplanements: FAA Aerospace Forecasts			CA...tb2_3&10.xls	
Prepared by Newton & Associates, Inc.				

## 1. Historical Passenger Enplanements and Airline Market Share

**Table IV-3** depicts passenger enplanements and market share for each scheduled airline serving the Airport during the Study Period. Delta's enplanements at the Airport have declined at an average annual rate of 25.1% over the Study Period. However, combined with its code-share regional airlines (d/b/a The Delta Connection), Delta enplaned 43.8% of the Airport's enplaned passengers in Fiscal Year 2008. Delta and its regional affiliates' total market share of enplaned passengers at the Airport has declined from 56.9% in Fiscal Year 2004 to 43.8% in Fiscal Year 2008. Northwest Airlines and its affiliates had the next highest market share of enplanements at the Airport in FY 2008, enplaning 14.7% of the total enplanements. The affiliate airlines d/b/a US Airways Express and United Express, experienced the highest average annual growth rate in market share over the Study Period, increasing at 4.0% and 4.1%, respectively.

As shown on Table IV-3, the total number of enplaned passengers at the Airport declined each year from Fiscal Year 2004 through Fiscal Year 2008. The most noticeable decline occurred between Fiscal Years 2004 and 2005, a reduction in the number of enplaned passengers of 8.3%. The general state of the local and national economies and shifting in airline fare strategies at the Airport and competing airports (SDF, CVG) are possible factors in the reduction in the number of enplaned passengers at the Airport. The factors affecting air traffic will be more thoroughly discussed in this Section IV, Factors Affecting Future Air Traffic.

**TABLE IV-3**  
**BLUE GRASS AIRPORT**  
**2008 BONDS**  
**SCHEDULED PASSENGER ENPLANEMENTS**

Scheduled Airline	FY 2004		FY 2005		FY 2006		FY 2007		FY 2008		Average Annual Growth
	Passenger Enpls	Market Share									
<b>Delta Air Lines &amp; Affiliates:</b>											
Delta	134,054	22.1%	128,073	23.0%	85,081	16.1%	41,474	8.0%	42,190	8.2%	-25.1%
Atlantic Coast Airlines /1	20,332	3.3%	1,678	0.3%	0	0.0%	0	0.0%	0	0.0%	-100.0%
Atlantic Southeast /1	98,444	16.2%	76,624	13.8%	36,355	6.9%	32,405	6.3%	44,547	8.7%	-18.0%
Chautauqua /1	0	0.0%	9,564	1.7%	21,129	4.0%	8,948	1.7%	8,146	1.6%	N/A
Comair /1	93,059	15.3%	102,558	18.4%	97,353	18.4%	101,736	19.7%	100,640	19.5%	2.0%
Freedom /1	0	0.0%			5,685	1.1%	42,044	8.2%	30,078	5.8%	N/A
<b>Total Delta &amp; Affiliates</b>	<b>345,889</b>	<b>56.9%</b>	<b>318,497</b>	<b>57.2%</b>	<b>245,603</b>	<b>46.4%</b>	<b>226,607</b>	<b>43.9%</b>	<b>225,601</b>	<b>43.8%</b>	<b>-10.1%</b>
<b>US Airways &amp; Affiliates:</b>											
Air Wisconsin /2	0	0.0%	0	0.0%	401	0.1%	0	0.0%	5,801	1.1%	N/A
Mesa /2	0	0.0%	27,955	5.0%	35,505	6.7%	0	0.0%	0	0.0%	N/A
Chautauqua /2	0	0.0%	1,190	0.2%	0	0.0%	0	0.0%	0	0.0%	N/A
Piedmont /2	28,796	4.7%	16,653	3.0%	0	0.0%	0	0.0%	773	0.2%	-59.5%
PSA /2	4,552	0.7%	1,794	0.3%	13,348	2.5%	57,721	11.2%	60,273	11.7%	90.8%
Trans States /2	0	0.0%	52	0.0%	0	0.0%	0	0.0%	0	0.0%	N/A
Shuttle America /2	23,852	3.9%	3,707	0.7%	0	0.0%	0	0.0%	0	0.0%	-100.0%
<b>Total US &amp; Affiliates</b>	<b>57,200</b>	<b>9.4%</b>	<b>51,351</b>	<b>9.2%</b>	<b>49,254</b>	<b>9.3%</b>	<b>57,721</b>	<b>11.2%</b>	<b>66,847</b>	<b>13.0%</b>	<b>4.0%</b>
<b>Northwest Airlines &amp; Affiliates:</b>											
Northwest Airlines	21,416	3.5%	41,573	7.5%	6,955	1.3%	0	0.0%	0	0.0%	-100.0%
Pinnacle (Express I) /3	22,432	3.7%	25,204	4.5%	49,945	9.4%	54,377	10.5%	59,088	11.5%	27.4%
Mesaba /3	4,189	0.7%	14,402	2.6%	21,627	4.1%	19,242	3.7%	16,670	3.2%	41.2%
Mesaba (NW Airlink) /3	43,554	7.2%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	-100.0%
<b>Total Northwest &amp; Affiliates</b>	<b>91,591</b>	<b>15.1%</b>	<b>81,179</b>	<b>14.6%</b>	<b>78,527</b>	<b>14.8%</b>	<b>73,619</b>	<b>14.3%</b>	<b>75,758</b>	<b>14.7%</b>	<b>-4.6%</b>
<b>American Airlines &amp; Affiliates</b>											
American Eagle /4	0	0.0%	9,529	1.7%	59,700	11.3%	60,853	11.8%	52,958	10.3%	N/A
<b>Total American &amp; Affiliates</b>	<b>0</b>	<b>0.0%</b>	<b>9,529</b>	<b>1.7%</b>	<b>59,700</b>	<b>11.3%</b>	<b>60,853</b>	<b>11.8%</b>	<b>52,958</b>	<b>10.3%</b>	<b>N/A</b>
<b>United Airlines &amp; Affiliates:</b>											
Air Wisconsin /5	5,867	1.0%	21,418	3.8%	10,242	1.9%	0	0.0%	0	0.0%	-100.0%
Sky West /5	2,552	0.4%	28,012	5.0%	44,699	8.4%	54,573	10.6%	52,144	10.1%	112.6%
Atlantic Coast Airlines /5	35,928	5.9%	178	0.0%	0	0.0%	0	0.0%	0	0.0%	-100.0%
<b>Total United &amp; Affiliates</b>	<b>44,347</b>	<b>7.3%</b>	<b>49,608</b>	<b>8.9%</b>	<b>54,941</b>	<b>10.4%</b>	<b>54,573</b>	<b>10.6%</b>	<b>52,144</b>	<b>10.1%</b>	<b>4.1%</b>
<b>Continental Airlines &amp; Affiliates</b>											
ExpressJet /6	43,648	7.2%	46,859	8.4%	41,741	7.9%	42,379	8.2%	37,794	7.3%	-3.5%
Commutair /6	0	0.0%	0	0.0%	0	0.0%	0	0.0%	3,761	0.7%	N/A
<b>Total Continental &amp; Affiliate</b>	<b>43,648</b>	<b>7.2%</b>	<b>46,859</b>	<b>8.4%</b>	<b>41,741</b>	<b>7.9%</b>	<b>42,379</b>	<b>8.2%</b>	<b>41,555</b>	<b>8.1%</b>	<b>-1.2%</b>
Chicago Express /7	24,918	4.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	-100.0%
<b>Total</b>	<b>607,593</b>	<b>100.0%</b>	<b>557,023</b>	<b>100.0%</b>	<b>529,766</b>	<b>100.0%</b>	<b>515,752</b>	<b>100.0%</b>	<b>514,863</b>	<b>100.0%</b>	<b>-4.1%</b>
Average Annual Growth Rate - Per Year			-8.3%		-4.9%		-2.6%		-0.2%		
/1 d/b/a Delta Connection											
/2 d/b/a US Airways Express											
/3 d/b/a Northwest Airlink											
/4 d/b/a American Connection											
/5 d/b/a United Express											
/6 d/b/a Continental Express											
/7 d/b/a ATA Connection											

Source: Lexington-Fayette Urban County Airport Board  
 Compiled by Newton & Associates, Inc.

October 23, 2008  
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## 2. Origin and Destination Markets

**Table IV-4** depicts the Airport's top 25 domestic markets from FY 2007 and their respective distances from the Airport. Of these markets, seven are long haul markets (1,000 or more miles), 14 are medium haul markets (500 - 999 miles), and the remaining four are short haul markets (less than 500 miles). The Chicago, Illinois metropolitan area is the largest origin and destination market to/from the Airport, representing approximately 6.9% of all origin and destination passenger activity from July 2006 through June 2007.

Non-stop scheduled airline service is currently provided to/from seven of the Airport's top ten origin and destination markets. Furthermore, eight of the Airport's top 25 markets are currently served by non-stop scheduled airline service. The estimates of origin and destination passengers have been extrapolated from a 10.0% sample of ticket sales of all airports providing scheduled commercial service in the United States during this period.<sup>10</sup>

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<sup>10</sup> Fiscal Year 2007 from the United States Department of Transportation ODIA Database – 10.0% ticket survey via Database Products.

**TABLE IV-4**

**BLUE GRASS AIRPORT  
2008 BONDS**

**TOP ORIGIN AND DESTINATION MARKETS**

<u>Market</u>	<u>FY 2007 Enplanements</u>	<u>Percent of Total</u>	<u>Distance from Airport (Miles)</u>
1 Chicago, IL	29,770	6.9%	335
2 Los Angeles, CA	24,140	5.6%	2,130
3 Washington, DC Area	20,000	4.7%	562
4 Orlando, FL	18,570	4.3%	823
5 Dallas, TX	17,680	4.1%	989
6 Atlanta, GA	17,590	4.1%	313
7 New York Area	15,930	3.7%	747
8 Detroit, MI	15,090	3.5%	302
9 Tampa, FL	12,350	2.9%	836
10 Houston, TX	11,830	2.8%	922
11 Las Vegas, NV	11,560	2.7%	1,892
12 South Florida	10,290	2.4%	982
13 Philadelphia, PA	9,300	2.2%	643
14 Bay Area	8,360	1.9%	2,263
15 Denver, CO	7,610	1.8%	1,292
16 San Antonio, TX	7,570	1.8%	988
17 Charlotte, NC	7,500	1.7%	313
18 Phoenix, AZ	7,130	1.7%	1,767
19 Minneapolis, MN	6,440	1.5%	763
20 Austin, TX	6,420	1.5%	1,041
21 Fort Myers, FL	6,290	1.5%	894
22 New Orleans, LA	5,700	1.3%	769
23 Boston, MA	5,180	1.2%	901
24 Palm Beach, FL	5,130	1.2%	825
25 Seattle, WA	4,570	1.1%	2,211
Sub-total Top 25 Markets	292,000	68.0%	
Airport Total (Survey)	429,480	100.0%	
Actual Airport Total	486,852		

Source: Database Products  
Compiled by Newton & Associates, Inc.

October 23, 2008  
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## D. AIRCRAFT OPERATIONS

An aircraft operation is defined as an aircraft take-off or landing. **Table IV-5** depicts aircraft operations at the Airport during the Study Period. As shown on Table IV-5, total aircraft operations have decreased from 91,283 in Fiscal Year 2004 to 73,550 in Fiscal Year 2008, representing an average decrease of 5.3%. The primary factor resulting in a decrease in the number of annual aircraft operations is the decrease in GA operations which decreased from 52,551 in Fiscal Year 2004 to 37,392 in Fiscal Year 2008 (-8.2% per annum).

Comparatively, scheduled airline operations remained relatively constant over the Study Period, decreasing from 30,385 in Fiscal Year 2004 to 27,975 in Fiscal Year 2008, a decline in the average annual rate of 2.0%. Comair had the largest share of aircraft operations among scheduled passenger airlines at the Airport in Fiscal Year 2008. Delta, combined with its regional affiliate airlines, accounted for 37.4% of the Airport commercial airline operations in 2008.

**TABLE IV-5**  
**BLUE GRASS AIRPORT**  
**2008 BONDS**  
**AIRCRAFT OPERATIONS**

Airline	FY 2004		FY 2005		FY 2006		FY 2007		FY 2008		Average Annual Growth
	Aircraft Ops	Airline Market Share									
<b>Delta Air Lines &amp; Affiliates:</b>											
Delta	2,892	9.5%	3,007	10.1%	2,245	7.5%	820	3.0%	720	2.6%	-29.4%
Atlantic Coast Airlines	1,412	4.6%	116	0.4%	0	0.0%	0	0.0%	0	0.0%	-100.0%
Atlantic Southeast	4,620	15.2%	3,814	12.8%	1,826	6.1%	1,536	5.5%	2,018	7.2%	-18.7%
Chautauqua	0	0.0%	616	2.1%	1,349	4.5%	522	1.9%	698	2.5%	NA
Skywest	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	NA
Comair	5,255	17.3%	6,314	21.2%	6,214	20.6%	5,608	20.2%	5,362	19.2%	0.5%
Freedom	0	0.0%	0	0.0%	278	0.9%	2,280	8.2%	1,655	5.9%	NA
<b>Total Delta &amp; Affiliates</b>	<b>14,179</b>	<b>46.7%</b>	<b>13,867</b>	<b>46.5%</b>	<b>11,912</b>	<b>39.6%</b>	<b>10,766</b>	<b>38.8%</b>	<b>10,453</b>	<b>37.4%</b>	<b>-7.3%</b>
<b>US Airways &amp; Affiliates:</b>											
Chautauqua	2	0.0%	102	0.3%	0	0.0%	0	0.0%	0	0.0%	-100.0%
Air Wisconsin	0	0.0%	0	0.0%	22	0.1%	0	0.0%	268	1.0%	NA
Mesa	2	0.0%	1,912	6.4%	2,574	8.6%	0	0.0%	2	0.0%	0.0%
Piedmont	0	0.0%	1,538	5.2%	0	0.0%	0	0.0%	0	0.0%	NA
PSA	380	1.3%	144	0.5%	848	2.8%	3,324	12.0%	3,620	12.9%	75.7%
Shuttle America	2,602	8.6%	432	1.4%	0	0.0%	0	0.0%	0	0.0%	-100.0%
Trans States	0	0.0%	8	0.0%	0	0.0%	0	0.0%	0	0.0%	NA
<b>Total US Airways &amp; Affiliates</b>	<b>2,986</b>	<b>9.8%</b>	<b>4,136</b>	<b>13.9%</b>	<b>3,444</b>	<b>11.4%</b>	<b>3,324</b>	<b>12.0%</b>	<b>3,890</b>	<b>13.9%</b>	<b>6.8%</b>
<b>Northwest Airlines &amp; Affiliates:</b>											
Northwest Airlines	514	1.7%	2,138	7.2%	400	1.3%	0	0.0%	0	0.0%	-100.0%
Pinnacle (Express I)	1,461	4.8%	1,952	6.5%	3,060	10.2%	3,034	10.9%	3,342	11.9%	23.0%
Mesaba (NW Airlink)	3,916	12.9%	1,406	4.7%	1,936	6.4%	1,618	5.8%	1,418	5.1%	-22.4%
<b>Total Northwest &amp; Affiliates</b>	<b>5,891</b>	<b>19.4%</b>	<b>5,496</b>	<b>18.4%</b>	<b>5,396</b>	<b>17.9%</b>	<b>4,652</b>	<b>16.8%</b>	<b>4,760</b>	<b>17.0%</b>	<b>-5.2%</b>
<b>American Airlines &amp; Affiliates:</b>											
American Eagle	0	0.0%	602	2.0%	3,584	11.9%	3,520	12.7%	3,065	11.0%	NA
<b>Total American &amp; Affiliates</b>	<b>0</b>	<b>0.0%</b>	<b>602</b>	<b>2.0%</b>	<b>3,584</b>	<b>11.9%</b>	<b>3,520</b>	<b>12.7%</b>	<b>3,065</b>	<b>11.0%</b>	<b>N/A</b>
<b>United Airlines &amp; Affiliates:</b>											
Atlantic Coast Airlines	1,834	6.0%	10	0.0%	0	0.0%	0	0.0%	0	0.0%	-100.0%
Air Wisconsin	54	0.2%	1,254	4.2%	580	1.9%	0	0.0%	0	0.0%	-100.0%
Mesa	0	0.0%	0	0.0%	2	0.0%	0	0.0%	0	0.0%	NA
Sky West	112	0.4%	1,524	5.1%	2,161	7.2%	2,532	9.1%	2,642	9.4%	120.4%
<b>Total United &amp; Affiliates</b>	<b>2,000</b>	<b>6.6%</b>	<b>2,788</b>	<b>9.3%</b>	<b>2,743</b>	<b>9.1%</b>	<b>2,532</b>	<b>9.1%</b>	<b>2,642</b>	<b>9.4%</b>	<b>7.2%</b>
<b>Continental Airlines &amp; Affiliates:</b>											
ExpressJet	2,778	9.1%	2,948	9.9%	3,014	10.0%	2,972	10.7%	2,029	7.3%	-7.6%
Commutair	0	0.0%	0	0.0%	0	0.0%	0	0.0%	1,136	4.1%	NA
<b>Total Continental &amp; Affiliates</b>	<b>2,778</b>	<b>9.1%</b>	<b>2,948</b>	<b>9.9%</b>	<b>3,014</b>	<b>10.0%</b>	<b>2,972</b>	<b>10.7%</b>	<b>3,165</b>	<b>11.3%</b>	<b>3.3%</b>
Chicago Express <sup>1</sup>	2,551	8.4%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	-100.0%
<b>Airline Total</b>	<b>30,385</b>	<b>100.0%</b>	<b>29,837</b>	<b>100.0%</b>	<b>30,093</b>	<b>100.0%</b>	<b>27,766</b>	<b>100.0%</b>	<b>27,975</b>	<b>100.0%</b>	<b>-2.0%</b>
Charter/Air Taxi	7,138		7,252		7,552		8,074		6,905		-0.8%
Military	1,209		1,256		1,636		1,358		1,278		1.4%
General Aviation	52,551		47,628		42,280		43,495		37,392		-8.2%
<b>Airport Total</b>	<b>91,283</b>		<b>85,973</b>		<b>81,561</b>		<b>80,693</b>		<b>73,550</b>		<b>-5.3%</b>

<sup>1</sup> d/b/a ATA Connection

## E. AIRLINE LANDED WEIGHTS

Airline aircraft landed weights are the unit of measure by which an airport charges airfield landing fees and thus generates airport revenues. **Table IV-6** depicts the historical airline landed weight by airline over the Study Period. Comair was the largest user of the Airfield in terms of aircraft landed weight with approximately 19.5% of the landed weight among all airlines in Fiscal Year 2008. As shown on Table IV-6, historical airline landed weights have declined from 761,786 thousand pound units in Fiscal Year 2004 to 656,260 thousand pound units in Fiscal Year 2008, representing an average annual decline of 3.7% over the Study Period. The decline in passenger airline landed weight at the Airport is primarily attributable to the airline industry trend referred to as “aircraft rationalization” where major airlines reallocate their wide/narrow-body jet aircraft capacity from small/medium density markets to high density/high yield markets and replace them with lower cost, lower capacity code-sharing regional airline service. This trend is discussed more thoroughly in Section IV, Factors Affecting Future Air Traffic.

TABLE IV-6

**BLUE GRASS AIRPORT  
2008 BONDS**

**SCHEDULED AIRLINE LANDED WEIGHT (1,000 lb Units)**

Airline	FY 2004		FY 2005		FY 2006		FY 2007		FY 2008		Average Annual Growth Rate
	Aircraft Land Wt	Airline Market Share									
<b>Delta Air Lines &amp; Affiliates:</b>											
Delta	169,231	22.2%	187,769	23.1%	136,167	17.9%	53,227	8.1%	47,923	7.3%	-27.1%
Atlantic Coast Airlines	22,250	2.9%	1,838	0.2%	0	0.0%	0	0.0%	0	0.0%	-100.0%
Atlantic Southeast	108,609	14.3%	96,020	11.8%	44,656	5.9%	36,568	5.6%	49,107	7.5%	-18.0%
Chautauqua	0	0.0%	13,103	1.6%	28,678	3.8%	11,106	1.7%	14,764	2.2%	NA
Skywest	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	NA
Comair	125,136	16.4%	160,352	19.7%	147,955	19.5%	135,900	20.7%	127,692	19.5%	0.5%
Freedom	0	0.0%	0	0.0%	5,914	0.8%	48,506	7.4%	35,230	5.4%	NA
<b>Total Delta &amp; Affiliates</b>	<b>425,226</b>	<b>55.8%</b>	<b>459,082</b>	<b>56.4%</b>	<b>363,370</b>	<b>47.8%</b>	<b>285,307</b>	<b>43.4%</b>	<b>274,716</b>	<b>41.9%</b>	<b>-10.3%</b>
<b>US Airways &amp; Affiliates:</b>											
Chautauqua	88	0.0%	2,169	0.3%	0	0.0%	0	0.0%	0	0.0%	-100.0%
Air Wisconsin	0	0.0%	0	0.0%	517	0.1%	0	0.0%	6,298	1.0%	NA
Mesa	42	0.0%	40,691	5.0%	55,090	7.3%	0	0.0%	47	0.0%	2.9%
Piedmont	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	NA
PSA	5,557	0.7%	3,384	0.4%	19,928	2.6%	78,114	11.9%	85,950	13.1%	98.3%
Shuttle America	35,384	4.6%	5,874	0.7%	0	0.0%	0	0.0%	0	0.0%	-100.0%
Trans States	0	0.0%	169	0.0%	0	0.0%	0	0.0%	0	0.0%	NA
<b>Total US Airways &amp; Affiliates</b>	<b>41,071</b>	<b>5.4%</b>	<b>52,287</b>	<b>6.4%</b>	<b>75,535</b>	<b>9.9%</b>	<b>78,114</b>	<b>11.9%</b>	<b>92,295</b>	<b>14.1%</b>	<b>22.4%</b>
<b>Northwest Airlines &amp; Affiliates:</b>											
Northwest	21,779	2.9%	96,161	11.8%	18,217	2.4%	0	0.0%	0	0.0%	-100.0%
Pinnacle (Express I)	34,310	4.5%	45,872	5.6%	71,910	9.5%	71,299	10.8%	78,537	12.0%	23.0%
Mesaba (NW Airlink)	92,138	12.1%	20,026	2.5%	27,575	3.6%	22,774	3.5%	20,209	3.1%	-31.6%
<b>Total Northwest &amp; Affiliates</b>	<b>148,227</b>	<b>19.5%</b>	<b>162,059</b>	<b>19.9%</b>	<b>117,702</b>	<b>15.5%</b>	<b>94,073</b>	<b>14.3%</b>	<b>98,746</b>	<b>15.0%</b>	<b>-9.7%</b>
<b>American Airlines/TWA &amp; Affiliates:</b>											
American Eagle	0	0.0%	12,759	1.6%	74,590	9.8%	73,207	11.1%	63,063	9.6%	NA
<b>Total American &amp; Affiliates</b>	<b>0</b>	<b>0.0%</b>	<b>12,759</b>	<b>1.6%</b>	<b>74,590</b>	<b>9.8%</b>	<b>73,207</b>	<b>11.1%</b>	<b>63,063</b>	<b>9.6%</b>	<b>N/A</b>
<b>United &amp; Affiliates:</b>											
Atlantic Coast Airlines	43,271	5.7%	235	0.0%	0	0.0%	0	0.0%	0	0.0%	N/A
Air Wisconsin	6,674	0.9%	29,489	3.6%	13,630	1.8%	0	0.0%	0	0.0%	-100.0%
Mesa	0	0.0%	0	0.0%	47	0.0%	0	0.0%	0	0.0%	NA
Sky West	2,632	0.3%	35,814	4.4%	53,197	7.0%	64,293	9.8%	64,692	9.9%	122.7%
<b>Total United &amp; Affiliates</b>	<b>52,577</b>	<b>6.9%</b>	<b>65,538</b>	<b>8.1%</b>	<b>66,874</b>	<b>8.8%</b>	<b>64,293</b>	<b>9.8%</b>	<b>64,692</b>	<b>9.9%</b>	<b>5.3%</b>
<b>Continental Airlines &amp; Affiliates</b>											
ExpressJet	58,087	7.6%	62,035	7.6%	61,783	8.1%	62,534	9.5%	43,115	6.6%	-7.2%
Commutair	0	0.0%	0	0.0%	0	0.0%	0	0.0%	19,633	3.0%	NA
<b>Total Continental &amp; Affiliates</b>	<b>58,087</b>	<b>7.6%</b>	<b>62,035</b>	<b>7.6%</b>	<b>61,783</b>	<b>8.1%</b>	<b>62,534</b>	<b>9.5%</b>	<b>62,748</b>	<b>9.6%</b>	<b>1.9%</b>
Chicago Express <sup>1</sup>	36,598	4.8%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	-100.0%
<b>Total</b>	<b>761,786</b>	<b>100.0%</b>	<b>813,760</b>	<b>100.0%</b>	<b>759,854</b>	<b>100.0%</b>	<b>657,528</b>	<b>100.0%</b>	<b>656,260</b>	<b>100.0%</b>	<b>-3.7%</b>

<sup>1</sup> d/b/a ATA Connection

Source: Lexington-Fayette Urban County Airport Board  
Compiled by Newton & Associates, Inc.

October 23, 2008  
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## F. FACTORS AFFECTING FUTURE AIR TRAFFIC

The continued economic viability of the Airport depends principally upon the future demand for air service at the Airport. In addition to the demographic and socioeconomic conditions of the Air Service Area discussed in Section III of this Report, there are several factors that could influence future levels of passenger traffic at the Airport. These factors include:

- National economic conditions;
- State of the airline industry;
- Airline consolidations;
- Capacity of the National Air Transportation System;
- Airport capacity;
- Role of low cost carriers;
- Role of regional carriers;
- Availability and cost of insurance;
- Aviation taxes and security costs; and
- Existence and location of competing airports.

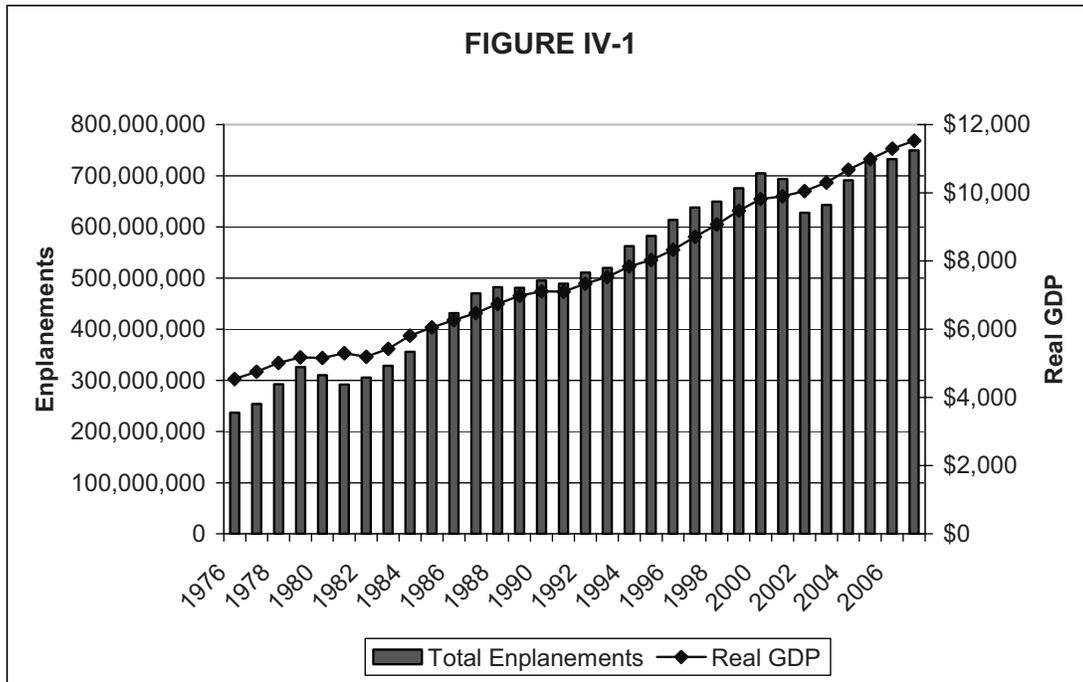
### 1. National Economic Conditions<sup>11</sup>

The growth in passenger demand for air service is dependent in part upon the stability and growth of the national economy. The strength of the national economy is commonly measured in terms of Gross Domestic Product<sup>12</sup> (“GDP”) which is generally defined as the sum of final goods and services produced in one year by a country or other geographical area. An examination of historical and forecast GDP is germane because of its relationship with airline passenger traffic. As shown in **Figure IV-1**, domestic enplanements have generally followed the historical trend of GDP in the United States.

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<sup>11</sup> Because offices and agencies of the federal government are the source for economic data discussed in this section of the Report, annual economic data is presented on a federal fiscal year basis (October – September).

<sup>12</sup> All GDP data are chain-weighted estimates with a base year of 2000 unless described otherwise.



National Economic Outlook

According to the Office of Management and Budget<sup>13</sup> (“OMB”) Economic Forecasts, the rate of growth in the GDP was 3.6% in calendar year (“CY”) 2004 and the growth rate decreased in subsequent CYs 2005, 2006 and 2007 to 2.9%, 2.8% and 2.0%, respectively. The growth rate in the GDP increased in the first two quarters of CY 2008 over the previous quarter; however, the GDP decreased at an average annual rate of 0.3% in the third quarter of CY 2008 (compared to the second quarter of 2008).

The cost of energy, trouble in the housing market, credit crisis and other economic factors may continue to provide downward pressure on the GDP. Overall, the OMB estimates that the GDP is expected to remain moderate with growth rates declining slightly from 2.2% in 2008 and to remain between 2.2% and 2.0% per year throughout the Forecast Period.

The OMB estimates that consumer price increases measured by the CPI are expected to increase by 3.8% in CY 2008, up substantially from a 2.9% increase in 2007. The increase in inflation in CY 2008 is primarily attributable to the increase in energy prices. The CPI is estimated to increase by 2.3% each year for the balance of the Forecast Period.

In addition to the OMB, the Congressional Budget Office<sup>14</sup> (“CBO”) regularly prepares economic and federal budget forecasts and projections. The CBO estimates are reported on a

<sup>13</sup> The OMB is an office of the Executive Office of the President of the United States and is intended to assist the Executive Office in economic and budgetary projections and forecasts. Data prepared by the OMB are used by the FAA in its annual forecasts which are referred to in this Report.

<sup>14</sup> The CBO was established by Congress in 1975 and is intended to provide Congress with objective, timely, non-partisan analyses needed for economic and budget decisions.

calendar year basis. The CBO estimates that real GDP will increase in 2009 and grow at an average annual rate of approximately 3.3% over the Forecast Period.<sup>15</sup>

### The Airline Industry and the National Economy

U.S. airline revenue traditionally has been between 0.90% and 0.95% of U.S. GDP from CY 1980 through CY 2000 according to the ATA. However, passenger airline revenue, as a percentage of GDP, has consistently dropped since CY 2001 to an estimated 0.77%<sup>16</sup> in CY 2008. This change may indicate that there are new considerations which may be impacting the airline industry and the future of air traffic at the Airport and in the United States. Some of these factors are examined in the following sections

## **2. State of the Airline Industry**

The U.S. economy began a general slowdown in late 2000 and subsequently entered a recession in March of 2001. The recession caused a decrease in demand for air travel, especially among high yield business travelers. Prior to the terrorist attacks on the United States on September 11, 2001 (“9/11”), the airline industry was expected to experience a loss of up to \$3.5 billion in 2001, its first financial loss since 1992, according to the ATA.

The state of the airline industry worsened after the events of 9/11. The net loss to the airline industry resulting from the decrease in demand for air service exceeded \$7.7 billion in 2001. As a result, several airlines filed for Chapter 11 bankruptcy protection, with US Airways being the first to file for Chapter 11 bankruptcy protection on August 11, 2002 and again on September 12, 2004. Subsequent to that, seven other U.S. airlines filed for Chapter 11 bankruptcy protection between 2003 and 2005 (Hawaiian, ATA, Aloha, Delta, Northwest, Mesaba and Independence Air). The air carriers that emerged from bankruptcy have undergone significant restructuring including reduced operating costs from rejecting union labor agreements and renegotiating vendor contracts and pension, lease and debt obligations.

Over the last several years, economic fundamentals in the U.S. and worldwide caused an increase in aviation demand. Real GDP growth averaged 2.8% from 2004 to 2007 and more than three million new jobs were created during this time period. From 2002 through 2005, the airline industry continued to operate at a net loss but returned to profitability in 2006 and 2007. The return to profitability was a result of increased demand for air service, legacy carriers improving their more profitable international route structure and low air fares as legacy carriers competed for market share with low cost carriers (“LCCs”).

Oil prices influence national and worldwide economic conditions, the demand for air travel and airline financial results. Aviation fuel prices are correlated to the price of oil and increased from \$1.16 per gallon in 2004 to \$3.38 per gallon through July 2008, representing an average annual growth rate of 30.7%.<sup>17</sup> At the projected level of jet fuel consumption in 2008, every penny paid for a gallon of jet fuel costs the U.S. airline industry \$180 million annually.

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<sup>15</sup> CBO Economic Projections for Calendar Years 2008-2018.

<sup>16</sup> “Commercial Aviation: The Brakes Are On”, Air Transport Association website, November 5, 2008.

<sup>17</sup> Average price paid excluding taxes, into-plane fees, pipeline tariffs and hedging costs. Air Transport Association, Energy Information Administration and Department of Transportation.

The cost of aviation fuel recently surpassed labor as the largest category of operating cost for commercial airlines, representing approximately 29.4% of total airline operating cost during the first quarter of 2008. Comparatively, fuel represented approximately 9.7% of total operating expense in 1998 and 11.4% in 2002. As a result, the portion of an airline ticket needed to pay for fuel has risen from 15% in 2000 to a projected 40% in 2008 – and it continues to climb according to the ATA.

According to the FAA, oil prices in 2007 ranged between \$50 and \$65 per barrel and similar to the prior year prices moved up to \$78 per barrel in mid-August. However, prices did not move back as they had in the prior two years after the peak summer season, but continued to rise, breaking \$80 per barrel in mid-September and \$90 per barrel in late-October. The price of a barrel of oil approached \$150 in the summer of 2008 but has decreased since that time.

The price of oil is primarily subject to worldwide demand for oil, the strength of the U.S. dollar and market speculation. According to ATA, the market position in oil is 13.6 times higher than the global demand for oil and may add \$25 to \$30 to the cost of a barrel of oil. The airlines are not able to affect the first two factors related to the price of oil mentioned above, but the CEO's of the U.S. airlines sent a letter to Congress in July 2008, requesting more oversight in the oil commodities market to reduce the inflated cost of oil as a result of speculation in oil market trading. As of the date hereof, Congress has not made any attempt to address this issue.

Since the end of CY 2007, 11 U.S. airlines (MAXjet, Big Sky, Aloha, ATA, Skybus, Eos, Champion, Air Midwest, Vintage Props & Jets, JEB and Gemini Air Cargo) have shut down and Sun Country and Frontier Airlines filed for Chapter 11 bankruptcy protection at least partially as a result of the increase in fuel costs.

According to the Business Travel Coalition and Airline Forecasts, LLC, industry air fares will need to increase by at least 20% to offset recent increases in the cost of aviation fuel. In order to accommodate such an increase in air fares, the airline industry will need to reduce seat capacity by an estimated 15% to 20%.<sup>18</sup> Airlines are also attempting to mitigate the unprecedented high cost of fuel by employment reduction, increasing revenues by charging for checked luggage, preferred coach seating assignment, soft drinks, pillows, etc., and fuel conservation through weight reduction and technological means.

The airlines will implement the majority of announced aircraft capacity reduction in the fall of 2008. According to an analysis of the Official Airline Guide airline schedule data for November 2008 prepared and published by USA TODAY, domestic airline capacity will decrease industry-wide by 10.4%,<sup>19</sup> based on the number of average daily seats per departure to domestic airports. USA TODAY focused its analysis on domestic routes because that is where the airlines are making their deepest cuts. Notwithstanding this industry-wide capacity reduction, according to this analysis, capacity at the Airport is projected to increase by 2.1% in November 2008 compared to November 2007.

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<sup>18</sup> *Oil Prices and the Looming US Industry Catastrophe: A Hole in the Transportation Grid*, Business Travel Coalition and Airline Forecasts, LLC, June 13, 2008.

<sup>19</sup> *Airline Schedule Changes at 300 Airports*, USA Today website, August 21, 2008.

The commercial airline industry has struggled to find sustained profitability over its long history and current conditions are severe – 11 airlines have ceased operations and two have filed for bankruptcy since December 2007. As of October 1, 2008, all of the U.S. major airlines, with the exception of Southwest Airlines, have speculative grade credit ratings indicating a material risk of bankruptcy. The airlines must find a way to deal with the unprecedented high cost of fuel to avoid negative financial implications. Nevertheless, NAI believes the benefits of the national air transportation system is of such importance to the United States economy that capital will continue to flow into the airline industry, the public and private sectors will continue to make substantial use of commercial passenger transportation, and airlines and passengers will continue to use the nation’s airports, including the Airport, in substantial numbers.

### **3. Airline Consolidations**

Airline mergers are difficult to accomplish because the obstacles of strong unions, operational cultures and anti-trust oversight can be difficult to overcome. LCCs are not considered to be likely merger candidates.

Legacy carriers are more likely to merge. In April 2008, Delta and Northwest announced their intention to merge. The pilots of both airlines have approved a collective bargaining agreement which will help the carriers to move forward with their plans and the merger was approved by the Department of Justice on October 29, 2008. Both Delta and Northwest (and their regional/affiliate airlines) operate at the Airport. Their traffic at the Airport is largely origin and destination (“O&D”) so that merger would have a minimal impact on enplanements at the Airport. There has been speculation of other mergers between different legacy airlines but as of the date of this Report, none have come to fruition.

Many legacy U.S. airlines have formed alliances and code-sharing agreements to improve the number of total connections at their hub airport, expanding the number of available flights without significant investment requirements. Legacy airlines are increasing their alliance memberships in an effort of establishing a network that covers all destinations worldwide. Most recently, American Airlines and British Airways, for the third time, are seeking government permission to combine their trans-Atlantic flights with Iberia Airlines and others.<sup>20</sup> The first two attempts failed when they refused to give up hundreds of slots at London Heathrow Airport but anticipate that the “open skies” air service agreement that took effect in March 2008 will mitigate the slot reductions at Heathrow.

### **4. Capacity of National Air Transportation System**

Demands on the U.S. air traffic control system have in the past caused delays and operational restrictions that affected airline schedules and passenger traffic. Despite the lack of funding for the improvements required to continue to upgrade the national air transportation system, the FAA is gradually automating and enhancing the computer, radar and communications equipment of the air traffic control transportation system.

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<sup>20</sup> *American, British Airways Try Again on Trans-Atlantic Plan*, USA Today, August 15, 2008.

## **5. Airport Capacity**

The Airport's Airfield and Terminal capacity are anticipated to be sufficient to accommodate future growth in aircraft operations at the Airport over the Forecast Period.

## **6. Role of Low Cost Carriers**

The legacy carriers continue to remain under extreme pressure to lower their unit costs to narrow the gap between them and the LCCs. As a result, the LCCs have a much broader impact on pricing and often prevent the major carriers from implementing fare increases, which are needed to cover escalating fuel costs. While the major carriers have reduced their annualized mainline cost excluding fuel by 25%, or nearly \$20 billion, over the last five years, they remain plagued by the cost of fuel and their inability to recover these costs from their customers through higher air fares.

Although growth of the LCCs has slowed, they continued to expand in 2007, while the larger network carriers began to reduce capacity. Proven financial success, attractive profit margins on many routes and the poor financial condition of the larger network carriers have facilitated LCC expansion. Much of the expansion has taken place in longer-haul markets that had previously been served principally by the network carriers.

The continued expansion of LCCs and discounting by the network carriers to stimulate demand continue to contribute to downward pressure on yields. Domestic nominal yield per revenue passenger mile ("RPM") for the large air carriers fell from 14.03 cents in 2000 to an estimated 11.37 cents in 2005, prior to making a rebound in 2007 to 12.45 cents, representing an average annual decrease of 1.7% from 2000 to 2007. The yields over this same time period adjusted for inflation in 2007 dollars decreased 4.2%. The slowed growth of the LCCs and the capacity reduction from the legacy carriers, coupled with fare increases in 2008, have allowed the airline yield to increase since September 30, 2007. According to the ATA, nominal domestic yield per RPM increased from an average of 14.54 cents in CY 2007 to an average of 15.71 cents in July 2008, representing an 8.0% increase in the first six months of 2008.

## **7. Role of Regional Airlines**

Regional airlines typically operate smaller aircraft on routes that require less capacity than provided by the major airlines. According to the FAA, a regional airline flies a majority of its available seats using aircraft having 70 seats or less and provides regularly scheduled air service.

Regional airlines generally do not have independent route systems and commonly do not compete with the major airlines. Rather, regional airlines typically supplement major airline services by entering into contractual relationships with one or more major airlines to feed passengers into their respective connecting passenger hub airports and are paid a percentage of applicable ticket revenue or a fixed fee by the major airline in exchange for providing this service.

Four factors that have contributed to the expansion of the regional airline industry since deregulation of the airline industry in 1978 include: (i) development of code-sharing agreements with major airlines; (ii) the lower cost structure of the regional airlines; (iii) the transfer of low to medium density, short haul jet routes from major airlines to regional code-sharing partners (aircraft rationalization); and (iv) the introduction and expansion of aircraft commonly referred to as regional jets.

In an effort to increase efficiency and profitability, major airlines may be required to continue the rationalization of their respective aircraft fleets. Aircraft rationalization has resulted in an overall reduction of narrow-body jet service provided by major airlines to small and mid-size regions such as the Air Service Area and the corresponding expansion of the regional airline industry in the United States and at the Airport.

Consistent with the national economy and the aviation industry in general, the mid to late 1990s were marked by unprecedented levels of growth in the regional airline industry. This growth in the regional airline industry has continued through 2007, even with the 2001 recession and 9/11. The demand for air service provided by regional airlines is demonstrated by the growth in regional airline system-wide revenue passengers, which grew at an average annual rate of 10.2% from 2003 through 2007 according to information collected by the U.S. Department of Transportation.

Regional airline system-wide RPMs increased at an average annual rate of 15.7% over the same time period, which indicates an increase in regional airline average trip length. During this period, supply struggled to accommodate demand which was demonstrated by an increase in system-wide load factors, which increased from 64.7% in 2003 to an estimated 75.4% in 2007 according to the U.S. Department of Transportation.

While U.S. large commercial air carriers realized an operating loss margin of 1.1% and 5.2%, respectively in the first two quarters of 2008, regional airlines enjoyed an operating profit margin of 3.6% and 2.0% during the same time period.<sup>21</sup>

#### **a. Importance of the Regional Jet**

The introduction and expanded use of the aircraft type commonly referred to as the regional jet has had a positive impact on the demand for regional air service and regional airline load factors and profitability nationwide. Regional jet aircraft have seat capacities typically ranging from 50 to 90 seats, cruise at speeds of over 500 mph, and have a range of at least 800 miles, all significantly greater than earlier turboprop aircraft. The use of regional jets provides an airline with the opportunity to serve a smaller market with a jet aircraft which market would otherwise not be large enough to justify mainline jet aircraft service.

In addition, the expanded use of the regional jet has contributed to an increase in the frequency of flights offered at a given airport. Regional jets provide features similar to those offered on narrow-body jet aircraft operated by the major airlines and are generally recognized as preferable to turboprop aircraft by the traveling public. The utilization of the regional jet has allowed

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<sup>21</sup> Bureau of Transportation Statistics, Form 41, Schedule P1.2.

airline code-sharing systems to increase efficiency by reducing total capacity, reducing costs and increasing load factors in certain markets, thereby increasing financial performance and profitability.

In recent months, however, as the cost of aviation fuel has escalated in response to the price of crude oil, many airlines have found that the economies of the regional jet with oil at \$70 per barrel fade with oil at over \$100 per barrel. As a result, some airlines have canceled regional jet orders and parked portions of their regional jet fleet

### **b. Forecast of Regional Airline Activity<sup>22</sup>**

According to the FAA, demand for regional airline activity as measured by total system RPMs is estimated to grow from 72.0 billion RPMs in 2007 to 102.4 billion RPMs in 2013, representing an average annual growth rate of 6.0%. Similar to the expected growth in demand, regional airline seat capacity, as measured by ASMs, is expected to grow from 95.5 billion ASMs in 2007 to 133.2 billion ASMs in 2013, an average annual increase of 5.7%. The FAA expects the growth in regional aircraft demand to exceed the growth in capacity during the Forecast Period, resulting in an increase in the estimated load factor from 74.1% in 2006 to 76.4% in 2012. Constant revenue per passenger mile is estimated to increase from \$0.1992 in 2006 to \$0.2061 in 2012. If the airlines shift away from the use of regional jets as they seek to ameliorate high fuel prices, the FAA's forecast may not be realized. In this event, however, except for the across the board capacity reductions recently announced, passengers will be accommodated in larger aircraft and this shift in aircraft type should have no negative effect on passenger traffic.

### **8. Availability and Cost of Insurance**

In addition to the cost of aviation fuel, the impact of liability and war risk insurance on the airline industry's financial position has increased since 9/11. Following 9/11, liability insurance costs for U.S. airlines more than tripled and, according to the ATA, war risk insurance increased from a few cents per passenger to over \$2.00 per passenger in some cases. In late September 2001, the FAA began to provide third party war risk insurance to domestic airlines. The passage of the Homeland Security Act resulted in the FAA's expansion of its war risk policies to include passengers, crew and hulls (aircraft) and affected a \$100 million act-of-terrorism liability cap at a total cost to the industry of approximately \$140 million per year. The insurance has been extended by the Secretary of Transportation through December 31, 2008. The ATA estimates the airlines would have to pay \$600 million to \$700 million for war risk insurance if Congress no longer offers the insurance program.

### **9. Aviation Taxes and Security Costs**

The FAA and the Airport Improvement Program are supported by the imposition and collection of certain federal ticket taxes, the proceeds of which are deposited into the Aviation Trust Fund. Airlines are also subject to paying a federal tax on aviation fuel and cargo shippers are required to pay federal cargo way bill taxes, both as periodically authorized by Congress. Increases in these taxes generally result in higher overall ticket prices. Because the demand for air service is

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<sup>22</sup> FAA Aerospace Forecasts, 2008-2025.

considered to be price elastic or sensitive to changes in the price level, higher taxes and thus higher ticket prices may result in reduced passenger levels and reduced airline yields and profitability.

Following 9/11, President George W. Bush signed into law the Aviation and Transportation Security Act (“ATSA”) on November 19, 2001 which, among other things, established the TSA within the U.S. Department of Transportation. The ATSA established a series of milestones intended to achieve a secure air travel system. Following the passage of the ATSA, a passenger security tax of \$2.50 per flight segment was created to provide funding for federally mandated security improvements required by the ATSA. The tax became effective on February 1, 2002, is known as the Aviation Security Service Fee and is presently capped at \$10.00 per round trip flight. According to the ATA, total government taxes and fees (including PFCs) account for more than 26.5% of the average ticket price.<sup>23</sup> **Table IV-7** summarizes the taxes and fees paid by U.S. airlines and their passengers in 1972, 1992, 2004, 2006 and 2008 according to the ATA.

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<sup>23</sup> Taxes and fees based on a \$200 round trip, single connection with maximum PFC, Air Transport Association website, Ticket Tax Illustration, August 12, 2008.

TABLE IV-7

BLUE GRASS AIRPORT  
2008 BONDS

HISTORICAL TRENDS IN AVIATION TAXES

Tax/Fee Type	1972	1992	2003	2008	Unit of Tax
Pax Ticket Tax	7.50%	10.00%	7.50%	7.50%	Domestic Airfare
Pax Flight Segment	\$0.00	\$0.00	\$3.00	\$3.50	Per Domestic Enplanement
Pax Security	\$0.00	\$0.00	\$2.50	\$2.50	Per Dom/Int'l Enplanement
Int'l Departure Tax	\$3.00	\$6.00	\$13.40	\$15.40	Per Int'l Pax Departure
Int'l Arrival Tax	\$0.00	\$0.00	\$13.40	\$15.40	Per Int'l Pax Arrival
INS User Fee	\$0.00	\$5.00	\$7.00	\$7.00	Per Int'l Pax Arrival
USCS User Fee	\$0.00	\$5.00	\$5.00	\$5.50	Per Int'l Pax Arrival
APHIS Pax Fee	\$0.00	\$2.00	\$3.10	\$5.00	Per Int'l Pax Arrival
Cargo Waybill Tax	5.00%	6.25%	6.25%	6.25%	Waybill for Domestic Freight
Frequent Flyer Tax	0.00%	0.00%	7.50%	7.50%	Sales of Frequent Flyer Miles
APHIS Aircraft Fee	\$0.00	\$76.75	\$65.25	\$70.50	Int'l Aircraft Arrival
Jet Fuel Tax	\$0.000	\$0.000	\$0.043	\$0.043	Per Gallon
LUST Fuel Tax	\$0.000	\$0.001	\$0.001	\$0.001	Per Gallon
Air Carrier Security	\$0.00	\$0.00	TBD	Confidential	Per Passenger

Source: Air Transport Association  
Compiled by Newton & Associates, Inc.

October 23, 2008  
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## **10. Existence and Location of Competing Airports**

There are no airports other than the Airport within the Air Service Area offering scheduled passenger air service. However, air travelers who live or work in, or visit the Air Service Area and surrounding areas have alternative airports available to meet their air transportation needs. Air travelers may choose alternate airports due to air fares, the number of available non-stop destinations, frequency of available flights or a particular airline which serves the alternate airport. This selection of alternate airports is referred to as “leakage” and depending on the extent to which factors influence leakage, an airport’s passenger traffic may be affected. The level of air service provided at an airport is generally a function of demand for air service as measured by the number of passengers who use an airport facility. Leakage is difficult to measure accurately as the factors such as favorable air fares and service frequencies which caused the selection of the alternate airport by passengers may be temporary and can change as circumstances at the alternate airport change. Therefore, leakage affects the level of air service at a given airport.

Following is a summary of two alternative airports which compete for passengers in the Air Service Area with the Airport.

### **a. Louisville International Airport**

Louisville International Airport (“SDF”) is a medium hub airport located approximately 70 miles to the west of the Airport. Currently scheduled passenger airlines provide daily non-stop destinations to 25 domestic airports in the United States. During 2007, SDF enplaned approximately 3.8 million passengers.

Air service provided by an LCC results in competition on certain routes offered at an airport. This competition sometimes results in overall lower fares and, thus, an induced demand for air travel at an airport. Low fare air service is provided at SDF by Southwest Airlines. Southwest Airlines provides 18 daily non-stop flights to eight domestic destinations including Baltimore-Washington (BWI), Birmingham (BHM), Chicago-Midway (MDW), Las Vegas (LAS), Orlando (MCO), Phoenix (PHX), St. Louis (STL) and Tampa (TPA).

SDF is home to UPS’ international air sorting hub and, including cargo, is the third largest cargo handling airport in the U.S. and the ninth largest in the world with over 4.5 billion pounds of cargo handled in 2007. Direct interstate access to SDF is available from the Air Service Area via I-64. The estimated drive time between the Airport and SDF is one hour and 15 minutes.

### **b. Cincinnati-Northern Kentucky International Airport**

Cincinnati-Northern Kentucky International Airport (“CVG”) is a primary connecting passenger hub for Delta Air Lines and the primary hub of Delta’s subsidiary, Comair Airlines. Currently, CVG provides approximately 780 daily flights to 114 domestic and 18 international destinations. During 2007, CVG enplaned approximately 7.8 million enplaned passengers. CVG is located approximately 84 miles to the north of the Airport. Direct interstate access to CVG is available via I-75. The estimated drive time between the Airport and CVG is one hour and 30 minutes.

Despite any such leakage to alternate airports, it should be noted that the Airport also attracts passengers from the air service areas of the aforementioned airports, causing a “reverse leakage” of passengers from competing airports. Studies by Airport management indicate passenger convenience and competitive air fares result in reverse leakage and the attraction of passengers outside the Airport’s Air Service Area.

#### **G. FORECAST OF PASSENGER ENPLANEMENT ACTIVITY**

As previously discussed in this Section IV, demand for air service results in Airport passengers who spend money and generate Airport revenues. Because of this relationship between Airport passengers and Airport revenues, a forecast of passenger enplanement activity is necessary to reasonably forecast certain Airport revenues. The forecasting of aviation activity is an art rather than a science. Barring unforeseeable extraordinary events, past aviation activity, anticipated future socioeconomic activity and various other factors likely to affect future air traffic are often useful guides in projecting future aviation activity. An historical analysis of certain socioeconomic trend characteristics including population and per capita income among other things is set forth in Section III of this Report. As depicted in Section III, the population of the Air Service Area has grown at an average annual growth rate of 1.35% over the Study Period. The Air Service Area’s per capita income grew at rates which exceeded population growth, an average annual rate of 3.44% over the Study Period.

NAI has also examined the historical passenger enplanements at the Airport for the most recent five consecutive years, FY 2003 through FY 2008, as presented on **Table IV-8**, below.

<b>TABLE IV-8</b>				
<b>BLUE GRASS AIRPORT</b>				
<b>2008 BONDS</b>				
<b>FORECAST OF ENPLANED PASSENGERS</b>				
Fiscal Year	Air Service Area		Airport Enplanements	United States Domestic Enplanements (millions)
	Population	Per Capita Income		
<b>Study Period</b>				
2004	500,530	29,362	607,593	628.5
2005	507,420	30,425	557,023	659.4
2006	515,720	31,265	529,766	658.4
2007	522,530	32,373	515,752	689.4 (1)
2008	528,134	33,621	514,863	696.2 (2)
Avg Annual Growth Rate	1.4%	3.4%	-4.1%	2.6%
<b>Forecast Period</b>				
2009	533,649	34,977	<b>520,012</b>	720.6
2010	539,221	36,387	<b>525,212</b>	746.2
2011	544,852	37,854	<b>530,464</b>	767.0
2012	550,541	39,380	<b>535,769</b>	789.4
2013	556,290	40,968	<b>541,126</b>	812.6
Avg Annual Growth Rate	1.0%	4.0%	<b>1.0%</b>	3.1%
(1) US Enplanements for 2007 are estimates.				
(2) US Enplanements for 2008 are projected.				
Sources:				
Historical & Projected Population - Woods & Poole Economics				
Historical & Projected EBI - Woods & Poole Economics				
Historical Airport Enplanements - Blue Grass Airport				
Projected Airport Enplanements - Newton & Associates, Inc.				
Historical & Projected US Enplanements - FAA Aerospace Forecasts 2003-2014				
				October 23, 2008 c:\...tb2_3&10.xls

The average annual decrease in passenger enplanements from FY 2004 to FY 2008 was 4.1%. During this time, there was a decrease in passenger enplanements resulting from the general state of the local and national economies shifting in airline fare strategies and air service at competing airports.

Based upon this historical trend in passenger activity, new low cost air service beginning in November 2008 coupled with the exhibited strength of the economic base of the Air Service Area and projected annual growth in the population of the Air Service Area as discussed in Section III, NAI forecasts that passenger enplanements at the Airport will increase by 1.0% each year during the Forecast Period. In adopting this forecast, NAI has relied upon the following forecast assumptions.

### Enplanement Forecast Assumptions

- i. The demographic and socioeconomic characteristics of the Air Service Area and the U.S. will continue to grow and support the demand for passenger air transport.
- ii. The level of commercial air service activity and profitability in the U.S. will continue to recover at levels substantially similar to those presented in the FAA Aerospace Forecast.
- iii. No additional military conflicts or terrorist attacks which would directly or indirectly compromise the commercial air transportation system in the U.S. and at the Airport will occur.
- iv. Adequate Airport capacity will be available to accommodate projected traffic and there will be no additional governmental operational restrictions imposed at key airports which inhibit the airlines serving the Airport from continuing to serve or expanding existing service.
- v. The airlines currently serving the Airport will continue to maintain available capacity at a level substantially equal to the level which exists as of the date of this Report.

With the preceding considerations and assumptions in mind, and for the purpose of this Report, NAI has adopted the aforementioned forecast rates of passenger enplanements at the Airport to forecast levels of non-airline revenues during the Forecast Period. NAI believes, however, that traffic may grow at a slower rate in some years and a faster rate in others, following changes in economic activity and airline operating decisions.

## V. FINANCIAL ANALYSIS

### A. AIRPORT FINANCIAL FRAMEWORK

#### 1. General

The Airport is the only commercial airport currently operated by the Board. The financial condition of the Board is examined annually by independent certified public accountants as part of the Board's annual audit following the close of the Board's Fiscal Year to determine compliance with generally accepted accounting principles applicable to governmental entities and the requirements of various State and federal agencies with which the Board has agreements, grants-in-aid, or inter-governmental agreements. In each year of the Study Period, the Airport generated revenues in excess of amounts required to pay debt service on the Prior Bonds, operating expenses and capital expenses (excluding depreciation).

#### 2. Airport Financial Status – Prior Bonds

As discussed previously in Section II herein, the Prior Bonds consisted of three separate issues of bonds issued on a parity basis pursuant to the Prior Indenture, upon which debt service was paid during the Study Period: the 1994 Bonds, the 1998 Bonds and the 2003 Bonds. The 1994 Bonds were issued in two series, the 1994 Series A Bonds<sup>24</sup> and the 1994 Series B Bonds, the proceeds of which were issued to finance various Airfield improvements and to refinance a portion of the Board's then outstanding bank notes. The 1998 Bonds were issued in three series, the 1998 Series A Bonds, the 1998 Series B Bonds, and the 1998 Series C Bonds, the proceeds of which were issued to finance a multi-level automobile parking structure and various other Terminal area improvements, and to refinance the outstanding principal of the Corporation's 1988 Bonds. The 2003 Bonds were issued in two series, the 2003 Series A Bonds and the 2003 Series B Bonds, the proceeds of which were used to finance various Airfield and Terminal area improvements. According to the Board's financial statements, the Board's outstanding bond debt as of June 30, 2008 was as follows:

#### BONDS PAYABLE:

(i)	Series 1994 First Mortgage Revenue Bonds:	
	Series A:	\$ 0
	Series B:	\$ 1,400,000
(ii)	Series 1998 First Mortgage Revenue Bonds:	
	Series A:	\$ 9,700,000
	Series B:	\$ 1,500,000
	Series C:	\$ 3,500,000
(iii)	Series 2003 First Mortgage Revenue Bonds:	
	Series A:	\$24,175,000
	Series B:	\$ 4,475,000

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<sup>24</sup> The Series 1994 A Bonds were fully redeemed on December 1, 2003.

## **B. HISTORICAL AIRPORT REVENUES**

### **1. Historical Airline Revenues**

Airline revenues comprise landing fees, Terminal rents and security charges. The average annual increase in airline revenues at the Airport during the Study Period was 6.6% from \$4,433,586 in Fiscal Year 2004 to an estimated budget of \$5,733,588 in Fiscal Year 2008. Airline Terminal rents are estimated to increase at an average annual rate of 7.9%, airline landing fees are estimated to increase at an average annual rate of 6.5%, and airline security charges are estimated to increase 1.1% during the Study Period. **Table V-1** depicts the Airport's historical airline revenue during the Study Period. **Table V-2** sets forth the Airport's historical airline cost per enplaned passenger during the Study Period.

### **2. Historical Public Parking Revenues**

The Airport's annual public parking revenue is gross parking revenue less a percentage management fee paid to Republic Parking Systems, Inc. for managing the operation of the Airport's public parking facilities and is the second greatest source of revenue for the Airport behind airline revenue. During the Study Period, parking revenue decreased at an average annual rate of approximately 2.1% from \$4,030,827 in Fiscal Year 2004 to an estimated budget of \$3,700,000 in Fiscal Year 2008. Table V-1 depicts the Airport's historical public parking revenue during the Study Period.

### **3. Ground Transportation Revenues**

Ground transportation revenues include rental car revenues and rents, fees and commissions received from taxi, limousine and other ground transportation providers. Rental car revenues are also a major source of revenue for the Airport and represent the majority of ground transportation revenues at the Airport. This revenue primarily consists of concession fees based on a percentage of gross receipts, counter and office rentals, ready/return parking lot rentals and service facility fee rentals which are paid by the Airport's Rental Car Companies. There is one off-Airport rental car operator that is permitted by the Board to pick up and drop off its customers in exchange for payment of a concession fee. During the Study Period, the Airport's ground transportation revenues increased from \$1,641,408 in Fiscal Year 2004 to an estimated \$1,991,241 in budget Fiscal Year 2008, representing an average annual growth rate of 4.9%. Table V-1 depicts the Airport's historical ground transportation revenues during the Study Period.

### **4. Concession/Rental/Miscellaneous Revenues**

Concessions, rentals and miscellaneous revenues represent another important element of the financial program of the Airport. These revenues comprise various rentals and percentage fees paid by firms permitted by the Board to conduct food, beverage and retail businesses in and at the Terminal as well as other miscellaneous business operations. During the Study Period, the Airport's concessions, rentals and miscellaneous revenues are estimated to decrease at an

average annual rate of 4.0% from \$659,664 in Fiscal Year 2004 to an estimated \$559,780 in Fiscal Year 2008.

## **5. General Aviation Revenues**

General Aviation revenues consist of hangar and land rental income and percentage fees paid by the Airport's Fixed Base Operator for services provided to general aviation aircraft operators such as aircraft parking and storage, and maintenance. During the Study Period, the Airport's GA revenue increased from \$445,027 in FY 2004 to an estimated \$480,417 in Fiscal Year 2008, representing an average annual growth rate of 1.9%

## **6. Air Freight Revenues**

Air freight revenues at the Airport consist of revenues for air freight facility rentals paid by the United States Postal Service and certain of the passenger airlines operating at the Airport. During the Study Period, the Airport's air freight revenue increased at an average annual rate of 8.5% from \$35,747 in Fiscal Year 2004 to an estimated \$49,575 in Fiscal Year 2008.

## **7. ARFF Training Facility Revenues**

ARFF Training Facility revenues consist of user fees charged for annual air rescue and fire fighting training at the Airport's training facility. Construction of this facility was completed in Fiscal Year 1999 and is only one of five FAA certified air rescue and fire fighting facilities in the country. During the Study Period, the ARFF Training Facility revenue experienced an overall increase from \$27,580 in Fiscal Year 2004 to \$35,850 in Fiscal Year 2008.

## **8. Interest Income**

The Board's interest income is made up of interest earned on its bank deposits (operating account, reserve accounts, and investment accounts) and has increased from \$48,923 in Fiscal Year 2004 to an estimated \$55,000 in Fiscal Year 2008.

## **9. Passenger Facility Charges**

Pursuant to 14 CFR Part 158, airport sponsors (airport owners or operators) may apply to the FAA for authorization to impose a fee on every enplaning revenue passenger ("Passenger Facility Charge" or "PFC") at the sponsored airport and to use revenues derived from any such PFC to pay the allowable costs of PFC eligible airport improvements.<sup>25</sup> The level of PFC which may be charged can vary from \$1.00, \$2.00, \$3.00, \$4.00 or \$4.50 depending upon the authorization requested by the sponsor and approved by the FAA. PFCs are collected by each airline which issues a revenue travel itinerary to a passenger and are remitted monthly to the airport sponsor, less a handling charge which the collecting airline is entitled to retain as

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<sup>25</sup> 14 CFR Part 158 limits the number of PFCs imposed on a passenger's single travel itinerary to two PFCs (two boardings) per one-way trip or two PFCs (two boardings) for each direction of a round trip. See 14 CFR 158.9 for other limitations which may apply to certain itineraries.

compensation for its collecting, handling and remitting the PFC revenue. The airline handling charge authorized by 14 CFR Part 158 is \$0.11 per PFC.

Under 14 CFR Part 158, PFCs may be used to fund and finance the allowable costs (project costs and bond-associated debt service and financing costs) of airport-related projects which would be eligible to receive federal grant funding under the AIP or which preserve or enhance safety, capacity or security of the national air transportation system, reduce aircraft noise or furnish opportunities for enhanced competition between or among airlines, and which have been approved for such use by the FAA.

Concurrent with the issuance of the Board's 1994 Bonds, the Board applied for and received from the FAA the authority to impose and use a PFC, at the \$3.00 level, on each revenue passenger enplaned on commercial, passenger aircraft at the Airport to pay the debt service on the Board's 1994 Series A debt service. On December 1, 2003, the Board fully retired the outstanding principal balance of the 1994 Series A Bonds. The Board is currently authorized to impose a PFC at the \$4.50 level and has \$50,404,396 in total authority to impose and use PFCs, including approximately 94.0% of debt service on that portion of the 2008 Bonds allocable to the refunding of the 2003 Series A Bonds, which is PFC-eligible.

During the Study Period, the Board's PFC revenue increased from \$1,850,873 in Fiscal Year 2004 to an estimated \$2,618,000 in Fiscal Year 2008, an average annual increase of 9.1%. As of June 30, 2008, the Board had a PFC cash balance of \$8,674,647.

## **10. Contract Facility Charges**

Pursuant to an agreement entered into by the Board and the Rental Car Companies in 2005 ("Rental Car Concession Agreement"), and in accordance with a resolution adopted by the Board in July 2002, Rental Car Companies collect a fee ("Contract Facility Charge", or "CFC") from its customers for each day (not to exceed ten consecutive days) that a contract is in effect that is written by the rental car companies. Since August 1, 2002, a \$2.00 CFC has been imposed by the Board and collected by the on-Airport Rental Car Companies. In Fiscal Year 2008, the Board collected an estimated \$627,482 of CFC revenues. As of June 30, 2008, the Board had a CFC cash balance of \$2,756,357.

## **C. HISTORICAL AIRPORT EXPENSE**

### **1. Historical Operating and Maintenance Expense**

Operating and Maintenance ("O&M") expenses are incurred for operation and maintenance of the Airport grounds and facilities described in detail earlier in this Report. The primary components of this expense fall under the categories of salaries and benefits, utilities, maintenance, supplies, services, insurance and other miscellaneous expenses. The O&M expenses of the Airport during the Study Period increased at an average annual rate of 5.6% from \$7,461,929 in Fiscal Year 2004 to \$9,283,233 in Fiscal Year 2008. Table V-1 depicts the Airport's historical O&M expense.

## **2. Historical Debt Service Expense**

The annual debt service expense attributable to the Prior Bonds and payable during the Study Period is set forth on Table V-1.

## **3. Historical Capital Expense (Non-Debt)**

The Airport's non-debt related, ancillary capital expenses include capital purchases (vehicles and equipment) and local construction (local share expense of federal grant projects and other cash funded Airport facility improvements and renewals). In consideration of the ability of the Airport to generate sufficient revenues over the Forecast Period to pay the debt service on the 2008 Bonds, this expense is regarded as ancillary expense because it need not be incurred if Airport revenues are not expected to be sufficient to cover Airport expenses. The Airport's historical non-debt capital expense is depicted on Table V-1.

TABLE V-1

**BLUE GRASS AIRPORT  
2008 BONDS**

**HISTORICAL AIRPORT REVENUES AND EXPENSES**

	Study Period					Average Annual Growth Rate
	Actual FY 2004	Actual FY 2005	Actual FY 2006	Actual FY 2007	Budget FY 2008	
<b>REVENUES</b>						
Airline Revenues:						
Airline Landing Fees	\$1,883,270	\$2,049,584	\$2,048,967	\$2,511,846	\$2,421,489	6.5%
Airline Terminal Rents	2,076,910	2,122,411	2,280,987	2,396,848	2,817,266	7.9%
Airline Security Charges	473,406	434,488	456,213	498,975	494,833	1.1%
Subtotal Airline Revenues	\$4,433,586	\$4,606,483	\$4,786,167	\$5,407,669	\$5,733,588	6.6%
TSA Office Rent	\$0	\$122,724	\$97,759	\$97,759	\$146,146	6.0%
Airline Maintenance Space	9,625	14,500	12,000	12,000	10,500	2.2%
General Aviation	445,027	480,417	520,291	510,340	480,417	1.9%
Air Freight Building	35,747	58,101	50,128	50,128	49,575	8.5%
Ground Transportation	1,641,408	1,667,559	1,887,399	2,009,112	1,991,241	4.9%
Parking	4,030,827	3,556,047	3,540,588	3,572,516	3,700,000	-2.1%
Concessions, Rentals & Miscellaneous	659,664	479,104	454,354	515,627	559,780	-4.0%
ARFF Training Facility	27,580	35,850	55,630	44,565	35,850	6.8%
Interest Income / Miscellaneous	48,923	52,917	154,841	219,062	55,000	3.0%
Passenger Facility Charges (PFCs)	1,850,873	2,230,811	1,656,540	2,010,289	2,618,000	9.1%
Rental Car Contract Facility Charges (CFCs)	633,305	636,504	364,069	634,955	627,482	-0.2%
Urban County Government Appropriations	0	0	0	0	0	n/a
Subtotal Non-Airline Revenues	\$9,382,979	\$9,334,534	\$8,793,599	\$9,676,353	\$10,273,991	2.3%
Total Revenues	\$13,816,565	\$13,941,017	\$13,579,766	\$15,084,022	\$16,007,579	3.7%
<b>OPERATION AND MAINTENANCE EXPENSES</b>						
Airport Services	\$1,482,133	\$1,475,037	\$1,684,732	\$1,807,716	\$1,671,560	3.1%
Janitorial Maintenance	468,997	479,290	507,649	532,233	604,473	6.5%
Public Safety	1,243,127	1,302,027	1,387,856	1,616,254	1,480,925	4.5%
Administration	3,419,764	3,620,285	3,594,237	4,446,518	4,339,885	6.1%
Engineering	411,542	452,402	500,975	512,888	563,185	8.2%
Operations	436,366	380,357	396,784	421,687	433,425	-0.2%
Executive Lounge	0	0	0	95,279	105,790	11.0%
BGA Customer Assistance	0	76,878	85,050	92,397	83,990	3.0%
Total O&M Expenses	\$7,461,929	\$7,786,276	\$8,157,283	\$9,524,972	\$9,283,233	5.6%
<b>CAPITAL EXPENSES</b>						
Capital Purchases/Local Construction - Expensed	\$98,410	\$106,641	\$98,303	\$54,827	\$75,000	-6.6%
Debt Service - Outstanding Bonds and Bank Notes:						
1994 B Bonds	110,508	115,215	103,587	92,902	180,000	13.0%
1995 Refunding ('88 Bonds Compl P&I)	130,075	116,058	130,000	0	0	-100.0%
1995 Refunding ('88 Bonds Compl Amort of Adv Red)	0	0	442,848	162,618	0	n/a
1998 A Bonds	354,875	376,527	492,170	552,347	700,000	18.5%
1998 B Bonds	144,250	139,498	169,800	169,626	196,000	8.0%
1998 C Bonds	592,453	484,247	530,778	626,364	700,000	4.3%
2003 A Bonds (PFC)	404,646	485,229	704,510	961,539	658,000	12.9%
2003 A Bonds (Non-PFC)	25,828	30,972	44,969	61,375	42,000	12.9%
2003 B Bonds (CFC)	34,896	111,747	239,313	239,313	150,000	44.0%
Interest Rate Cap Payment (1998 Bonds)	0	0	79,930	0	0	n/a
Interest Expenses/Liquidities Expense	0	14,017	0	0	0	n/a
Transfer Excess PFCs to Reserves	1,446,227	1,745,582	952,030	1,048,750	1,960,000	7.9%
Transfer Excess CFCs to Reserves	598,409	524,757	124,756	395,642	477,482	-5.5%
Local Construction - Current	611,329	107,038	397,717	320,915	1,052,000	14.5%
Total Capital Expenses	\$4,551,906	\$4,357,528	\$4,510,711	\$4,686,218	\$6,190,482	8.0%
<b>SURPLUS/(DEFICIT)</b>	<b>\$1,802,730</b>	<b>\$1,797,213</b>	<b>\$911,772</b>	<b>\$872,832</b>	<b>\$533,864</b>	<b>-26.2%</b>

Source: Lexington-Fayette Urban County Airport Board  
Compiled by Newton & Associates, Inc.

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<b>TABLE V-2</b>						
<b>BLUE GRASS AIRPORT</b>						
<b>2008 BONDS</b>						
<b>HISTORICAL AIRLINE COST PER ENPLANED PASSENGER</b>						
	Study Period					Average Annual Growth Rate
	Actual FY 2004	Actual FY 2005	Actual FY 2006	Actual FY 2007	Budget FY 2008	
<b>Passenger Enplanements</b>	607,593	557,023	529,766	515,752	514,863	-4.1%
<b>Airline Revenues</b>						
Airline Landing Fees	\$1,883,270	\$2,049,584	\$2,048,967	\$2,511,846	\$2,421,489	6.5%
Airline Terminal Rents	2,076,910	2,122,411	2,280,987	2,396,848	2,817,266	7.9%
Airline Security Charges	473,406	434,488	456,213	498,975	494,833	1.1%
<b>Total Airline Revenues</b>	<b>\$4,433,586</b>	<b>\$4,606,483</b>	<b>\$4,786,167</b>	<b>\$5,407,669</b>	<b>\$5,733,588</b>	<b>6.6%</b>
<b>Airline Cost per Enplaned Passenger</b>	<b>\$7.30</b>	<b>\$8.27</b>	<b>\$9.03</b>	<b>\$10.49</b>	<b>\$11.14</b>	<b>11.1%</b>

Source: Lexington-Fayette Urban County Airport Board  
Compiled by Newton & Associates, Inc. 11/21/08  
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**D. FINANCIAL FORECAST**

A financial forecast has been prepared and presented in a pro-forma projection of Airport revenues and expenses (see **Table V-3**). This pro-forma sets forth a projection of future revenues and expenses, net revenues, and the additional debt service arising from the 2008 Bonds, and tests the sufficiency of net revenues to cover the estimated debt service (estimated by NAI) during the Forecast Period.

Non-airline revenues projected to be generated over the Forecast Period are principally a function of the levels of passenger traffic generated by the airlines operating at the Airport and the demand for air service in the Air Service Area. Revenues such as concessions, parking and ground transportation normally increase in direct proportion to passenger activity.

TABLE V-3

BLUE GRASS AIRPORT  
2008 BONDS

## FORECAST AIRPORT REVENUES AND EXPENSES

	Budget FY 2008	Forecast Period					Average Annual Growth Rate
		Budget FY 2009	Projected FY 2010	Projected FY 2011	Projected FY 2012	Projected FY 2013	
<b>REVENUES</b>							
Airline Revenues:							
Airline Landing Fees	\$2,421,489	\$2,547,933	\$2,680,980	\$2,820,974	\$2,968,279	\$3,123,275	5.2%
Airline Terminal Rents	2,817,266	2,964,377	3,119,169	3,282,045	3,453,425	3,633,754	5.2%
Airline Security Charges	494,833	520,672	547,860	576,468	606,570	638,243	5.2%
Subtotal Airline Revenues	\$5,733,588	\$6,032,982	\$6,348,010	\$6,679,487	\$7,028,274	\$7,395,273	5.2%
TSA Office Rent	\$146,146	\$146,146	\$146,146	\$146,146	\$146,146	\$146,146	0.0%
Airline Maintenance Space	10,500	10,500	10,500	10,500	10,500	10,500	0.0%
General Aviation	480,417	480,417	480,417	480,417	480,417	480,417	0.0%
Air Freight Building	49,575	49,575	49,575	49,575	49,575	49,575	0.0%
Ground Transportation	1,991,241	2,011,153	2,031,265	2,051,578	2,072,093	2,092,814	1.0%
Parking	3,700,000	3,737,000	3,774,370	3,812,114	3,850,235	3,888,737	1.0%
Additional Parking Revenues	0	350,000	700,000	700,000	850,164	850,839	6.7%
Concessions, Rentals & Miscellaneous	559,780	565,378	571,032	576,742	582,509	588,334	1.0%
ARFF Training Facility	35,850	35,850	35,850	35,850	35,850	35,850	0.0%
Interest Income / Miscellaneous	55,000	55,000	55,000	55,000	55,000	55,000	0.0%
Passenger Facility Charges (PFCs)	2,618,000	2,243,608	2,263,897	2,284,390	2,305,087	2,325,992	0.9%
Transfer from PFC Account	0	0	0	0	0	0	0.0%
Rental Car Contract Facility Charges (CFCs)	627,482	633,757	640,094	646,495	652,960	659,490	1.0%
Transfer from CFC Account	0	0	0	0	0	0	0.0%
Transfer from Airport Reserves - Budgeted Forward	0	500,000	500,000	500,000	500,000	500,000	0.0%
Subtotal Non-Airline Revenues	\$10,273,991	\$10,818,384	\$11,258,146	\$11,348,806	\$11,590,537	\$11,683,695	1.9%
Total Revenues	\$16,007,579	\$16,851,366	\$17,606,156	\$18,028,293	\$18,618,810	\$19,078,968	3.2%
<b>OPERATION AND MAINTENANCE EXPENSES</b>							
Airport Services	\$1,671,560	\$1,722,585	\$1,775,168	\$1,829,355	\$1,885,197	\$1,942,743	3.1%
Janitorial Maintenance	604,473	644,063	686,247	731,193	779,083	830,110	6.5%
Public Safety	1,480,925	1,547,168	1,616,374	1,688,676	1,764,211	1,843,126	4.5%
Administration	4,339,885	4,606,263	4,888,991	5,189,073	5,507,574	5,845,623	6.1%
Engineering	563,185	609,130	658,824	712,572	770,705	833,580	8.2%
Operations	433,425	433,425	433,425	433,425	433,425	433,425	0.0%
Executive Lounge	105,790	111,727	117,996	124,618	131,611	138,997	5.6%
BGA Customer Assistance	83,990	86,504	89,093	91,760	94,506	97,335	3.0%
Total O&M Expenses	\$9,283,233	\$9,760,866	\$10,266,118	\$10,800,672	\$11,366,312	\$11,964,939	5.2%
<b>NET REVENUES</b>	\$6,724,346	\$7,090,500	\$7,340,037	\$7,227,621	\$7,252,498	\$7,114,028	0.1%
<b>CAPITAL EXPENSES</b>							
Debt Service - Prior Bonds:							
1994 B Bonds	\$180,000	\$90,000	\$0	\$0	\$0	\$0	0.0%
1998 A Bonds	700,000	350,000	0	0	0	0	0.0%
1998 B Bonds	196,000	98,000	0	0	0	0	0.0%
1998 C Bonds	700,000	350,000	0	0	0	0	0.0%
2003 A Bonds (PFC)	658,000	329,000	0	0	0	0	0.0%
2003 A Bonds (Non-PFC)	42,000	21,000	0	0	0	0	0.0%
2003 B Bonds (CFC)	150,000	75,000	0	0	0	0	0.0%
Subtotal Prior Bonds	\$2,626,000	\$1,313,000	\$0	\$0	\$0	\$0	0.0%
Debt Service - 2008 Refunding Bonds:							
2008 A Refunding Bonds (PFC)	\$0	\$893,873	\$1,396,391	\$1,366,014	\$885,130	\$960,520	1.8%
2008 A Refunding Bonds (Non-PFC)	0	1,053,023	1,645,013	1,609,228	1,042,724	1,131,537	1.8%
2008 B Refunding Bonds (PFC)	0	279,292	483,121	472,508	490,446	499,504	15.6%
2008 B Refunding Bonds (Non-PFC)	0	23,769	41,116	40,213	41,740	42,511	15.6%
2008 C Refunding Bonds (CFC)	0	212,669	357,972	348,385	350,999	371,478	15.0%
Subtotal Refunding Bonds	\$0	\$2,462,627	\$3,923,612	\$3,836,348	\$2,811,040	\$3,005,550	5.1%
Debt Service - 2008 New Money Bonds:							
2008 A New Money Bonds (PFC)	\$0	\$321,381	\$569,430	\$569,430	\$734,039	\$737,934	23.1%
2008 A New Money Bonds (Non-PFC)	0	169,126	299,662	299,662	386,287	388,337	23.1%
2008 B New Money Bonds (PFC)	0	370,793	663,849	663,849	874,074	871,486	23.8%
2008 B New Money Bonds (Non-PFC)	0	196,782	352,308	352,308	463,876	462,502	23.8%
Subtotal New Money Bonds	\$0	\$1,058,083	\$1,885,249	\$1,885,249	\$2,458,277	\$2,460,260	23.5%
Total Debt Service	\$2,626,000	\$4,833,709	\$5,808,861	\$5,721,596	\$5,269,317	\$5,465,809	3.1%
Capital Purchases/Local Construction - Expensed	\$75,000	\$104,500	\$104,500	\$104,500	\$104,500	\$104,500	0.0%
Transfer Excess PFCs to Reserves	1,960,000	49,269	0	0	0	0	-100.0%
Transfer Excess CFCs to Reserves	477,482	346,088	282,123	298,110	301,961	288,012	-4.5%
Local Construction - Current	1,052,000	500,000	500,000	500,000	500,000	500,000	0.0%
Total Capital Expenses	\$6,190,482	\$5,833,566	\$6,695,483	\$6,624,207	\$6,175,778	\$6,358,321	2.2%
<b>SURPLUS/(DEFICIT)</b>	\$533,864	\$1,256,935	\$644,554	\$603,415	\$1,076,720	\$755,707	-11.9%
<b>Debt Service Coverage Calculation</b>							
(A) Net Revenues (Less Surplus PFCs & CFCs)	\$4,286,864	\$6,695,144	\$7,057,915	\$6,929,511	\$6,950,537	\$6,826,016	0.5%
(B) Debt Service							
1994 Bonds	\$180,000	\$90,000	\$0	\$0	\$0	\$0	0.0%
1998 Bonds	1,596,000	798,000	0	0	0	0	0.0%
2003 Bonds	850,000	425,000	0	0	0	0	0.0%
2008 Bonds	0	3,520,709	5,808,861	5,721,596	5,269,317	5,465,809	11.6%
Total Debt Service	\$2,626,000	\$4,833,709	\$5,808,861	\$5,721,596	\$5,269,317	\$5,465,809	\$0
<b>(A)/(B) Debt Service Coverage Factor</b>	<b>1.63</b>	<b>1.39</b>	<b>1.22</b>	<b>1.21</b>	<b>1.32</b>	<b>1.25</b>	<b>-2.6%</b>

Source: Lexington-Fayette Urban County Airport Board  
Compiled by Newton & Associates, Inc.11/21/08  
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# 1. Airport Revenue

## a. Airline Revenues

Airline revenues comprise revenues derived from landing fees, Terminal rents and security charges paid by airlines operating at the Airport. Because the 2008 Bonds debt service will be paid primarily from PFCs and additional parking revenues, airline rates and charges are not expected to increase during the Forecast Period as a result of undertaking the 2008 Project. Furthermore, existing levels of debt service and other capital expense currently allocated to the airline rates and charges rate base is expected to remain relatively constant over the Forecast Period. Accordingly, the annual projected rate of increase in airline landing fees, Terminal rents and security charges is based on the projected increase in O&M expense over the Forecast Period (5.2% per annum). As a result, airline revenues during the Forecast Period are projected to increase from \$6,032,982 in Fiscal Year 2009 to \$7,395,273 in Fiscal Year 2013.

The projected airline revenues during the Forecast Period, forecast enplaned passengers and the average airline cost per enplaned passenger are depicted on **Table V-4**. As shown on the table, the cost per enplaned passenger is projected to increase at an average annual rate of 4.2%, from \$11.60 in Fiscal Year 2009 to \$13.67 in Fiscal Year 2013. On a net present value basis and assuming a 2.5% present value factor, the airline cost per enplaned passenger is projected to increase from \$11.32 in Fiscal Year 2009 to \$12.08 in Fiscal Year 2013, representing an average annual increase of 1.6%. NAI believes that the projected annual airline costs per enplaned passenger are reasonable when compared to comparable airports in the industry.

<b>TABLE V-4</b>							
<b>BLUE GRASS AIRPORT</b>							
<b>2008 BONDS</b>							
<b>FORECAST AIRLINE COST PER ENPLANED PASSENGER</b>							
	Budget FY 2008	Forecast Period					Average Annual Growth Rate
		Budget FY 2009	Projected FY 2010	Projected FY 2011	Projected FY 2012	Projected FY 2013	
<b>Passenger Enplanements</b>	514,863	520,012	525,212	530,464	535,769	541,126	1.0%
<b>Airline Revenues</b>							
Airline Landing Fees	\$2,421,489	\$2,547,933	\$2,680,980	\$2,820,974	\$2,968,279	\$3,123,275	5.2%
Airline Terminal Rents	2,817,266	2,964,377	3,119,169	3,282,045	3,453,425	3,633,754	5.2%
Airline Security Charges	494,833	520,672	547,860	576,468	606,570	638,243	5.2%
<b>Total Airline Revenues</b>	<b>\$5,733,588</b>	<b>\$6,032,982</b>	<b>\$6,348,010</b>	<b>\$6,679,487</b>	<b>\$7,028,274</b>	<b>\$7,395,273</b>	<b>5.2%</b>
<b>Airline Cost per Enplaned Passenger</b>	<b>\$11.14</b>	<b>\$11.60</b>	<b>\$12.09</b>	<b>\$12.59</b>	<b>\$13.12</b>	<b>\$13.67</b>	<b>4.2%</b>
<b>2008 Dollars (NPV - 2.5%)</b>	<b>\$11.14</b>	<b>\$11.32</b>	<b>\$11.50</b>	<b>\$11.69</b>	<b>\$11.88</b>	<b>\$12.08</b>	<b>1.6%</b>
Source: Lexington-Fayette Urban County Airport Board Compiled by Newton & Associates, Inc.							11/21/08 c:\...\LEX\...\Section 2 and 5 Tables Draft 5 v5

### Airport/Airline Affairs and Rate Setting Principals

Since 2001, the Board has established airline rates and charges annually using a compensatory based cost recovery methodology. Effective June 30, 2008, the Board established new airline rates and charges for Fiscal Year 2009. In addition, each airline serving the Airport is required to execute a month to month Aircraft Operator Airport Use Permit (“Permit”) which sets forth its basic rights and obligations for the use of the Airport and the occupancy of space in the Airport Terminal building and which provides that each such airline may terminate its Permit upon 30 days prior written notice. NAI expects the Board will continue to establish airline rates and charges by resolution for the foreseeable future.

As a matter of policy, the Board has declared that it will establish cost recovery rentals, fees and charges to the users of the Airport and make amendments thereto at periodic intervals as needed to assure that the Airport will be a self-sufficient entity to the fullest extent possible.

Landing fees and Terminal rental rates are established at regular intervals using the following procedure:

### Airport Budget

Prior to the end of each Fiscal Year, the Board’s staff prepares a budget of the Airport’s maintenance and operating expense, and capital expense for the next Fiscal Year, and calculates new Terminal rents, landing fees and other rates, fees and charges. The Airport’s budget and resulting airline fees and charges are provided to the airlines for review and comment, following which they are adopted by the Board to become effective as of the beginning of the next Fiscal Year.

### Annual Reconciliation

After the close of each Fiscal Year, the Board recalculates the average Terminal rental rate and the landing fee rate for the preceding Fiscal Year based upon actual Airport maintenance and operating expense and capital expense in order to determine the final Terminal rental rate and landing fee rate for such Fiscal Year. Any differences are then reconciled between the Board and the airlines.

Since the term of the arrangement between the Board and the airlines serving the Airport is on a month to month basis, the Board may immediately adjust Airport fees, rentals and other charges if at any time during the then current Fiscal Year, it appears that there will be a substantial variance between the revenues or expenses calculated based on the Airport’s annual budget and actual results by satisfying the procedures required to adopt a new resolution.

Establishing airline rates and charges in an annual resolution gives the Board significant flexibility in operating the Airport. The Board’s financial integrity is enhanced since it may retain any surplus revenues (revenues remaining after all operating and non-operating expenses and required deposits to certain reserve accounts have been made) and is not required to share them with the airlines. Also, the Board is not required to obtain Majority-In-Interest approval from the airlines for capital projects before the costs associated with airline related improvements may be included in the airline rate base.

Together with non-airline revenues, airline revenues have been sufficient to allow the Board to operate the Airport on a self-sustaining basis in each year of the Study Period. Subject to industry and general economic conditions, the continuation of this trend should be supported by the Board's establishment of airline rates and charges by resolution.

**b. Public Parking Revenues**

As previously described, public parking revenues decreased at an average annual rate of approximately 2.1% during the Study Period. The decreases in passenger traffic at the Airport during the Study Period contributed to the decrease in public parking revenue during that time. Baseline public parking revenue has been forecast to increase each year of the Forecast Period at the same rate (1.0%) that passenger enplanements are projected to increase. Table V-3 depicts NAI's projection of the Airport's baseline parking revenue during the Forecast period. As shown, baseline public parking revenues are forecast to increase from \$3,737,000 in Fiscal Year 2009 to \$3,888,737 in Fiscal Year 2013.

**c. Additional Parking Revenues**

As described in Section II, the 2008 Project includes the Terminal Drive Relocation Project. According to Airport management, the Board will increase certain parking rates at the Airport which would result in additional parking revenues in amounts which at a minimum would cover the debt service on the 2008 Bonds allocable to the construction of this project. Therefore, parking revenues forecast herein are estimated based on the debt service on the 2008 Bonds associated with the Terminal Drive Relocation Project. These additional parking revenues are estimated to be \$350,000 in Fiscal Year 2009 and \$850,839 in Fiscal Year 2013.

**d. Ground Transportation Revenues**

Ground transportation revenues are generated by a combination of percentage of gross receipts concession fee payments (10% of gross rental car revenue) paid to the Board by the on-Airport and off-Airport Rental Car Companies and commissions received from taxi, limousine and other ground transportation providers. The amount of the concession fee payments received by the Airport is dependent upon the level of passenger activity at the Airport. NAI has adopted a 1.0% annual growth in passenger traffic at the Airport during the Forecast Period and therefore expects that ground transportation revenues will increase from \$2,011,153 in Fiscal Year 2009 to a projected \$2,092,814 in Fiscal Year 2013. Rental car counter and office rentals are fixed pursuant to the Rental Car Concession Agreement and are therefore expected to remain constant during the Forecast Period. Ready/return rentals historically have been based on a per month per ready/return space charge. However, under the Rental Car Concession Agreement and as part of the Rental Car Improvements element of the Project, ready/return rentals are to be deferred until such time that the 2008 C Bonds used to refund the Series 2003 B Bonds debt service attributable to the rental car improvements has been fully retired.

**e. Concession/Rental/Miscellaneous Revenues**

Food, beverage and retail businesses compensate the Airport for the privilege of operating at the Airport by making varying percentages of gross receipts concession fee payments or minimum rental payments, whichever is greater. Like public parking activity and rental car activity, food, beverage and retail sales activity increase and decrease commensurate with passenger activity. Therefore, NAI has projected these revenues to increase from \$565,378 in Fiscal Year 2009 to \$588,334 in Fiscal Year 2013, representing an average annual growth rate of 1.0%.

**f. Passenger Facility Charges**

As previously described, the Board is approved by the FAA to impose a \$4.50 PFC per revenue enplaned passenger at the Airport to pay the PFC eligible costs of certain allowable elements including the PFC-eligible portion of the 2008 Bonds.

The Board is applying to the FAA for authority to impose and use PFC revenues to pay PFC-eligible debt service associated with certain project work elements, which will be funded, in part, with certain proceeds from the 2008 Bonds (PFC Application No. 7). The total requested authority to impose and use PFCs in PFC Application No. 7 is \$45,275,971. Combined with the estimated PFC revenues to be collected pursuant to approved PFC Applications No. 5 and No. 6 (\$50,404,395), the total amount of Impose and Use authority to be requested by the Board is estimated to be \$95,680,366. As shown on Table II-5 of Section II, the maximum annual PFC-eligible debt service attributable to the 2008 Project is estimated to be \$1,613,368. The maximum annual PFC-eligible debt service attributable to the 2008 Refunding is estimated to be \$1,879,511. The total estimated maximum annual PFC-eligible debt service on the 2008 Bonds is \$3,492,879.

For the purpose of this Report, NAI assumes the maximum allowable PFC level to be \$4.50 per enplaned revenue passenger. Because of their relationship to enplaned passengers, PFCs are projected at the forecast rate of enplaned passengers. As shown on **Table V-5**, PFCs are projected to increase from \$2,243,608 in Fiscal Year 2009 to \$2,325,992 in Fiscal Year 2013. During any year, any amounts of PFC eligible debt service in excess of the amount of PFC income for any such year, PFCs from the Board's PFC cash balance or General Revenues may be applied to cover any such excess.

As previously described in Section II, a conservative interest rate was used by J.P. Morgan Securities Inc. to estimate debt service for the purpose of this Report. The estimated PFC-eligible debt service based on these assumptions exceeds the annual PFC collection levels during the Forecast Period. As shown on the Forecast of Airport Revenues and Expenses (Table V-3), General Revenues are available to pay for the portion of PFC-eligible debt service not paid with annual PFC collections.

According to Airport management, the balance of the Board's PFC account is \$8,674,647 as of June 30, 2008. The PFCs on deposit in the PFC account are available to pay PFC-eligible debt service on the 2008 Bonds to the extent said annual PFC-eligible debt service exceeds annual PFC collections. However, as a measure of conservatism, the Forecast of Airport Revenues and

Expenses does not assume the transfer of any amounts from the PFC account to pay for PFC-eligible debt service.

**TABLE V- 5**  
**BLUE GRASS AIRPORT**  
**2008 BONDS**  
**FORECAST PASSENGER FACILITY CHARGE COLLECTIONS**

Fiscal Year	Enplanements	Annual Growth	PFC Revenue		
			Collections	Interest	Total
<b>Actual</b>					
2004	607,593		\$1,827,231	\$23,834	\$1,851,065
2005	557,023	-8.3%	2,230,811	65,451	2,296,262
2006	529,766	-4.9%	2,021,532	177,274	2,198,806
2007	515,752	-2.6%	2,012,698	254,635	2,267,333
2008	514,863	-0.2%	2,008,868	214,652	2,223,519
<b>Projected</b>					
2009	520,012	1.0%	2,028,956	214,652	2,243,608
2010	525,212	1.0%	2,049,246	214,652	2,263,897
2011	530,464	1.0%	2,069,738	214,652	2,284,390
2012	535,769	1.0%	2,090,436	214,652	2,305,087
2013	541,126	1.0%	2,111,340	214,652	2,325,992
2014	546,537	1.0%	2,132,453	214,652	2,347,105
2015	552,003	1.0%	2,153,778	214,652	2,368,429
2016	557,523	1.0%	2,175,316	214,652	2,389,967
2017	563,098	1.0%	2,197,069	214,652	2,411,720
2018	568,729	1.0%	2,219,040	214,652	2,433,691
2019	574,416	1.0%	2,241,230	214,652	2,455,882
2020	580,161	1.0%	2,263,642	214,652	2,478,294
2021	585,962	1.0%	2,286,279	214,652	2,500,930
2022	591,822	1.0%	2,309,142	214,652	2,523,793
2023	597,740	1.0%	2,332,233	214,652	2,546,884
2024	603,717	1.0%	2,355,555	214,652	2,570,207
2025	609,755	1.0%	2,379,111	214,652	2,593,762
2026	615,852	1.0%	2,402,902	214,652	2,617,553
2027	622,011	1.0%	2,426,931	214,652	2,641,582
2028	628,231	1.0%	2,451,200	214,652	2,665,852
2029	634,513	1.0%	2,475,712	214,652	2,690,364
2030	640,858	1.0%	2,500,469	214,652	2,715,121
2031	647,267	1.0%	2,525,474	214,652	2,740,126
2032	653,739	1.0%	2,550,729	214,652	2,765,380
2033	660,277	1.0%	2,576,236	214,652	2,790,888
2034	666,880	1.0%	2,601,998	214,652	2,816,650
2035	673,548	1.0%	2,628,018	214,652	2,842,670
2036	680,284	1.0%	2,654,299	214,652	2,868,950
2037	687,087	1.0%	2,680,842	214,652	2,895,493
2038	693,958	1.0%	2,707,650	214,652	2,922,302
Total			<u>\$36,292,431</u>	<u>\$3,502,481</u>	<u>\$39,794,912</u>

Notes;

- PFC Level = \$4.50. PFC Level net of airline handling fee = \$4.39.
- Estimated Charge Expiration Date for PFC No. 7 is June 1, 2040.

Source: Historical PFC data - Airport Quarterly Report  
Projections prepared by Newton & Associates, Inc.

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### **g. Contract Facility Charges**

As previously discussed, pursuant to a Board resolution and Rental Car Concession Agreement, the Rental Car Companies are collecting a CFC from their customers for each day (maximum of ten consecutive days) that a contract is in effect. Since August 1, 2002, a \$2.00 CFC has been imposed by the Board and collected by the Rental Car Companies to allow the Board to recover its cost in designing, constructing and financing certain rental car improvements at the Airport, as well as related operation and maintenance expense and land rental expense.

The actual number of rental car contract days generated during any Fiscal Year is expected to be commensurate with passenger deplanement activity (deplanement activity generally mirrors enplanement activity). Therefore, NAI has projected said contract days to grow in proportion to the projected rate of enplanement growth (1.0%). As shown on Table V-4, CFCs are projected to increase from \$633,757 in Fiscal Year 2009 to \$659,490 in Fiscal Year 2013. During any year, any amounts of CFC eligible debt service in excess of the amount of CFC income for any such year, CFCs from the Board's CFC cash balance or General Revenues may be applied to cover any such excess.

According to Airport management, the balance of the Board's CFC account is \$2,756,357 as of June 30, 2008. Projected CFC collections are expected to exceed the estimated maximum annual debt service on the 2008 C Bonds during the Forecast Period. Therefore, no transfers from the CFC account are expected to be required to pay for debt service on the 2008 C Bonds.

### **h. Interest Income**

Interest income is generated from the Board's Discretionary Fund related investment activities. The Board budgeted interest income to be \$55,000 in Fiscal Year 2008. Interest income is projected to remain flat during the Forecast Period.

### **i. Prior Year Surplus – Budgeted Forward**

For each year of the Forecast Period, the Board will budget and make \$500,000 in surplus revenues from the prior Fiscal Year available to pay debt service.

## **2. Airport Expense**

### **a. O&M Expense**

Operating expenses have been projected based upon a 5.2% annual increase over the Forecast Period. This projected increase approximates the annual rate of increase experienced by the Airport during the Study Period (5.6%), and for the purposes of this Report, NAI has assumed that this annual rate of increase in O&M expense will not be exceeded by the Board during the Forecast Period. As shown on Table V-3, O&M expense has been forecast to increase from \$9,760,866 in Fiscal Year 2009 to \$11,964,939 in Fiscal Year 2013.

## **b. Debt Service Expense**

The annual debt service expense attributable to the proposed 2008 Bonds is set forth on Table V-3.

## **c. Capital Expense (Non-Debt)**

For each year of the Forecast Period, an allowance of \$104,500 has been made for capital purchases and an allowance of \$500,000 has been made for non-debt, capital improvements (“Local Construction”). The allowance for Local Construction takes into consideration the improvements which comprise the 2008 Project. For the purpose of evaluating the financial feasibility of financing the 2008 Project, NAI has assumed that capital purchases and improvements in excess of these allowances will be made only if additional funds (beyond those estimated herein) will be available to fund the capital cost and to pay applicable portions of the operating expenses related thereto.

## **E. SENSITIVITY ANALYSIS**

The enplanement forecast in Section IV of the Report is based, in part, upon the assumption that airlines currently operating at the Airport will maintain operations at a level substantially equal to the FY 2008 level. NAI has analyzed the sensitivity of this assumption and the potential impact on the Board’s ability to pay debt service on the 2008 Bonds and the airline cost per enplaned passenger should variances be realized (“Sensitivity Analysis”).

The Sensitivity Analysis assumes that the number of passengers enplaned at the Airport will decrease by 10% from Fiscal Year 2009 to Fiscal Year 2010. The reduction in enplaned passengers at the Airport would result in a reduction in certain passenger sensitive revenues at the Airport, including ground transportation, parking, food, beverage and retail concessions as well as PFCs and CFCs. The results of the Sensitivity Analysis are presented on **Table V-6**.

Based upon these assumptions, Net Revenues would decrease from \$7,090,500 in FY 2009 to \$6,852,650 in FY 2010. According to Airport management, the Board would take measures to reduce operating, maintenance and capital expenses were the assumed reduction in traffic to occur. However, as a conservative measure the projections of O&M expenses and capital expenses in the Sensitivity Analysis have not been modified to reflect any such reduction during the Forecast Period.

The Sensitivity Analysis assumes that Airport management would use available PFCs in the PFC Account<sup>26</sup> in an amount of \$500,000 per year to avoid deficit cash flows during the Forecast Period. To the extent that non-scheduled capital projects are undertaken, either PFCs on hand or Board cash reserves would be required to avoid a deficit during the Forecast Period and for so long as the decreased level of enplanements continues.

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<sup>26</sup> The balance of PFCs on deposit in the PFC Account is estimated by Airport management to be \$8,674,647 as of June 30, 2008.

Assuming a 10% reduction in enplaned passengers in Fiscal Year 2010, the airline cost per enplaned passenger would increase from \$11.60 in FY 2009 to \$13.56 in FY 2010 and up to \$15.49 in FY 2013. Assuming that a sudden 10% decline in enplanements would result from circumstances experienced nationally, the level of airline cost per enplaned passenger would likely be comparable to other similarly sized airports across the country.

**TABLE V-6**  
**BLUE GRASS AIRPORT**  
**2008 BONDS**  
**SENSITIVITY ANALYSIS**

	Budget FY 2008	Forecast Period					Average Annual Growth Rate
		Budget FY 2009	-10.0% Enp Factor Projected FY 2010	Projected FY 2011	Projected FY 2012	Projected FY 2013	
<b>REVENUES</b>							
Airline Revenues:	\$5,733,588	\$6,032,982	\$6,348,010	\$6,679,487	\$7,028,274	\$7,395,273	5.2%
Non-Airline Revenues:	10,273,991	10,818,384	10,770,759	10,770,759	11,001,709	11,083,979	0.6%
Total Revenues	\$16,007,579	\$16,851,366	\$17,118,769	\$17,450,246	\$18,029,983	\$18,479,252	2.3%
<b>OPERATION AND MAINTENANCE EXPENSES</b>	\$9,283,233	\$9,760,866	\$10,266,118	\$10,800,672	\$11,366,312	\$11,964,939	5.2%
<b>NET REVENUES</b>	\$6,724,346	\$7,090,500	\$6,852,650	\$6,649,574	\$6,663,670	\$6,514,313	-2.1%
<b>CAPITAL EXPENSES</b>							
Debt Service - Prior Bonds:	\$2,626,000	\$1,313,000	\$0	\$0	\$0	\$0	-100.0%
Debt Service - 2008 Refunding Bonds:	0	2,462,627	3,923,612	3,836,348	2,811,040	3,005,550	5.1%
Debt Service - 2008 New Money Bonds:	0	1,058,083	1,885,249	1,885,249	2,458,277	2,460,260	23.5%
Total Debt Service	\$2,626,000	\$4,833,709	\$5,808,861	\$5,721,596	\$5,269,317	\$5,465,809	3.1%
Other Capital Expenses	\$3,564,482	\$999,856	\$816,910	\$826,496	\$829,586	\$814,868	-5.0%
Total Capital Expenses	\$6,190,482	\$5,833,566	\$6,625,770	\$6,548,092	\$6,098,903	\$6,280,677	1.9%
<b>SURPLUS/(DEFICIT)</b>	<b>\$533,864</b>	<b>\$1,256,935</b>	<b>\$226,880</b>	<b>\$101,482</b>	<b>\$564,768</b>	<b>\$233,635</b>	<b>-34.3%</b>
<b>Debt Service Coverage Factor</b>	<b>1.63</b>	<b>1.39</b>	<b>1.14</b>	<b>1.12</b>	<b>1.22</b>	<b>1.15</b>	<b>-4.5%</b>
<b>Airline Cost per Enplaned Passenger</b>	<b>\$11.14</b>	<b>\$11.60</b>	<b>\$13.56</b>	<b>\$14.27</b>	<b>\$14.87</b>	<b>\$15.49</b>	<b>7.5%</b>

Source: Lexington-Fayette Urban County Airport Board  
Compiled by Newton & Associates, Inc.

11/21/08  
Sensitivity Analysis v3.xls

## **VI. SUMMARY OF ASSUMPTIONS AND CONCLUSION**

Based on the analyses and findings herein and assumptions and conditions described below, NAI expects the Airport to generate revenues in each year of the Forecast Period sufficient to make all payments and deposits required by and to satisfy all covenants of the Board contained in the 2008 Indenture regarding the 2008 Bonds, all as set forth on Table V-3, Forecast Airport Revenues and Expenses. Said forecast is based upon the following assumptions and conditions:

### **A. ASSUMPTIONS AND CONDITIONS UNDERLYING FORECAST REVENUE AND EXPENSES**

- (i) The principal amount of the 2008 Bonds will not exceed \$77,075,000 and the proceeds will be sufficient to complete the 2008 Project and the 2008 Refunding;
- (ii) Debt service on the 2008 Bonds will not be more than the amounts projected during the Forecast Period;
- (iii) Airlines will continue to serve the Airport and passenger enplanement traffic will continue at levels equal to or greater than those projected during the Forecast Period;
- (iv) No international conflicts or terrorist attacks will occur which directly or indirectly compromise the safety and operation of the U.S. commercial air transportation system;
- (v) The Board will set parking rates as necessary to produce incremental parking revenues sufficient to pay the debt service, and operating and maintenance expense allocable to the terminal drive relocation element of the 2008 Project;
- (vi) There will be no competitive off-Airport parking facilities within three miles of the entrance to the Airport Terminal and the Board will impose and collect an access fee for all off-Airport parking services which discharge and pick up parking patrons on Airport property;
- (vii) The Board will impose and collect CFCs in an amount at least equal to the debt service on the 2008 Series C Bonds;
- (viii) The Board will not increase operating and maintenance expenditures during the Forecast Period at a rate greater than that set forth in the pro-forma Forecast of Airport Revenues and Expenses unless revenues are realistically expected to exceed the forecast amount and will reduce operating and maintenance expenditures in any year, as necessary, to accommodate revenues anticipated to fall below the forecast amounts;
- (ix) The Board's PFC Application No. 7 will be approved by the FAA, and airlines will continue to collect and remit to the Board PFCs in at least the amounts shown and set forth in the pro-forma Forecast of Airport revenues and expenses;
- (x) The Board will continue to adopt and manage annual Airport operating budgets which result in fair and reasonable airline rates and charges at the Airport; and

- (xi) Neither the Board, the Lexington-Fayette Urban County Government, the Remarketing Agent nor the Credit Supply Provider will act in any manner which would constitute an event of default as set forth in the 2008 Indenture, the Credit Support Instruments as defined in the 2008 Indenture or other applicable instrument which would result in an increase in the interest rates on the 2008 Bonds above the rates assumed by NAI in forecasting debt service payments during the Forecast Period, or an acceleration of the payment of the 2008 Bonds.

## **B. CONCLUSION**

In NAI's opinion, the assumptions and conditions set forth above, which are the basis for our analysis and financial forecasts, are reasonable by industry standards. It is inevitable, however, that some variance from the assumptions and conditions upon which this analysis is based will occur during the Forecast Period. Some of these variances could be material and could result in revenues and expenses which are materially different from those set forth in Table V-3. In our opinion, however, barring any unforeseen material reduction in passengers or airline service to the Airport, the Airport will be able to generate revenues during the Forecast Period sufficient to defray: (i) Airport operating and maintenance expenditures incurred during the Forecast Period; and (ii) 2008 Bonds debt service payable during the Forecast Period. Accordingly, NAI concludes that it is financially feasible for the Board to issue its 2008 Bonds in the amounts and for the purposes described herein.

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**APPENDIX B**

**GENERAL INFORMATION, LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**

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LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 CHANGES IN FUND BALANCE, GENERAL FUND  
 LAST TEN FISCAL YEARS  
 (Budgetary Basis of Accounting)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Revenues</b>										
Licenses and Permits	\$129,093,656	\$138,606,697	\$150,426,657	\$155,566,415	\$159,054,097	\$164,661,161	\$177,623,046	\$188,632,470	\$197,805,430	\$214,665,674
Taxes	12,731,743	12,977,902	13,904,666	12,513,674	13,539,941	14,547,490	15,729,458	17,731,787	17,156,666	18,150,819
Charges for Services	11,160,169	15,114,957	13,455,129	16,198,920	17,671,856	20,402,491	20,279,414	21,260,954	21,003,296	22,215,574
Fines and Forfeitures	167,013	274,002	407,111	279,558	382,532	236,226	245,150	184,104	323,063	57,192
Intergovernmental	1,481,534	1,406,255	1,662,247	1,786,032	1,941,787	2,079,144	3,693,236	2,418,670	2,465,624	2,133,350
Property Sales	453,324	168,381	1,011,609	367,425	33,617	1,479,458	438,709	516,536	349,715	465,537
Income on Investments	1,538,252	1,284,191	1,182,639	1,399,319	334,302	127,728	90,639	533,607	1,481,463	2,971,942
Other	1,562,961	1,398,893	1,654,839	1,847,097	1,711,660	1,483,755	1,138,913	1,873,064	1,743,395	4,088,217
<b>Total Revenues</b>	<b>158,188,652</b>	<b>171,231,278</b>	<b>183,704,897</b>	<b>189,958,440</b>	<b>194,669,792</b>	<b>205,017,453</b>	<b>219,238,565</b>	<b>233,151,192</b>	<b>242,328,652</b>	<b>264,748,305</b>
<b>Expenditures and Other</b>										
<b>Financing Sources (Uses)</b>										
General Government <sup>(2)</sup>	6,465,834	4,048,212	4,269,422	5,255,625	4,843,238	5,513,279	3,680,801	3,668,705	4,458,163	5,048,021
Administrative Services <sup>(1)</sup>	3,222,783	10,159,579	12,146,051	11,917,682	10,796,794	15,396,156	14,858,450	13,228,125	15,582,368	15,276,489
Finance	4,115,357	4,772,184	5,241,297	5,652,458	5,911,517	6,061,481	6,473,910	6,773,332	7,256,067	7,745,982
Public Works	8,953,334	11,644,306	12,481,138	14,176,205	11,954,671	11,377,147	10,706,996	12,389,534	12,637,417	11,771,654
Public Safety	65,067,419	71,509,758	78,610,088	90,125,329	92,178,648	94,704,416	99,730,690	111,767,425	131,079,150	138,132,390
Social Services <sup>(2)</sup>	5,991,328	6,105,080	6,374,415	6,397,213	6,244,601	6,590,974	7,871,084	9,143,767	9,274,916	10,617,866
General Services	18,913,261	19,968,701	21,249,518	22,107,660	21,735,067	22,410,805	21,644,848	24,917,618	25,299,456	28,318,762
Housing & Community Dev <sup>(1)</sup>	3,331,916									
Law	1,220,301	1,300,007	1,600,344	1,579,136	1,590,374	1,820,584	1,613,724	1,876,412	1,923,928	1,782,008
Outside Agencies	20,070,545	21,964,307	23,010,520	23,190,541	23,416,545	23,526,902	22,818,075	18,258,584	14,349,512	15,464,809
Debt Service	11,231,809	11,070,468	16,176,071	17,420,469	19,360,248	18,851,660	20,447,860	20,802,641	21,585,420	25,662,867
Other Financing (Sources) Uses	3,262,910	3,283,472	1,029,332	1,511,884	973,404	(1,981,067)	(479,708)	4,860,964	140,864	202,328
Residual Equity Transfers	1,828,255	2,638,332	1,757,346	2,027,561						
<b>Total Expenditures and Other Financing Sources (Uses)</b>	<b>153,675,052</b>	<b>168,464,406</b>	<b>183,945,542</b>	<b>201,361,763</b>	<b>199,005,107</b>	<b>204,272,337</b>	<b>209,366,730</b>	<b>227,687,107</b>	<b>243,587,261</b>	<b>260,023,176</b>
<b>Net Change in Fund Balance</b>	<b>\$4,513,600</b>	<b>\$2,766,872</b>	<b>(\$240,645)</b>	<b>(\$11,403,323)</b>	<b>(\$4,335,315)</b>	<b>\$745,116</b>	<b>\$9,871,835</b>	<b>\$5,464,085</b>	<b>(\$1,258,609)</b>	<b>\$4,725,129</b>

(1) Department reorganization in FY 1999 moved Housing and Community Development to Administrative Services.

(2) Department reorganization in FY 2004 moved the Mayor's Training Center to Social Services.

Source: Department of Finance, Lexington-Fayette Urban County Government

Lexington-Fayette Urban County Government  
Outstanding Debt as of 6/30/08

B-2

	Issue Date	Original Issue	Final Maturity	Bonds Retired	Outstanding Principal
<b>General Obligation Bonds</b>					
Bonds, Notes, Loans and Leases					
Series 1999A, Detention Center Project	Apr-1999	67,115,000	May-2024	64,730,000	2,385,000
Series 1999 B, Public Library Project	Nov-1999	3,570,000	Nov-2019	1,010,000	2,560,000
Series 2000 A, Golf Course Improvements	Feb-2000	8,460,000	Feb-2020	2,405,000	6,055,000
Series 2000 D, Stormwater	Dec-2000	10,675,000	Dec-2010	6,940,000	3,735,000
Series 2000 E, Building Purchase and Pool	Dec-2000	9,335,000	Dec-2020	2,330,000	7,005,000
Series 2001 B, Purchase of Development Rights	Nov-2001	7,635,000	Dec-2021	1,725,000	5,910,000
Series 2002 B, Government Center Improvements	May-2002	2,330,000	May-2012	1,310,000	1,020,000
Series 2002 C, Storm Water Improvements and Road Const.	May-2003	4,570,000	Dec-2022	1,405,000	3,165,000
Series 2003 A, Refunding	Dec-2003	19,185,000	May-2010	15,210,000	3,975,000
Series 2003 B, Fire Equipment notes	Dec-2003	1,455,000	Feb-2011	1,020,000	435,000
Series 2004 B, Equipment Notes	May-2004	2,350,000	May-2011	1,285,000	1,065,000
Series 2004 C, Multi Purpose Project	Jul-2004	9,640,000	Jul-2024	1,035,000	8,605,000
Series 2005 B, Fire Equipment Notes	Apr-2005	2,830,000	Apr-12	1,140,000	1,690,000
Series 2005 C, PDR & Building Renovations	Jun-2005	4,490,000	Jun-2025	720,000	3,770,000
Series 2006 A, Equipment Notes	Apr-2006	14,390,000	May-2011	6,995,000	7,395,000
Series 2006 B, Equipment, Fire Station, and Neighborhood	Jun-2006	10,310,000	Jun-2026	1,585,000	8,725,000
Series 2000, KLC Lease	May-2002	360,000	May-2012	175,000	185,000
Series 2006 C, Purchase of Development Rights	Nov-2006	2,055,000	Nov-2026	70,000	1,985,000
Series 2006 D, Refunding	Nov-2006	56,850,000	May-2024	450,000	56,400,000
Subtotal:		<u>237,605,000</u>		<u>111,540,000</u>	<u>126,065,000</u>
<b>Public Facilities Corporation</b>					
Series 2006 Refunding	Jul-1998	<u>66,725,000</u>	Jul-2032	<u>66,725,000</u>	<u>66,725,000</u>
Subtotal		<u>66,725,000</u>		<u>66,725,000</u>	<u>66,725,000</u>
<b>Public Parking Corporation</b>					
Mortgage Revenue Refunding Bonds, Series 1998	Mar-1998	<u>7,260,000</u>	Feb-2010	<u>5,790,000</u>	<u>1,470,000</u>
Subtotal		<u>7,260,000</u>		<u>5,790,000</u>	<u>1,470,000</u>
<b>Sanitary Sewer System</b>					
Refunding Revenue Bonds, Series 1996	Jun-1996	14,860,000	Jul-2009	14,055,000	805,000
Sanitary Sewer, Series 2001A	May-2001	25,150,000	Jul-2021	3,510,000	21,640,000
Sanitary Sewer, Series 2001B	May-2001	16,860,000	Jul-2012	3,590,000	13,270,000
Subtotal		<u>56,870,000</u>		<u>21,155,000</u>	<u>35,715,000</u>
<b>Airport Corporation</b>					
Mortgage Revenue Bonds, Series 1994	Jun-1994	14,400,000	Apr-2024	13,000,000	1,400,000
Mortgage Revenue Bonds, Series 1998	Apr-1998	20,500,000	Jul-2028	5,800,000	14,700,000
Mortgage Revenue Bonds, Series 2003	Dec-2003	29,050,000	Jul-2033	400,000	28,650,000
Subtotal		<u>63,950,000</u>		<u>19,200,000</u>	<u>44,750,000</u>
<b>Lexington Center Corporation</b>					
Capital Appreciation	Jun-1993	35,973,400	Oct-2012	24,560,600	11,412,800
Series 2001	Oct-2001	<u>20,000,000</u>	Oct-2021	<u>20,000,000</u>	<u>20,000,000</u>
Subtotal		<u>55,973,400</u>		<u>44,560,600</u>	<u>31,412,800</u>
Total:		<u>488,383,400</u>		<u>268,970,600</u>	<u>306,137,800</u>

Lexington-Fayette Urban County Government  
 Combined Debt Service Schedule  
 as of 6/30/08

Fiscal year	General Obligation		Revenue/Lease Revenue					Subtotal	Less Subsidized Payments *	Total
			LFUCG			Outside Agencies				
	Prior Issues	Current Issue	Public Facilities	Public Parking	Sanitary Sewer	Airport	Lexington Center			
2008	22,538,574		3,495,313	790,028	5,590,981	2,834,606	3,545,490	38,794,992	15,267,821	23,527,171
2009	18,945,023		3,720,991	789,840	5,581,263	2,610,440	8,191,703	39,839,260	19,615,178	20,224,082
2010	15,978,333		4,491,063	786,000	5,569,225	2,448,475	8,017,700	37,290,796	20,035,019	17,255,777
2011	15,772,167		4,488,794		5,569,219	2,789,735	8,358,954	36,978,869	20,715,133	16,263,736
2012	10,901,722		4,483,813		5,566,781	2,621,540	8,188,321	31,762,176	20,372,511	11,389,666
2013	10,166,284		4,485,925		5,559,300	2,756,570	8,315,870	31,283,949	20,627,346	10,656,603
2014	9,927,500		4,484,938		1,981,125	2,987,085	4,968,210	24,348,858	13,932,914	10,415,944
2015	9,930,081		4,484,369		1,984,625	2,110,725	4,095,350	22,605,149	12,187,875	10,417,274
2016	9,752,304		4,488,869		1,979,750	2,354,880	4,334,630	22,910,433	12,668,166	10,242,266
2017	8,825,273		4,489,569		1,981,375	2,217,050	4,198,425	21,711,691	12,395,109	9,316,582
2018	8,835,581		4,486,469		1,984,125	2,356,800	4,340,925	22,003,900	12,681,044	9,322,856
2019	8,830,755		4,489,369		1,982,875	2,067,035	4,049,910	21,419,944	12,096,714	9,323,230
2020	8,830,480		4,483,169		1,982,500	2,283,500	4,266,000	21,845,649	12,528,516	9,317,133
2021	7,828,303		4,487,669		1,982,750	2,293,625	4,276,375	20,868,722	12,550,866	8,317,856
2022	7,094,211		4,485,734		1,983,375	2,202,460	4,185,835	19,951,616	12,366,742	7,584,874
2023	6,530,228		4,487,088			2,212,585		13,229,901	6,209,948	7,019,953
2024	6,342,226		4,488,181			2,271,210		13,101,618	6,268,035	6,833,583
2025	1,467,048		4,483,913			2,377,365		8,328,325	6,375,978	1,952,348
2026	525,195		4,481,913			2,404,650		7,411,758	6,400,391	1,011,367
2027	148,045		4,486,569			2,505,110		7,139,724	6,503,347	636,376
2028			4,489,531			2,576,700		7,066,231	6,574,966	491,266
2029			4,485,694			2,670,175		7,155,869	6,666,278	489,591
2030			3,902,488			1,859,780		5,762,268	5,422,087	340,181
2031			3,900,125			1,892,855		5,792,980	5,453,455	339,525
2032			3,901,175			1,973,995		5,875,170	5,535,783	339,387
2033						2,001,910		2,001,910	2,001,910	-
2034						2,102,890		2,102,890	2,102,890	-
Total	<u>189,169,332</u>	<u>-</u>	<u>108,652,726</u>	<u>2,365,868</u>	<u>51,279,269</u>	<u>63,783,751</u>	<u>83,333,698</u>	<u>498,584,644</u>	<u>295,556,020</u>	<u>203,028,624</u>

B-3

\* Includes reimbursement for the Administrative Office of the Courts of the Commonwealth of Kentucky and direct payment of debt by the Airport Corporation, Lexington Center Corporation

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
NET ASSETS  
LAST FIVE FISCAL YEARS

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Governmental Activities</b>					
Investment in Capital Assets, net of related debt	\$106,003,137	\$108,187,766	\$128,533,898	\$964,032,556	\$965,683,982
Restricted	2,238,907	1,253,571	1,316,495	10,509,131	19,918,500
Unrestricted	15,083,835	15,892,881	29,526,571	50,390,084	30,807,379
<b>Total governmental activities net assets</b>	<b>\$123,325,879</b>	<b>\$125,334,218</b>	<b>\$159,376,964</b>	<b>\$1,024,931,771</b>	<b>\$1,016,409,861</b>
<b>Business-type Activities</b>					
Investment in Capital Assets, net of related debt	\$224,820,344	\$245,267,827	\$243,680,021	\$245,818,433	\$244,593,588
Restricted	31,352,044	31,575,194	33,688,305	34,565,941	39,914,276
Unrestricted (deficit)	(6,993,925)	(204,318)	5,634,802	11,084,804	14,020,822
<b>Total business-type activities net assets</b>	<b>\$249,178,463</b>	<b>\$276,638,703</b>	<b>\$283,003,128</b>	<b>\$291,469,178</b>	<b>\$298,528,686</b>
<b>Primary Government</b>					
Investment in Capital Assets, net of related debt	\$330,823,481	\$353,455,593	\$372,213,919	\$1,209,850,989	\$1,210,277,570
Restricted	33,590,951	32,828,765	35,004,800	45,075,072	59,832,776
Unrestricted	8,089,910	15,688,563	35,161,373	61,474,888	44,828,201
<b>Total primary government net assets</b>	<b>\$372,504,342</b>	<b>\$401,972,921</b>	<b>\$442,380,092</b>	<b>\$1,316,400,949</b>	<b>\$1,314,938,547</b>

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 CHANGES IN NET ASSETS  
 LAST FIVE FISCAL YEARS  
 (Accrual Basis of Accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Expenses</b>					
<b>Governmental Activities:</b>					
General Government	\$9,744,039	\$21,293,008	\$22,840,721	\$21,977,521	\$23,927,771
Administrative Services	24,993,517	18,938,746	23,522,220	27,674,322	34,445,260
Health, Dental and Vision Insurance	10,480,431	10,592,090	14,011,082	14,740,182	13,301,058
Finance	6,280,716	6,876,648	6,670,050	6,629,421	10,464,204
Public Works	37,484,504	33,960,939	35,320,695	93,199,722	68,896,198
Public Safety	7,078,379	7,232,363	9,001,079	8,363,244	11,937,598
Police	43,399,766	42,794,170	47,320,658	56,588,057	56,980,657
Fire and Emergency Services	36,207,002	36,841,543	39,390,542	47,469,043	53,242,082
Community Corrections	24,505,670	24,478,660	27,326,172	28,539,978	29,028,326
Social Services	8,931,694	9,070,442	10,579,394	13,379,478	15,493,804
General Services	12,854,362	16,242,299	16,998,086	18,493,537	10,855,412
Parks and Recreation	14,012,815	13,380,436	14,840,330	16,739,980	19,428,046
Law	1,824,518	1,642,220	2,041,719	1,946,786	2,115,341
Outside Agencies	32,704,463	27,718,643	267,976	178,667	0
Interest on Long-Term Debt	5,840,627	5,739,105	6,236,280	6,291,512	6,378,169
Debt Service - Other	5,957,246	6,444,538	1,261,204	1,040,970	1,056,289
<b>Total governmental activities</b>	<b>282,299,749</b>	<b>283,245,850</b>	<b>277,628,208</b>	<b>363,252,420</b>	<b>357,550,215</b>
<b>Business-type Activities:</b>					
Sanitary Sewer System	21,319,274	22,347,738	23,554,596	24,553,305	26,703,501
Public Facilities	13,568,097	13,500,561	12,121,284	12,175,005	10,444,503
Public Parking	967,952	941,821	891,857	909,544	511,198
Landfill	4,662,162	5,423,413	4,233,412	1,391,578	1,651,318
Right of Way	75,665	261,494	266,933	292,284	307,012
Extended School Program	1,230,845	1,387,203	1,452,385	1,578,873	1,967,573
Prisoners' Account System	1,053,084	1,360,709	1,472,693	1,363,204	1,273,913
Enhanced 911	2,650,745	2,300,114	2,112,518	2,107,592	3,057,919
LexVan Program		17,545	40,296	35,122	62,228
Small Business Development		108,343	3,562	8,838	0
<b>Total business-type activities</b>	<b>45,527,824</b>	<b>47,648,941</b>	<b>46,149,536</b>	<b>44,415,345</b>	<b>45,979,165</b>
<b>Total primary government</b>	<b>\$327,827,573</b>	<b>\$330,894,791</b>	<b>\$323,777,744</b>	<b>\$407,667,765</b>	<b>\$403,529,380</b>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 CHANGES IN NET ASSETS  
 LAST FIVE FISCAL YEARS (contd.)  
 (Accrual Basis of Accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Program Revenues</b>					
Governmental Activities:					
Charges for Services	\$35,905,736	\$33,999,515	\$41,277,818	\$41,095,215	\$52,228,120
Operating Grants and Contributions	22,330,711	33,101,398	20,838,959	19,297,952	31,988,064
Capital Grants and Contributions	12,607,442	13,256,243	12,970,715	15,349,943	3,138,381
Total governmental activities	<u>70,843,889</u>	<u>80,357,156</u>	<u>75,087,492</u>	<u>75,743,110</u>	<u>87,354,565</u>
Business-type Activities:					
Charges for Services	51,414,204	54,421,012	49,825,599	50,784,976	47,072,248
Operating Grants and Contributions	117,840	125,744	49,825,599	50,784,976	47,072,248
Total business-type activities	<u>51,532,044</u>	<u>54,546,756</u>	<u>49,825,599</u>	<u>50,784,976</u>	<u>47,072,248</u>
Total primary government	<u>\$122,375,933</u>	<u>\$134,903,912</u>	<u>\$124,913,091</u>	<u>\$126,528,086</u>	<u>\$134,426,813</u>
<b>Net (Expense)/Revenue</b>					
Governmental activities	(\$211,455,860)	(\$202,888,694)	(\$202,540,716)	(\$287,509,310)	(\$270,195,650)
Business-type activities	6,004,220	6,897,815	3,676,063	6,369,631	1,093,083
Total primary government	<u>(\$205,451,640)</u>	<u>(\$195,990,879)</u>	<u>(\$198,864,653)</u>	<u>(\$281,139,679)</u>	<u>(\$269,102,567)</u>
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental Activities:					
Property Taxes	\$40,127,166	\$41,964,425	\$43,189,707	\$44,889,961	\$47,791,867
Licenses and Permits	165,005,241	178,942,755	188,973,285	197,857,140	210,698,736
Grants and Contributions Not Restricted to Specific Programs:					
Community Development Block Grant	8,547,728	3,567,315	2,570,656	2,264,419	2,126,818
Income on Investments	804,561	507,868	1,839,509	3,395,527	6,121,269
Sale of Assets	1,617,773	457,849	523,841	956,340	(1,041,367)
Bond Refunding		(19,185,000)			
Miscellaneous	938,222	918,323	767,547	827,029	963,926
Conveyance of Asset Transfers	94,318	(1,136,353)	(1,281,083)	670,254	(2,116,880)
Total governmental activities	<u>217,135,009</u>	<u>206,037,182</u>	<u>236,583,462</u>	<u>250,860,670</u>	<u>261,236,315</u>
Business-type Activities:					
Income on Investments	977,186	662,485	1,397,929	2,728,854	2,802,634
Sale of Assets		3,587	9,350	17,819	(183,523)
Bond Refunding		18,760,000			
Transfers	(94,318)	1,136,353	1,281,083	(670,254)	3,308,054
Total business-type activities	<u>882,868</u>	<u>20,562,425</u>	<u>2,688,362</u>	<u>2,076,419</u>	<u>5,927,165</u>
Total primary government	<u>\$218,017,877</u>	<u>\$226,599,607</u>	<u>\$239,271,824</u>	<u>\$252,937,089</u>	<u>\$267,163,480</u>
<b>Change in Net Assets</b>					
Governmental activities	\$5,679,149	\$3,148,488	\$34,042,746	(\$36,648,640)	(\$8,959,335)
Business-type activities	6,887,088	27,460,240	6,364,425	8,446,050	7,020,248
Prior Period Adjustment - Government Activities <sup>(1)</sup>				902,203,447	437,425
Prior Period Adjustment-Business-type Activities		(1,140,149)		20,000	39,260
Total primary government	<u>\$12,566,237</u>	<u>\$29,468,579</u>	<u>\$40,407,171</u>	<u>\$874,020,857</u>	<u>(\$1,462,402)</u>

(1) The prior period adjustment in FY2006 includes \$902,066,962 retroactively reporting infrastructure due to the full implementation of GASB 34.

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 FUND BALANCES, GOVERNMENTAL FUNDS  
 LAST TEN FISCAL YEARS  
 (Modified Accrual Basis of Accounting)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund										
Reserved	\$3,849,506	\$3,750,230	\$5,592,934	\$5,865,274	\$4,595,676	\$6,345,782	\$3,473,224	\$4,940,741	\$4,845,381	\$4,637,101
Unreserved										
Designated for Economic Contingency	4,352,261	5,002,728	5,303,539	5,607,306	5,745,936	5,825,468	5,878,356	5,996,710	8,272,087	11,894,147
Designated for Payroll	845,590	1,229,957	1,684,209	2,241,726	2,859,554	2,890,562	3,300,418	4,260,723		556,400
Designated for Working Capital	6,691,313	7,459,448	7,148,324	7,575,459	4,757,915	3,600,360	3,864,830	3,394,250	7,036,780	9,634,602
Designated for Pay Adjustments							906,180			
Designated for Lexington Center Corp.	882,000	768,000	654,000	540,000						
Designated for Debt		528,234								
Undesignated	19,917,257	21,235,061	20,881,587	8,730,980	4,179,207	3,674,154	12,177,065	17,468,671	17,734,190	15,713,298
Total	<u>\$36,537,927</u>	<u>\$39,973,658</u>	<u>\$41,264,593</u>	<u>\$30,560,745</u>	<u>\$22,138,288</u>	<u>\$22,336,326</u>	<u>\$29,600,073</u>	<u>\$36,061,095</u>	<u>\$37,888,438</u>	<u>\$42,435,548</u>
Urban Services										
Reserved	\$615,173	\$2,782,958	\$798,108	\$2,069,789	\$3,525,288	\$3,031,240	\$1,419,156	\$3,796,313	\$2,963,095	\$1,661,414
Designated for Payroll	77,869	100,496	127,015	158,555	191,011	233,899	302,654	367,505		45,700
Undesignated	7,816,983	9,503,322	13,464,874	16,168,353	16,720,062	15,193,297	18,167,725	17,637,287	20,771,372	26,852,738
Total	<u>\$8,510,025</u>	<u>\$12,386,776</u>	<u>\$14,389,997</u>	<u>\$18,396,697</u>	<u>\$20,436,361</u>	<u>\$18,458,436</u>	<u>\$19,889,535</u>	<u>\$21,801,105</u>	<u>\$23,734,467</u>	<u>\$28,559,852</u>
All Other Governmental Funds										
Reserved	\$8,507,153	\$54,940,471	\$20,540,550	\$21,926,669	\$11,484,513	\$12,562,673	\$9,770,889	\$9,119,957	\$11,641,885	\$6,521,413
Undesignated, reported in:										
Special revenues funds	4,515,560	4,639,046	3,695,720	2,907,391	1,953,071	3,462,414	3,486,847	4,315,924	6,789,094	8,770,810
Capital projects funds	(2,197,499)	(4,333,995)	(4,425,450)	(3,221,473)	9,501,913	5,883,281	1,014,962	19,410,938	25,849,967	14,852,272
Federal and State Grants					1,294,046	1,169,455	329,493	514,983	235,303	313,460
Total	<u>\$10,825,214</u>	<u>\$55,245,522</u>	<u>\$19,810,820</u>	<u>\$21,612,587</u>	<u>\$24,233,543</u>	<u>\$23,077,823</u>	<u>\$14,602,191</u>	<u>\$33,361,802</u>	<u>\$44,516,249</u>	<u>\$30,457,955</u>

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS  
 LAST TEN FISCAL YEARS  
 (Modified Accrual Basis of Accounting)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Revenues</b>										
Licenses and Permits	\$129,379,308	\$140,106,975	\$150,863,316	\$156,766,735	\$160,717,826	\$165,274,588	\$179,533,692	\$189,786,177	\$198,653,467	\$215,760,874
Taxes	29,910,260	31,024,465	33,863,033	34,100,242	37,203,745	40,127,166	41,964,425	43,189,707	44,889,961	47,791,867
Charges for Services	11,242,630	15,123,431	13,455,129	16,236,396	20,404,416	20,489,827	20,449,154	21,561,092	20,648,157	22,350,901
Fines and Forfeitures	167,013	274,002	407,111	279,558	382,532	236,226	245,150	184,104	323,063	57,192
Local Contributions					2,325,000					
Intergovernmental	17,492,022	20,154,798	22,187,033	33,095,607	38,269,881	41,632,430	47,380,792	30,321,835	31,784,556	32,419,475
Exactions					561,670	1,754,136	1,754,558	4,767,468	2,823,892	1,584,199
Grant Match	2,863,309	3,686,128	3,085,475	3,938,607	2,271,624	2,766,839	2,450,210	2,025,396	2,256,329	2,178,329
Property Sales	468,842	185,177	1,122,090	448,380	87,186	138,315	457,849	523,841	956,340	785,073
Income on Investments	2,722,250	3,037,034	4,502,957	4,058,755	1,562,701	773,032	451,123	1,420,555	3,366,361	5,737,945
Other	3,101,936	2,868,964	3,289,571	4,356,229	3,554,903	5,667,056	4,230,933	5,544,293	5,787,271	7,260,457
<b>Total Revenues</b>	<b>197,347,570</b>	<b>216,460,974</b>	<b>232,775,715</b>	<b>253,280,509</b>	<b>267,341,484</b>	<b>278,859,615</b>	<b>298,917,886</b>	<b>299,324,468</b>	<b>311,489,397</b>	<b>335,926,312</b>
<b>Expenditures</b>										
General Government	8,642,971	5,730,821	6,110,943	6,638,002	9,869,176	9,552,502	21,330,624	9,812,520	8,635,249	6,706,895
Administrative Services	6,596,728	10,752,753	12,754,916	13,081,228	15,961,216	17,683,142	29,924,619	24,077,384	25,104,922	25,431,738
Finance	4,137,945	4,772,212	5,129,343	5,656,743	6,096,794	6,118,472	6,488,798	6,593,458	7,145,881	9,890,462
Public Works	25,534,121	30,380,578	31,857,753	35,092,859	40,375,022	42,235,913	36,175,381	41,247,381	40,430,609	34,857,640
Public Safety	65,350,273	71,592,929	78,803,752	90,116,892	98,744,205	103,806,458	106,315,766	118,307,014	137,232,016	142,764,740
Social Services	5,895,957	6,154,800	6,417,544	6,333,898	9,288,878	9,929,597	11,162,991	13,389,135	12,245,264	13,347,071
General Services	20,513,685	20,085,066	24,744,941	23,545,747	25,560,791	25,270,975	23,757,464	24,696,780	30,279,293	28,040,506
Law	1,205,675	1,309,346	1,587,512	1,552,463	1,576,323	1,879,329	1,630,466	1,861,769	1,575,637	2,064,825
Outside Agencies	19,840,591	22,145,267	22,633,574	23,672,691	31,840,555	32,513,602	27,557,006	18,876,456	15,846,048	15,613,480
Special Projects	14,974,707	17,970,485	19,617,032	28,490,679	2,044,329					
Debt Service:										
Principal	268	0	1,040,000	3,455,000	7,743,568	9,711,219	10,404,328	14,156,321	15,030,273	18,797,661
Interest and Other	13,087,421	12,428,666	16,280,100	15,429,992	14,348,596	11,914,692	12,150,607	7,634,836	7,384,493	7,594,762
Capital	2,081,315	22,603,640	56,106,029	23,009,888	22,324,958	22,168,069	17,883,186	12,927,159	21,389,866	36,861,883
<b>Total Expenditures</b>	<b>187,861,657</b>	<b>225,926,563</b>	<b>283,083,439</b>	<b>276,076,082</b>	<b>285,774,411</b>	<b>292,783,970</b>	<b>304,781,236</b>	<b>293,580,213</b>	<b>322,299,551</b>	<b>341,971,663</b>
Excess (Deficiency) of Revenues over (under) Expenditures	9,485,913	(9,465,589)	(50,307,724)	(22,795,573)	(18,432,927)	(13,924,355)	(5,863,350)	5,744,255	(10,810,154)	(6,045,351)
<b>Other Financing Sources (Uses)</b>										
Transfers In	2,469,541	1,195,900	2,558,258	3,260,939	810,599	2,620,303	1,820,461	5,719,846	6,807,387	3,746,037
Transfers Out	(3,476,155)	(3,472,376)	(2,095,188)	(5,704,885)	(2,194,686)	(3,666,134)	(2,956,814)	(7,000,929)	(6,137,133)	(7,054,091)
Property Sales						1,479,458				
Bond and Note Proceeds		66,113,187	19,753,684	22,371,699	15,415,000	10,490,000	6,590,000	22,325,000	24,700,000	59,082,958
Refunding of Debt										(54,415,352)
Bond Anticipation Note							445,187	304,813	7,599	
Premium (Discount) on Bonds Issued					(148,782)	65,121	183,730	39,218	210,968	
<b>Total Other Financing Sources (Uses)</b>	<b>(1,006,614)</b>	<b>63,836,711</b>	<b>20,216,754</b>	<b>19,927,753</b>	<b>13,882,131</b>	<b>10,988,748</b>	<b>6,082,564</b>	<b>21,387,948</b>	<b>25,588,821</b>	<b>1,359,552</b>
<b>Net Change in Fund Balances</b>	<b>\$8,479,299</b>	<b>\$54,371,122</b>	<b>(\$30,090,970)</b>	<b>(\$2,867,820)</b>	<b>(\$4,550,796)</b>	<b>(\$2,935,607)</b>	<b>\$219,214</b>	<b>\$27,132,203</b>	<b>\$14,778,667</b>	<b>(\$4,685,799)</b>
Debt Service as a percentage of noncapital expenditures	7.0%	6.1%	7.6%	7.5%	8.4%	8.0%	7.9%	7.8%	7.4%	8.7%

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
NET ASSESSED VALUE  
REAL, TANGIBLE, & INTANGIBLE PROPERTY  
(In Thousands)

Fiscal Year	Residential	Farms	Commercial	Oil, Mineral & Timber Rights	Tangible	Intangible	Total	Less Intangible	Total Taxable Assessed Value	Total Direct Tax Rate (Per \$100 of Assessed value)
1998	6,532,272	343,270	3,242,046		3,597,853	2,284,417	15,999,859	2,284,417	13,715,442	0.2965
1999	6,920,397	373,289	3,404,515		3,390,608	2,103,419	16,192,228	2,103,419	14,088,809	0.2965
2000	7,522,125	395,484	3,724,821	837	3,766,229	2,087,704	17,497,199	2,087,704	15,409,495	0.2965
2001	8,283,396	412,231	4,037,026	968	4,380,481	2,168,617	19,282,719	2,168,617	17,114,102	0.2955
2002	9,141,865	446,553	4,326,255		4,213,642	2,073,358	20,201,673	2,073,358	18,128,316	0.2945
2003	9,823,997	465,697	4,543,167	870	4,303,219	4,208,933	23,345,884	4,208,933	19,136,951	0.2945
2004	10,486,256	545,897	4,695,549	806	4,397,630	3,183,438	23,309,575	3,183,438	20,126,137	0.2904
2005	11,287,423	559,829	4,897,578	770	4,315,023	3,527,423	24,588,044	3,527,423	21,060,622	0.2704
2006	12,304,135	596,790	5,110,109	839	4,615,906	4,255,901	26,883,680	4,255,901	22,627,779	0.2704
2007	13,207,008	624,912	5,444,972	1,524	5,030,923		24,309,339		24,309,339	0.2704

Note: Property is assessed at 100% fair market value. The intangible property tax rate was repealed as of January 1, 2006 per Kentucky Revised Statute 132.208.

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
1998	\$26,940,017	\$26,993,769	100.2%	\$244,417	\$27,238,186	101.1%
1999	28,467,989	28,109,892	98.7%	219,905	28,329,797	99.5%
2000	31,037,271	30,855,685	99.4%	89,107	30,944,792	99.7%
2001	33,902,023	33,308,041	98.2%	221,065	33,529,106	98.9%
2002	37,350,328	36,419,100	97.5%	241,290	36,660,389	98.2%
2003	39,997,319	39,116,817	97.8%	490,377	39,607,194	99.0%
2004	41,930,263	40,877,962	97.5%	496,473	41,374,436	98.7%
2005	41,915,431	41,211,370	98.3%	1,429,648	42,641,018	101.7%
2006	44,526,763	44,342,484	99.6%	231,649	44,574,133	100.1%
2007	47,282,303	47,245,216	99.9%	47,172	47,292,388	100.0%

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 DIRECT AND OVERLAPPING PROPERTY TAX RATES  
 LAST TEN FISCAL YEARS  
 (RATE PER \$100)

Fiscal Year	LFUCG Direct Rates					Overlapping Rates						Total
	General	Urban Services			Total Direct	Fayette County School	Commonwealth of Kentucky	Extension Services	Soil & Water Conservation	Health Department	Lextran	
		Refuse	Street Lights	Street Cleaning								
1998	0.0810	0.1750	0.0311	0.0094	0.2965	0.5390	0.1570					0.9925
1999	0.0810	0.1750	0.0311	0.0094	0.2965	0.5460	0.1530					0.9955
2000	0.0810	0.1750	0.0311	0.0094	0.2965	0.5400	0.1480					0.9845
2001	0.0800	0.1750	0.0311	0.0094	0.2955	0.5320	0.1410					0.9685
2002	0.0790	0.1750	0.0311	0.0094	0.2945	0.5280	0.1360					0.9585
2003	0.0790	0.1750	0.0311	0.0094	0.2945	0.5280	0.1350					0.9575
2004	0.0800	0.1750	0.0260	0.0094	0.2904	0.5330	0.1330	0.0032	0.0004			0.9600
2005	0.0800	0.1600	0.0210	0.0094	0.2704	0.5350	0.1310	0.0032	0.0004	0.0280		0.9680
2006	0.0800	0.1600	0.0210	0.0094	0.2704	0.5380	0.1310	0.0031	0.0004	0.0280	0.0600	1.0309
2007	0.0800	0.1600	0.0210	0.0094	0.2704	0.5380	0.1310	0.0031	0.0004	0.0280	0.0600	1.0309

Note: All taxpayers in Fayette County are subject to the General Service rate. Full Service rate is for taxpayers receiving complete urban services. Rates would be reduced for those taxpayers receiving less than full urban services.

The annual increase in real property tax revenue, excluding new assessments, must be 4% or less. Any amount over 4% is subject to a recall vote.

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 TEN MAJOR OCCUPATIONAL WITHHOLDERS  
 CURRENT YEAR AND NINE YEARS AGO

<u>Name</u>	<u>2007 Rank</u>	<u>1998 Rank</u>
University of Kentucky	1	1
Lexmark International	2	2
Fayette County Board of Education	3	3
Lexington-Fayette Urban County Government	4	4
St. Joseph Hospital	5	9
Baptist Healthcare	6	7
Ashland, Inc.	7	6
Department of Veterans Affairs	8	5
Lexington Clinic	9	
Commonwealth of Kentucky	10	
IBM Information Products		8
General Telephone South		10

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 PRINCIPAL PROPERTY TAX PAYERS  
 CURRENT YEAR AND NINE YEARS AGO

Name	2007			1998		
	Taxable Assessed Value	Rank	% of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	% of Total City Taxable Assessed Value
Lexington Joint Venture	\$56,707,600	1	0.23%	46,389,000	3	0.34%
Lexmark International Inc.	56,228,400	2	0.23%			
Fourth Quarter Properties	53,562,800	3	0.22%			
Meijer Stores Ltd	35,473,300	4	0.15%			
Diamondrock Griffin	32,500,000	5	0.13%			
Ball Homes, Inc.	32,334,800	6	0.13%	47,866,200	2	0.35%
Weingarten Realty Inc.	31,474,900	7	0.13%			
Geneva Organization	30,100,000	8	0.12%			
Main Street EH LLC	29,200,000	9	0.12%			
Mid American Apts	26,228,000	10	0.11%			
IBM Information Products				93,263,700	1	0.68%
Bank One				34,550,600	4	0.25%
CHCK Inc.				30,470,300	5	0.22%
Griffin Gate Association				28,475,000	6	0.21%
Lexington Financial				26,800,000	7	0.20%
MCV Venture				24,800,000	8	0.18%
Humco, Inc.				24,771,200	9	0.18%
Bluegrass Building Partners				22,527,500	10	0.16%
<b>Total</b>	<b>\$383,809,800</b>		<b>1.57%</b>	<b>\$379,913,500</b>		<b>2.77%</b>

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 DIRECT AND OVERLAPPING  
 LICENSE FEE RATES  
 LAST TEN FISCAL YEARS

Fiscal Year	LFUCG Direct Rate	Fayette County School	Total
1998	2.25%	0.50%	2.75%
1999	2.25%	0.50%	2.75%
2000	2.25%	0.50%	2.75%
2001	2.25%	0.50%	2.75%
2002	2.25%	0.50%	2.75%
2003	2.25%	0.50%	2.75%
2004	2.25%	0.50%	2.75%
2005	2.25%	0.50%	2.75%
2006	2.25%	0.50%	2.75%
2007	2.25%	0.50%	2.75%

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST NINE FISCAL YEARS

Fiscal Year	General Obligation Bonds	% of Assessed Value of Property	Per Capita
1999	\$67,115,000	0.48%	\$259
2000	89,530,000	0.58%	343
2001	108,430,000	0.63%	412
2002	117,900,000	0.65%	446
2003	119,795,000	0.63%	447
2004	136,560,000	0.68%	506
2005	144,905,000	0.69%	532
2006	154,760,000	0.68%	561
2007	142,805,000	0.59%	512

Note: Details regarding LFUCG outstanding debt can be found in the notes to the financial statements.

General obligation debt was not issued prior to fiscal year 1999.

See page for property value data and page for population data.

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities				Business-type Activities			Total Primary Government	% of Personal Income	Primary Government Debt Per Capita
	General Obligation Bonds, Notes, Leases	Mortgage Revenue Bonds	Lease Revenue Notes Payable	Bond Anticipation Notes	Revenue Bonds	Mortgage Revenue Bonds	Lease Revenue Notes			
1998		\$6,875,000	\$3,734,002		\$43,065,446	\$50,650,000	\$11,555,000	\$115,879,448	1.6%	\$454
1999	67,115,000	5,410,000	3,231,725		40,470,755	116,075,000	11,470,000	243,772,480	3.2%	942
2000	89,530,000	3,870,000	2,836,238		37,750,286	112,125,000	6,190,000	252,301,524	3.1%	966
2001	108,430,000	2,255,000	2,419,811		59,578,753	108,010,000	2,280,000	282,973,564	3.4%	1,075
2002	117,900,000	885,000	1,991,244		56,710,531	103,730,000		281,216,775	3.3%	1,063
2003	119,795,000	285,000	1,543,585		53,375,000	98,320,000		273,318,585	3.1%	1,021
2004	136,560,000		434,255		50,040,000	73,940,000		260,974,255	2.8%	968
2005	144,905,000		257,934	742,401	46,560,000	71,680,000		264,145,335	2.7%	970
2006	154,760,000		72,661	750,000	42,915,000	69,625,000		268,122,661	2.6%	972
2007	142,805,000				39,400,000	68,885,000		251,090,000	na	900

Note: Details regarding LFUCG outstanding debt can be found in the notes to the financial statements.  
See page for personal income and population data.

Source: Department of Finance, Lexington-Fayette Urban County Government

TABLE 15

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 SCHEDULE OF DIRECT AND OVERLAPPING INDEBTEDNESS  
 AS OF JUNE 30, 2007

	Principal Outstanding
Kentucky Infrastructure, City of Lexington, and Lexington-Fayette Urban County Government Sewer Assessment Bonds	\$105,000
Lexington Center Corporation	
Refunding and Improvement Mortgage Revenue Bonds, Series 1993	13,338,876
Mortgage Revenue Bonds, Series 2001	20,000,000
Lexington-Fayette Urban County Government Airport Corporation	
First Mortgage Revenue Bonds, Series 1994	1,500,000
First Mortgage Revenue Bonds, Series 1998	15,500,000
First Mortgage Revenue Bonds, Series 2003	29,050,000
Fayette County School & Kentucky School Commission Bonds	210,014,167
Lexington-Fayette Urban County Department of Health	1,015,000
Subtotal, Overlapping Debt	290,523,043
LFUCG, Direct Debt	251,090,000
Total Direct and Overlapping Indebtedness	\$541,613,043

## Note

Industrial Revenue Bonds, Industrial Development Bonds, Multi-Family and Single Family Housing Bonds are not included in this schedule of overlapping debt as they are not secured by the full faith and credit of Lexington-Fayette Urban County Government.

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
LEGAL DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS  
(In Thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Assessed Value	\$15,999,859	\$16,192,228	\$17,497,199	\$19,282,719	\$20,201,673	\$23,345,884	\$23,309,575	\$24,588,044	\$26,883,680	\$24,309,339
Debt limit (10% of Assessed Value)	\$1,599,986	\$1,619,223	\$1,749,720	\$1,928,272	\$2,020,167	\$2,334,588	\$2,330,958	\$2,458,804	\$2,688,368	\$2,430,934
Total net debt applicable to limit		188,916	201,302	190,933	190,533	187,635	187,350	181,675	176,110	171,270
Legal debt margin	\$1,599,986	\$1,430,307	\$1,548,418	\$1,737,339	\$1,829,634	\$2,146,953	\$2,143,608	\$2,277,129	\$2,512,258	\$2,259,664
Total net debt applicable to the limit as a percentage of debt limit	0.00%	11.67%	11.50%	9.90%	9.43%	8.04%	8.04%	7.39%	6.55%	7.05%

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 DEMOGRAPHIC AND ECONOMIC STATISTICS  
 LAST TEN FISCAL YEARS

Fiscal Year	Population	Personal Income (Thousands)	Per Capita Personal Income	Civilian Labor Force		
				Employed	Unemployed	Unemployment Rate
1998	255,017	\$7,288,898	\$28,582	138,817	2,883	2.0%
1999	258,704	7,683,140	29,699	142,278	2,838	2.0%
2000	261,192	8,135,408	31,147	144,470	4,420	3.0%
2001	263,330	8,412,416	31,946	141,950	5,522	3.7%
2002	264,568	8,558,655	32,350	139,303	6,229	4.3%
2003	267,794	8,774,357	32,765	139,285	6,837	4.7%
2004	269,631	9,197,855	34,113	137,816	6,033	4.2%
2005	272,219	9,798,607	35,995	139,182	6,679	4.6%
2006	275,915	10,437,265	37,828	142,077	6,582	4.4%
2007	279,044	na	na	144,393	6,056	4.0%

Source: The Bureau of Labor Statistics

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
EMPLOYMENT BY INDUSTRY, FAYETTE COUNTY  
Based on 1987 Standard Industrial Classification

Year	Farm	Agricultural Service	Mining	Construction	Manufacturing	Transportation & Public Utilities	Wholesale Trade	Retail Trade	Finance, Insurance and Real Estate	Services	Government and Government Enterprises	Total Employment by Place of Work
1997	1,984	3,759	396	11,547	18,894	8,839	9,184	36,281	12,404	62,323	32,240	197,851
1998	1,793	3,949	392	11,900	19,301	9,211	9,331	36,650	12,455	63,440	32,605	201,027
1999	1,831	4,327	312	12,687	19,417	9,235	9,215	37,534	12,481	65,535	33,326	205,900
2000	1,805	4,506	308	13,076	19,142	9,225	9,177	38,238	12,768	66,775	35,434	210,454

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
EMPLOYMENT BY INDUSTRY, FAYETTE COUNTY  
Based on 2002 North American Industry Standard

Year	Farm	Forestry, Fishing and Related Activities	Mining	Construction	Manufacturing	Wholesale Trade, Transportation and Utilities	Information	Retail Trade	Finance, Insurance and Real Estate	Services	Government and Government Enterprises	Total Employment by Place of Work
2001	1,852	3,107	335	12,727	16,252	13,314	5,315	24,222	13,180	79,852	35,156	205,312
2002	1,821	2,924	339	11,478	14,993	12,860	5,075	23,878	13,259	81,320	34,208	202,155
2003	2,067	2,644	438	11,432	14,347	13,024	4,883	23,897	13,330	82,154	35,099	203,315
2004	2,000	2,484	452	11,524	14,174	12,621	4,367	23,831	13,978	85,688	34,607	205,726
2005	1,717	2,499	494	11,875	14,864	13,225	4,456	24,022	14,277	87,802	34,910	210,141
2006	1,708	2,882	589	11,980	15,034	13,083	4,445	24,091	15,129	89,795	36,138	214,874

Source: The Bureau of Economic Analysis

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
U.S. CENSUS BUREAU STATISTICS

	1980 Census		1990 Census		2000 Census	
	Value	%	Value	%	Value	%
<b>Population and Number of Households</b>						
Population						
Under 18 years	51,617	25.3%	50,416	22.4%	55,533	21.3%
18 - 64 years	135,046	66.1%	152,638	67.7%	178,805	68.6%
65 years and over	17,502	8.6%	22,312	9.9%	26,174	10.0%
Total	<u>204,165</u>	100.0%	<u>225,366</u>	100.0%	<u>260,512</u>	100.0%
Number of Households	75,303		89,529		108,288	
<b>Economic and Education</b>						
Family Income						
Less than \$10,000	10,321	20.3%	5,979	10.5%	3,587	5.6%
\$10,000 - \$24,999	22,256	43.7%	12,365	21.7%	8,947	14.1%
\$25,000 - \$49,999	15,387	30.2%	20,889	36.7%	17,124	26.9%
\$50,000 - \$74,999	1,923	3.8%	10,790	19.0%	14,759	23.2%
\$75,000 or more	1,006	2.0%	6,850	12.0%	19,231	30.2%
Total Families	<u>50,893</u>	100.0%	<u>56,873</u>	100.0%	<u>63,648</u>	100.0%
Median Family Income	\$19,821		\$35,936		\$53,264	
Mean Family Income	\$23,223		\$44,467		\$52,261	
Per Capita Income	\$9,547		\$20,355		\$23,109	
School Enrollment						
Elementary/Secondary	36,407		32,858		36,938	
College	23,578		28,339		31,508	
Education for Individuals 25+ years of age						
Less than 9th grade	18,264	15.9%	11,760	8.3%	8,539	5.1%
High School, No Diploma	14,434	12.5%	16,365	11.5%	15,213	9.1%
High School Graduate	32,495	28.2%	33,238	23.4%	37,448	22.4%
College 1 - 3 years	20,438	17.8%	37,299	26.2%	46,420	27.8%
College 4 or more years	29,424	25.6%	43,454	30.6%	59,615	35.6%
Total	<u>115,055</u>	100.0%	<u>142,116</u>	100.0%	<u>167,235</u>	100.0%
Unemployment Rate	4.7%		3.7%		1.8%	

Source: U.S. Census Bureau

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
 LFUCG EMPLOYEES BY FUNCTION/PROGRAM  
 LAST TEN FISCAL YEARS  
 (Excluding Temporary, Seasonal, and Part-Time Employees)

Function/Program	Employees as of the Last Pay Period of the Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Administrative Services	141	134	147	149	145	150	140	139	143	145
General Government	84	86	88	89	96	94	67	64	70	74
Finance	81	90	86	91	99	100	94	90	98	94
General Services										
Parks and Recreation	141	137	156	161	166	169	172	180	187	183
Other	171	168	169	167	166	169	157	124	129	132
Law	17	17	18	19	19	20	19	18	19	21
Public Safety										
Fire and Emergency Services										
Firefighters and Officers	432	441	461	472	477	473	464	498	504	530
Civilians	32	33	40	40	42	40	38	39	37	23
Police										
Officers	439	428	451	459	488	469	471	472	527	534
Civilians	144	161	172	189	153	162	192	184	177	151
Community Corrections	209	236	300	336	342	347	371	383	357	376
Other	44	52	57	65	69	71	72	73	78	78
Public Works										
Solid Waste	188	210	220	228	225	238	236	217	221	211
Sanitary Sewers	118	114	113	121	119	121	129	125	130	135
Other	156	166	165	167	176	173	168	154	162	162
Social Services	143	149	158	150	147	156	163	160	174	169
	<u>2,540</u>	<u>2,622</u>	<u>2,801</u>	<u>2,903</u>	<u>2,929</u>	<u>2,952</u>	<u>2,953</u>	<u>2,920</u>	<u>3,013</u>	<u>3,018</u>

B-22

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Fire and Emergency Services</b>										
Emergency Medical Calls	22,589	23,134	24,102	24,743	25,901	28,345	27,750	28,698	28,772	30,087
False Calls	2,389	2,380	2,644	2,827	2,806	3,082	2,721	2,606	2,560	2,667
Fire Incidents	1,278	1,430	1,538	1,331	1,182	1,366	1,356	1,194	1,315	1,402
Good Intent Calls	na	1,112								
Hazardous Materials Calls	1,032	893	956	942	1,352	1,484	1,115	1,155	1,090	1,087
Other	na	129								
Rescues	na	517								
Rupture - Gas, Water, etc.	na	52								
Service Calls	1,047	1,126	1,096	1,211	1,201	1,065	985	1,022	1,128	1,161
<b>Police</b>										
Physical Arrests **	20,020	20,090	21,125	19,605	19,747	19,835	22,422	22,295	23,411	24,677
Parking Violations **	32,435	34,798	36,403	36,404	25,247	18,185	16,325	20,874	21,668	17,665
Traffic Violations **	70,157	73,486	73,298	62,141	59,059	57,351	67,115	66,954	67,487	75,014
<b>Parks and Recreation</b>										
Rounds of Golf	191,076	186,292	179,367	172,964	177,604	160,958	159,505	154,124	152,659	139,353
Pool Visits	300,208	283,589	288,208	225,522	233,689	209,408	180,417	180,619	199,496	198,181
<b>Building Inspection</b>										
Permits Issued *	10,715	12,112	12,699	11,768	12,533	19,172	19,875	20,514	20,719	16,620
Inspections	23,500	26,844	25,562	28,406	28,574	32,869	36,937	38,669	39,773	29,991
<b>Sanitary Sewers</b>										
Tap-on Inspections **	2,127	1,845	2,140	1,955	1,955	2,025	2,212	2,131	2,108	1,681
Average daily sewage treatment (mgd) **	36	36	33	36	40	43	48	51	38	42
<b>Solid Waste</b>										
Annual tons of refuse collected	na	na	na	150,622	154,178	157,121	157,618	156,347	152,969	154,637
Annual tons of recyclables collected	na	na	na	na	5,568	6,825	10,412	11,668	15,188	18,740
<b>Other Public Works</b>										
Street Resurfacing (miles)	28	25	31	25	21	19	21	23	16	40

\* Increase in FY 2003 was due to the February 2003 ice storm event and the addition of a new mechanical permitting program.

\*\* Calendar Year

Source: Department of Finance, Lexington-Fayette Urban County Government

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**APPENDIX C**

**FINANCIAL INFORMATION, LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**

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Offices in Lexington and Louisville

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Lexington-Fayette Urban County Airport Board  
Lexington, Kentucky

We have audited the accompanying financial statements of Lexington-Fayette Urban County Airport Board (the Airport), a component unit of Lexington-Fayette Urban County Government, as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Airport, and are not intended to present fairly the financial position of the Lexington-Fayette Urban County Government, or the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lexington-Fayette Urban County Airport Board, as of June 30, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2008 on our consideration of the Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Directors  
Lexington-Fayette Urban County Airport Board  
Lexington, Kentucky

Page Two

Our audits were conducted for the purpose of forming an opinion on the financial statements of Lexington-Fayette Urban County Airport Board, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplementary information, as listed in the table of contents, for the years ended June 30, 2008 and 2007, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Potter & Company, LLP*

POTTER & COMPANY, LLP  
November 19, 2008



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the Lexington-Fayette Urban County Airport Board's (the Board) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Blue Grass Airport (the Airport) for the fiscal year ended June 30, 2008. The information contained in this MD&A should be considered in conjunction with the information contained in the Transmittal Letter.

Following this MD&A are the basic financial statements of the Airport together with the notes thereto which are essential to a full understanding of the data contained in the financial statements. In addition to the basic financial statements and accompanying notes, there are accompanying supplementary schedules regarding debt service requirements to maturity and individual fund statements.

### AIRPORT ACTIVITIES AND HIGHLIGHTS

As of June 30, 2008, the Airport was served by twelve passenger carriers representing six airline brands, one regularly scheduled all-cargo and several special cargo carriers. During fiscal year 2008, Blue Grass Airport maintained its non-stop service to thirteen destinations. Blue Grass Airport received a third daily flight to Memphis, Tennessee on Northwest Airlines. With new service soon to be offered by Allegiant Air to Orlando and Tampa Bay. Blue Grass Airport is looking forward to increased passenger statistics in the next fiscal year.

#### Operations statistical data

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Enplanements	520,056	515,752	529,766
increase (decrease)	4,304	(14,014)	(27,257)
% increase (decrease)	0.83%	(2.65%)	(4.89%)
Aircraft operations - commercial	28,019	27,766	30,093
increase (decrease)	253	(2,327)	(6,996)
% increase (decrease)	0.91%	(7.73%)	(18.86%)
Aircraft operations - general aviation	48,571	51,569	49,832
increase (decrease)	(2,998)	1,737	2,202
% increase (decrease)	(5.81%)	3.49%	4.62%
Aircraft operations - military	1,356	1,358	1,636
increase (decrease)	(2)	(278)	380
% increase (decrease)	(0.15%)	(16.99%)	30.25%
Landed weight (1,000 pounds)	657,050	657,728	759,854
decrease	(678)	(102,126)	(82,508)
% decrease	(0.10%)	(13.44%)	(9.79%)
Air mail (lbs)	2,690	5,961	1,721
increase (decrease)	(3,271)	4,240	158
% increase (decrease)	(54.87%)	246.37%	10.11%
Air freight (lbs)	399,983	436,365	554,192
increase (decrease)	(36,382)	(117,827)	67,670
% increase (decrease)	(8.34%)	(21.26%)	13.91%



## FINANCIAL OPERATIONS AND HIGHLIGHTS

### Operations

- Operating revenues increased from \$11.07 million in fiscal year (FY) 2007 to \$11.68 million in FY 2008. The following describes the fluctuations of certain types of operating revenues:
  - ◆ Airline landing fees and related operations income decreased approximately \$150,000, a decrease of 3.7%.
  - ◆ Auto parking increased approximately \$500,000 due to increased parking rates.
  - ◆ Ground transportation increased approximately \$100,000 which reflected continued financial returns from the updated lease agreements.
  - ◆ General aviation increased approximately \$120,000 due to increased commissions and land rent.
- Operating expenses increased from \$9.18 million to \$10.07 million due to the following:
  - ◆ Personnel expenses increased approximately \$270,000 due to salaries and wages increases and related increases in employee benefits for health insurance and post-retirement health care.
  - ◆ Prior year had bad debt recoveries of \$240,000. Current year only had \$20,000.
  - ◆ Public relations and marketing increased approximately \$80,000 due to increased emphasis in that area.
  - ◆ Utilities expense increased approximately \$85,000.
  - ◆ Insurance expense increased approximately \$80,000.
- Non-operating revenue (expense) and capital grants decreased from \$20.8 million to \$6.1 million due to the following:
  - ◆ Capital grants decreased approximately \$15 million due to less construction and related reimbursement in FY 2008.

The increase in net assets for fiscal year 2008 was \$610,000 as compared to \$16.3 million in 2007 and \$11.3 million in 2006.

### Capital projects

The Airport was involved with several large capital projects in fiscal year FY 2008. Some of these included:

- Runway 4/22 safety area improvements (all phases) - \$35.1 million total; \$1.5 million in FY 2008
- Concourse gate addition - \$18.8 million total; \$1.3 million in FY 2008
- Replacement runway 9/27 design and assessment - \$1.3 million in FY 2008
- Taxiway D relocation - \$530,000 in FY 2008

The majority of funding for the above projects is through AIP grants obtained from the FAA as well as passenger facility charges.

In addition, the Airport funded several other capital projects. These included:

- Terminal concourse interior improvements - \$1.4 million in FY 2008
- Escalator at checkpoint one - \$200,000 in FY 2008
- General aviation entrance road - \$100,000 in FY 2008
- Main entrance enhancement- \$60,000 in FY 2008

Additional information on the Airport's capital assets can be found in Note 3 to the financial statements.



**SUMMARY OF CASH FLOW ACTIVITIES**

The following shows a summary of the major sources and uses of cash and cash equivalents for the past three years. Cash equivalents are considered cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash flow from operating activities	\$ 2,433,399	\$ 1,659,037	\$ 2,374,452
Cash flow used in capital and related financing activities	(3,301,747)	(5,084,338)	(12,186,041)
Cash flow from investing activities	<u>(919,673)</u>	<u>5,883,114</u>	<u>9,880,129</u>
Net increase in cash and cash equivalents	(1,788,021)	2,457,813	68,540
Cash and cash equivalents, beginning of year	<u>3,861,349</u>	<u>1,403,536</u>	<u>1,334,996</u>
Cash and cash equivalents, end of year	<u>\$ 2,073,328</u>	<u>\$ 3,861,349</u>	<u>\$ 1,403,536</u>

**LONG-TERM DEBT**

The following is a summary of long-term debt activity for the Airport for the past three years:

	<u>1994</u> <u>bonds</u>	<u>1998</u> <u>bonds</u>	<u>2003</u> <u>bonds</u>	<u>Notes</u> <u>payable</u>
Principal at July 1, 2005	\$ 1,700,000	\$ 17,000,000	\$ 29,050,000	\$ 560,669
Principal paid during FY 2006	<u>(100,000)</u>	<u>(700,000)</u>	<u>0</u>	<u>(560,669)</u>
Principal at June 30, 2006	1,600,000	16,300,000	29,050,000	0
Principal paid during FY 2007	<u>(100,000)</u>	<u>(800,000)</u>	<u>0</u>	<u>0</u>
Principal at June 30, 2007	1,500,000	15,500,000	29,050,000	0
Principal paid during FY 2008	<u>(100,000)</u>	<u>(800,000)</u>	<u>(400,000)</u>	<u>0</u>
Principal at June 30, 2008	1,400,000	14,700,000	28,650,000	0
Less deferred costs	0	(207,066)	0	0
Balance at June 30, 2008	<u>\$ 1,400,000</u>	<u>\$ 14,492,934</u>	<u>\$ 28,650,000</u>	<u>\$ 0</u>

Additional information regarding long-term debt is provided in Note 4 to the financial statements and in supplementary schedules.



## SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 11,683,893	\$ 11,073,447	\$ 11,048,426
Operating expenses	<u>(10,073,715)</u>	<u>(9,177,640)</u>	<u>(8,702,397)</u>
Excess before depreciation and non-operating income and expenses	1,610,178	1,895,807	2,346,029
Depreciation and amortization	<u>(7,059,965)</u>	<u>(6,402,654)</u>	<u>(5,870,391)</u>
Loss before non-operating income and expenses	(5,449,787)	(4,506,847)	(3,524,362)
Non-operating revenues	<u>2,409,150</u>	<u>2,353,264</u>	<u>2,229,579</u>
Income (loss) before capital grants	(3,040,637)	(2,153,583)	(1,294,783)
Capital grants	<u>3,653,157</u>	<u>18,490,593</u>	<u>12,559,663</u>
Increase in net assets	<u>\$ 612,520</u>	<u>\$ 16,337,010</u>	<u>\$ 11,264,880</u>

## FINANCIAL POSITION SUMMARY

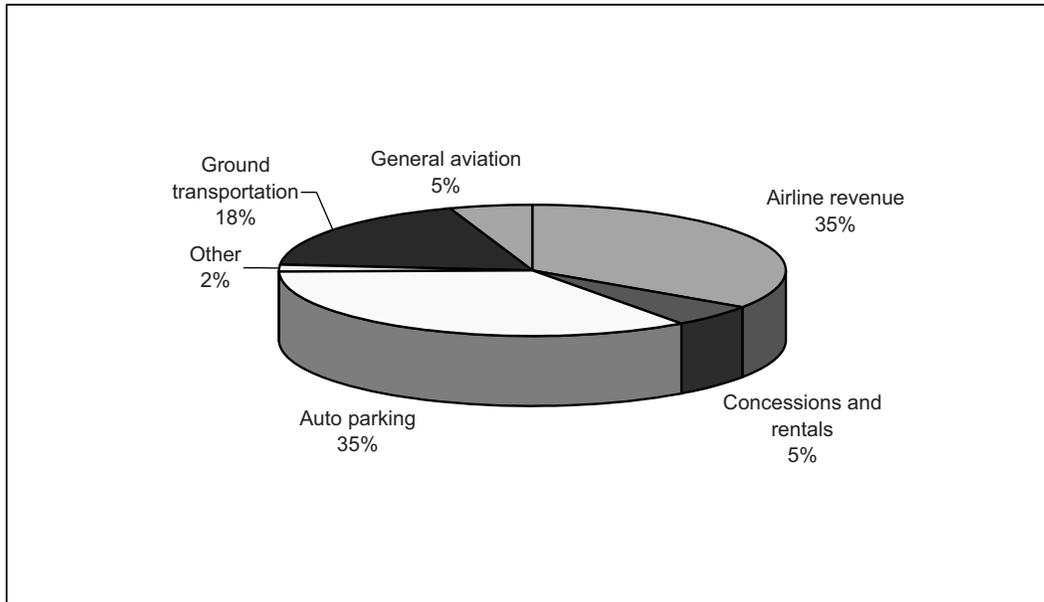
Net assets may serve over time as a useful indicator of the Airport's financial position. The Airport's assets exceeded liabilities by \$95.8 million at June 30, 2008, a \$500,000 increase from June 30, 2007 and a \$16.8 million increase from June 30, 2006.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current and other assets	\$ 27,342,658	\$ 27,869,027	\$ 30,528,124
Capital assets	<u>116,295,970</u>	<u>115,755,158</u>	<u>101,740,518</u>
Total assets	<u>\$ 143,638,628</u>	<u>\$ 143,624,185</u>	<u>\$ 132,268,642</u>
Liabilities:			
Current liabilities	\$ 4,674,982	\$ 3,808,532	\$ 7,500,471
Noncurrent liabilities	<u>43,067,934</u>	<u>44,532,461</u>	<u>45,821,989</u>
Total liabilities	<u>\$ 47,742,916</u>	<u>\$ 48,340,993</u>	<u>\$ 53,322,460</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 84,680,217	\$ 82,030,262	\$ 66,262,028
Restricted	5,897,340	5,785,631	5,600,033
Unrestricted	<u>5,318,155</u>	<u>7,467,299</u>	<u>7,084,121</u>
Total net assets	<u>\$ 95,895,712</u>	<u>\$ 95,283,192</u>	<u>\$ 78,946,182</u>



## REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2008.



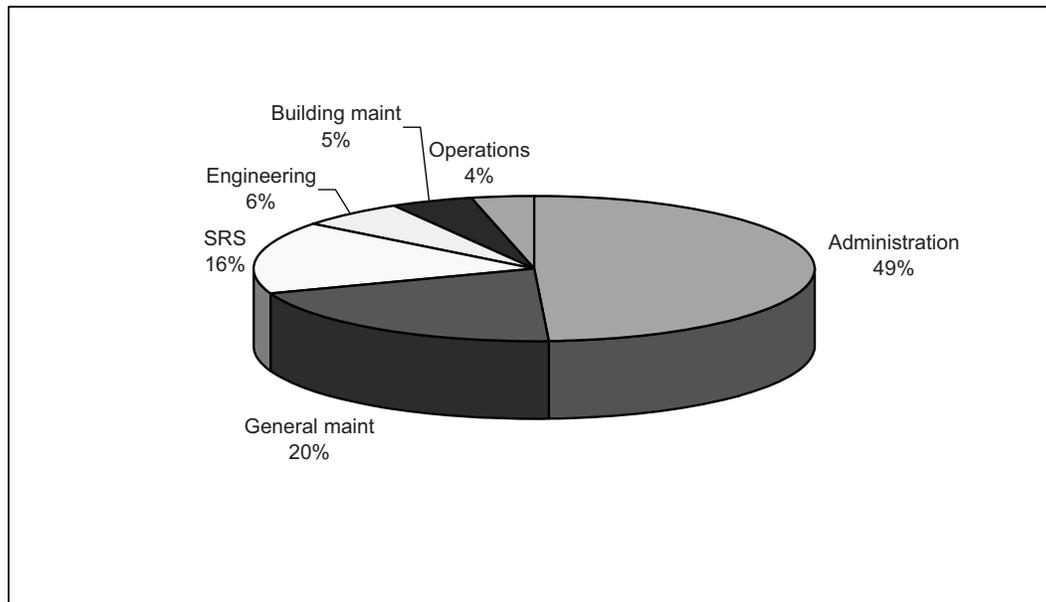
A summary of revenues for the year ended June 30, 2008, and the amount and percentage of change in relation to prior years amounts is as follows:

	<u>2008 amount</u>	<u>Percent of total</u>	<u>Percent increase (decrease)</u>	<u>2007 amount</u>	<u>2006 amount</u>
Operating:					
Airline landing fees and related operations	\$ 4,031,164	21.72%	(3.70%)	\$ 4,185,906	\$ 4,334,517
Auto parking	4,057,317	21.86%	13.57%	3,572,516	3,540,588
Ground transportation	2,115,711	11.40%	5.32%	2,008,812	1,886,678
Concessions and rentals	627,002	3.38%	2.17%	613,686	552,833
General aviation	631,601	3.40%	23.76%	510,340	520,291
Other	221,098	1.19%	21.36%	182,187	213,519
Total operating	<u>11,683,893</u>	<u>62.95%</u>	5.51%	<u>11,073,447</u>	<u>11,048,426</u>
Non-operating:					
Capital grants	3,653,157	19.68%	(80.24%)	18,490,593	12,559,663
Passenger facility charges	2,008,943	10.82%	(0.38%)	2,016,698	2,017,531
Contract facility charges	645,547	3.48%	20.94%	533,764	579,478
Local government grants	50,000	0.27%	0.00%	50,000	50,000
Investment earnings, net	519,273	2.80%	(25.93%)	701,058	481,795
Total non-operating	<u>6,876,920</u>	<u>37.05%</u>	(68.44%)	<u>21,792,113</u>	<u>15,688,467</u>
Total revenues	<u>\$ 18,560,813</u>	<u>100.00%</u>	(43.53%)	<u>\$ 32,865,560</u>	<u>\$ 26,736,893</u>



## EXPENSES

The following chart shows the major cost centers and the percentage of operating expenses for the year ended June 30, 2008.



A summary of expenses for the year ended June 30, 2008, and the amount and percentage of change in relation to prior years amounts is as follows:

	2008 amount	Percent of total	Percent increase (decrease)	2007 amount	2006 amount
<b>Operating:</b>					
Administration	\$ 4,959,145	27.63%	15.14%	\$ 4,307,239	\$ 4,299,258
General maintenance	2,050,019	11.42%	11.52%	1,838,307	1,668,436
Safety, Rescue, and Security	1,619,025	9.02%	(0.45%)	1,626,386	1,394,976
Engineering	594,051	3.31%	9.09%	544,563	529,526
Building maintenance	485,096	2.70%	8.37%	447,650	421,972
Operations	366,379	2.04%	(11.39%)	413,495	388,229
Total operating	<u>10,073,715</u>	<u>56.13%</u>	9.76%	<u>9,177,640</u>	<u>8,702,397</u>
<b>Non-operating:</b>					
Depreciation and amortization	7,059,965	39.34%	10.27%	6,402,654	5,870,391
Interest expense	814,613	4.54%	(14.09%)	948,256	892,437
Loss on disposal of assets	0	0.00%		0	6,788
Total non-operating	<u>7,874,578</u>	<u>43.87%</u>	7.12%	<u>7,350,910</u>	<u>6,769,616</u>
Total expenses	<u>\$ 17,948,293</u>	<u>100.00%</u>	8.59%	<u>\$ 16,528,550</u>	<u>\$ 15,472,013</u>



## **NET ASSETS**

The largest portion of the Airport's net assets each year (88% at June 30, 2008) represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending. Although the Airport's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be sold to pay liabilities.

An additional portion of the Airport's net assets (6% at June 30, 2008) represents bond reserve funds that are subject to external restrictions on how they can be used under bond resolutions and Passenger Facility Charges that are restricted by Federal regulations and a bond resolution until they can be used to pay future indebtedness. Unrestricted net assets (6% at June 30, 2008) may be used to meet any of the Airport's ongoing obligations.

Additional information on the Airport's net assets can be found in Note 6 to the financial statements.

## **FINANCIAL STATEMENTS**

The Airport's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles in the United States of America promulgated by the Governmental Accounting Standards Board (GASB). The Airport is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land) are depreciated over their useful lives. Amounts are restricted for debt service and, where applicable, for construction activities. See the notes to the financial statements for a summary of the Airport's significant accounting policies.

## **DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

In November 2009, Allegiant Air will begin service at Blue Grass Airport. Allegiant will provide nonstop service to Orlando and St. Petersburg-Clearwater twice per week. Each of the flights will utilize jet aircraft with 150 seats.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Airport's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Director of Administration and Finance, Lexington-Fayette Urban County Airport Board, 4000 Terminal Drive, Suite 206, Lexington, KY 40510.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**STATEMENTS OF NET ASSETS**  
June 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Unrestricted:		
Cash and cash equivalents	\$ 1,712,253	\$ 3,650,477
Investments	4,541,558	3,966,000
Accounts receivable, net of allowance for doubtful accounts of \$193,834 for 2008 and \$211,032 for 2007	1,350,956	1,330,476
Prepaid expenses	264,254	270,926
	<u>7,869,021</u>	<u>9,217,879</u>
Restricted:		
Cash and cash equivalents	361,075	210,872
Investments plus accrued interest	17,622,138	16,758,750
	<u>17,983,213</u>	<u>16,969,622</u>
Total current assets	<u>25,852,234</u>	<u>26,187,501</u>
Noncurrent assets:		
Restricted:		
Bond issue costs, net	1,490,261	1,617,996
Other assets	163	63,530
	<u>1,490,424</u>	<u>1,681,526</u>
Capital assets:		
Land improvements	27,686,878	26,643,319
Structures and improvements	136,541,373	116,710,408
Equipment	4,269,272	5,804,041
	<u>168,497,523</u>	<u>149,157,768</u>
Accumulated depreciation	(70,651,824)	(66,318,541)
	<u>97,845,699</u>	<u>82,839,227</u>
Land	1,062,960	1,062,960
Construction in progress	17,387,311	31,852,971
Capital assets, net	<u>116,295,970</u>	<u>115,755,158</u>
Total noncurrent assets	<u>117,786,394</u>	<u>117,436,684</u>
Total assets	<u>143,638,628</u>	<u>143,624,185</u>

See accompanying notes.



	<u>2008</u>	<u>2007</u>
<u>LIABILITIES</u>		
Current liabilities (payable from unrestricted assets):		
Accounts payable	1,162,852	480,742
Accrued payroll and benefits	1,238,014	1,169,326
	<u>2,400,866</u>	<u>1,650,068</u>
Current liabilities (payable from restricted assets):		
Current portion of bonds payable	1,475,000	1,300,000
Accounts payable	644,616	762,450
Accrued interest payable	154,500	96,014
	<u>2,274,116</u>	<u>2,158,464</u>
Total current liabilities	4,674,982	3,808,532
Long-term bond obligations less current maturities	<u>43,067,934</u>	<u>44,532,461</u>
Total liabilities	<u>47,742,916</u>	<u>48,340,993</u>

Commitments and contingencies

<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	<u>84,680,217</u>	<u>82,030,262</u>
Restricted:		
Debt service	5,747,340	5,685,631
Airline marketing	150,000	100,000
	<u>5,897,340</u>	<u>5,785,631</u>
Unrestricted:		
Airline partnership fund	500,000	0
Designated for maintenance and operations	500,000	500,000
Undesignated	4,318,155	6,967,299
	<u>5,318,155</u>	<u>7,467,299</u>
Total net assets	<u>\$ 95,895,712</u>	<u>\$ 95,283,192</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Airline landing fees and related operations income	\$ 4,031,164	\$ 4,185,906
Auto parking	4,057,317	3,572,516
Ground transportation	2,115,711	2,008,812
Concessions and rentals	627,002	613,686
General aviation	631,601	510,340
Air freight	49,483	50,128
Other	171,615	132,059
Total operating revenues	<u>11,683,893</u>	<u>11,073,447</u>
Operating expenses:		
Administration	4,959,145	4,307,239
General maintenance	2,050,019	1,838,307
Safety, Rescue and Security	1,619,025	1,626,386
Engineering	594,051	544,563
Building maintenance	485,096	447,650
Operations	366,379	413,495
Total operating expenses	<u>10,073,715</u>	<u>9,177,640</u>
Operating income before depreciation and amortization	1,610,178	1,895,807
Depreciation and amortization	<u>7,059,965</u>	<u>6,402,654</u>
Loss from operations	<u>(5,449,787)</u>	<u>(4,506,847)</u>
Non-operating revenue (expense):		
Passenger facility charges	2,008,943	2,016,698
Contract facility charges	645,547	533,764
Local government grants	50,000	50,000
Investment earnings, net	519,273	701,058
Interest expense including related annual fees	(814,613)	(948,256)
Net non-operating revenue	<u>2,409,150</u>	<u>2,353,264</u>
Loss before capital contributions	(3,040,637)	(2,153,583)
Capital grants	<u>3,653,157</u>	<u>18,490,593</u>
Change in net assets	612,520	16,337,010
Net assets, beginning of year	<u>95,283,192</u>	<u>78,946,182</u>
Net assets, end of year	<u>\$ 95,895,712</u>	<u>\$ 95,283,192</u>

See accompanying notes.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers	\$ 11,555,165	\$ 10,720,807
Payments to suppliers	(3,699,199)	(3,912,719)
Payments to employees	(5,594,182)	(5,281,110)
Other receipts	171,615	132,059
Net cash provided by operating activities	<u>2,433,399</u>	<u>1,659,037</u>
Cash flows from capital and related financing activities:		
Proceeds from capital grant contributions	3,653,157	18,490,593
Passenger facility charges	2,008,943	2,016,698
Contract facility charges	645,547	533,764
Local government grants	50,000	50,000
Principal paid on bonds	(1,300,000)	(900,000)
Interest paid on bonds and notes	(756,127)	(1,027,010)
Acquisition and construction of property and equipment	(7,603,267)	(24,248,383)
Net cash used in capital and related financing activities	<u>(3,301,747)</u>	<u>(5,084,338)</u>
Cash flows from investing activities:		
Interest received on investments	519,273	701,058
Sales (purchases) of investments	(1,438,946)	5,182,056
Net cash provided by (used in) investing activities	<u>(919,673)</u>	<u>5,883,114</u>
Net increase (decrease) in cash and cash equivalents	(1,788,021)	2,457,813
Cash and cash equivalents, beginning of year	<u>3,861,349</u>	<u>1,403,536</u>
Cash and cash equivalents, end of year	<u>\$ 2,073,328</u>	<u>\$ 3,861,349</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Loss from operations	\$ (5,449,787)	\$ (4,506,847)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	7,059,965	6,402,654
(Increase) decrease due to changes in:		
Accounts receivable and other assets	42,887	(220,581)
Prepaid expenses	6,672	(88,838)
Increase (decrease) due to changes in:		
Accounts payable	704,974	7,297
Accrued payroll and benefits	68,688	65,352
Net cash provided by operating activities	<u>\$ 2,433,399</u>	<u>\$ 1,659,037</u>
Supplemental schedule of noncash transactions:		
Construction in progress included in accounts payable	<u>\$ 616,311</u>	<u>\$ 757,009</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

*Organization:*

The Lexington-Fayette Urban County Airport Board (the Airport) is a component unit of the Lexington-Fayette Urban County Government (LFUCG) and its financial statements are included in LFUCG's Comprehensive Annual Financial Report as a discretely presented component unit. The Airport's Board members are appointed by the Mayor. The Airport is owned by the Lexington-Fayette Urban County Airport Corporation, a public corporation created under the laws of the Commonwealth of Kentucky.

The Airport is a political subdivision of the Commonwealth of Kentucky created in 1946 and has been established in order to ensure observance of limitations and restrictions placed on the uses of the resources available. The Airport's board of directors provides for the management and operation of the Airport by employing an Executive Director and such staff as is deemed necessary to properly operate, develop and maintain the Airport. The Executive Director is assisted by three operating Directors – Director of Administration and Finance, Director of Operations and Director of Planning and Development.

A variety of federal, state and local laws, agreements and regulations govern operations at the Airport. The Federal Aviation Administration has jurisdiction over aviation operations generally, as well as certain environmental matters. Pursuant to the Airport and Airway Improvement Act of 1982 and other statutes, the Airport is constrained from transferring Airport revenues to the Lexington-Fayette Urban County Government. This restriction is embodied in the federal grant agreements entered into by the Airport. Additionally, federal law governs the reasonableness of fees that may be charged for the use of Airport facilities, further governs Airport noise limits, and imposes certain other restrictions on Airport operations.

Revenue from landing fees, terminal space rental, auto parking, concessions and aircraft tiedown fees are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. The Airport's major expenses include professional and specialized services for security and fire protection, salaries and employee benefits and other expenses such as maintenance, insurance and utilities.

*Basis of Accounting and Accounting Presentation:*

This summary of significant accounting policies is presented to assist in understanding the Airport's financial statements. The financial statements and accompanying notes are representations of the Airport's management who is responsible for their integrity and objectivity.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with the provisions of the GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Airport has elected to apply all Financial Accounting Standards Board statements and interpretations issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Airport's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

The Airport follows the provisions of the Governmental Accounting Standards Board Statement, Nos. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments (Statement 34), 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus (Statement 37), and 38, Certain Financial Statement Note Disclosures (Statement 38), which establish the financial reporting standards for all state and local government entities.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2008 and 2007

NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Airport prepared its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America, which provide that revenues are recorded when earned and expenses are recorded when incurred. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Cash Equivalents:*

Cash equivalents are defined as short-term, highly liquid investments which are readily convertible to cash or mature within three months of original purchase. Both restricted and unrestricted amounts are included on the statements of cash flows.

*Accounts Receivable:*

Receivables are reported at their fair value and are reduced by the estimated portion that is expected to be uncollectible.

*Investments:*

Investment securities are recorded at amortized cost and are not materially different from fair market value. Investments are made only in government-backed securities. All investments are held in the Airport's name.

*Capital Assets:*

Depreciation of plant and equipment is provided on all depreciable assets, including those acquired with construction and equipment grants, over the estimated useful lives of the respective assets using the straight-line method. No depreciation is provided on construction in progress until construction is complete and the asset is placed in service. The capitalization threshold for expenditures is \$1,000.

Estimated useful lives are as follows:

Buildings	10 - 40 years
Runways, taxiways and airfield facilities	15 - 20 years
Vehicles and other equipment	5 - 10 years

*Advertising:*

Advertising costs are considered administration expenses in the year incurred and totaled \$667,643 and \$588,950 in 2008 and 2007, respectively.

*Amortization of Bond Costs:*

Amortization of bond issue costs and bond discounts is computed on the straight-line method (which approximates the effective-interest method) over the lives of the related bonds.

*Restricted assets:*

Certain proceeds of revenue bonds, as well as resources set aside for their payment, are classified as restricted assets on the balance sheet since their use is limited by applicable bond indentures. Proceeds from federal grants are restricted per the grant agreements. Passenger Facility Charge revenues are restricted as discussed in Note 8.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2008 and 2007

NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Capitalization of Interest Costs:*

The Airport follows generally accepted accounting principles by capitalizing as a cost of capital assets that portion of its interest costs (net of any interest earned on related interest-bearing investments acquired with proceeds of related tax-exempt borrowings) which represents interest incurred during the construction period on qualifying assets.

*Funds Held in Escrow:*

Proceeds from the issuance of the Revenue Bonds are held by the Bond Trustee and invested in governmental securities. The funds are released by the Bond Trustee to fund the construction costs of the related project and to make scheduled debt service payments to bondholders.

*Compensated Absences:*

Full-time employees earn from 12 to 37.5 vacation days annually and 12 to 18 sick days annually, depending on their length of employment and classification. Employees can carry forward up to a maximum of 300 hours of their vacation accrual and up to a maximum of 810 hours of sick leave for use in subsequent years.

*Income Taxes:*

As an agency of the Lexington-Fayette Urban County Government, the Airport is exempt from income taxes.

*Use of Resources:*

It is the Airport's policy to apply restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

*Derivative Instruments:*

The Airport uses derivatives to manage risks related to interest rate movements. Interest rate cap contracts designated and qualifying as cash flow hedges are reported at fair value. Fair value is determined by obtaining a price for the same or similar instrument as of year end. For June 30, 2008 and 2007, this price was obtained from the counterparty. The Airport documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Airport's interest rate risk management strategy is to limit future cash flow requirements by maintaining interest rate cap contracts which provide for reimbursement of interest payments for amounts exceeding the cap rate. The value of the interest rate cap contracts at June 30, 2008 and 2007 was approximately \$70,000 and \$135,000. This amount is included in bond issue and other costs on the statement of net assets. The decrease in value of the interest rate caps is included in amortization expense. The interest rate cap contracts expire in 2018.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE 2 - CASH AND INVESTMENTS**

*Restricted Investments and Custodial Credit Risk.* The Airport has not formally adopted deposit and investment policies. Restricted investments are held by a trustee bank, a portion of which is restricted for use in either acquiring certain assets or servicing long-term debt of the Airport as required by the bond indentures. The trustee as fiscal agent is mandated by the bond indentures as to the types of investments in which the debt issuance proceeds can be invested. Investments with the trustee are stated at fair value based on the trustee's independent valuation service.

Investments in the Construction Fund and Debt Service Funds are invested in US Treasury money market funds and held by the Airport or its agent in the Airport's name.

Investments in the General Fund and Special Revenue Fund consist of repurchase agreements which are uninsured and unregistered. The governmental securities underlying the agreements are held in the Airport's name by the Airport's trustee bank.

At June 30, 2008 and 2007, bank balance of deposits of \$2,293,074 (with a corresponding book balance of \$2,073,328) and \$2,078,392 (with a corresponding book balance of \$3,861,349), respectively, are collateralized at 100% with securities held by the pledging financial institution's trust department in the Airport's name, except for \$100,000 which is insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC limit increased to \$250,000 in October 2008.

At June 30, 2008, the Airport's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>S&amp;P Rating</u>
US Treasuries Money Market Fund	\$ 7,257,138	Maximum weighted average maturity of 90 days	N/A
Federal National Mortgage Association	4,541,558	September 1, 2033	AAA
Federal National Mortgage Association	8,079,000	March 1, 2036	AAA
Federal Home Loan Mortgage Company	<u>2,286,000</u>	July 15, 2024	AAA
Total	<u>\$ 22,163,696</u>		

*Interest Rate Risk.* The Airport does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The Airport does not have a formal policy on credit risk.

*Concentration of Credit Risk.* The Airport places no limit on the amount the Airport may invest in any one issuer.

At June 30, 2007, the Airport's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>S&amp;P Rating</u>
US Treasuries Money Market Fund	\$ 7,134,750	Maximum weighted average maturity of 90 days	N/A
Government National Mortgage Association	7,607,000	February 16, 2032	N/A
Federal National Mortgage Association	3,966,000	May 1, 2036	AAA
Federal Home Loan Bank Bonds	<u>2,017,000</u>	August 15, 2007	AAA
Total	<u>\$ 20,724,750</u>		



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 1,062,960	\$ 0	\$ 0	\$ 1,062,960
Construction in progress	<u>31,852,971</u>	<u>6,277,648</u>	<u>20,743,308</u>	<u>17,387,311</u>
Total	<u>\$ 32,915,931</u>	<u>\$ 6,277,648</u>	<u>\$ 20,743,308</u>	<u>\$ 18,450,271</u>
Other capital assets:				
Land improvements	\$ 26,643,319	\$ 1,195,304	\$ 151,745	\$ 27,686,878
Structures and other improvements	116,710,408	19,869,422	38,457	136,541,373
Equipment	<u>5,804,041</u>	<u>863,503</u>	<u>2,398,272</u>	<u>4,269,272</u>
Total other capital assets at historical cost	<u>149,157,768</u>	<u>21,928,229</u>	<u>2,588,474</u>	<u>168,497,523</u>
Less accumulated depreciation:				
Land improvements	11,675,285	1,026,736	151,745	12,550,276
Structures and other improvements	49,759,619	5,494,123	38,457	55,215,285
Equipment	<u>4,883,637</u>	<u>400,898</u>	<u>2,398,272</u>	<u>2,886,263</u>
Total accumulated depreciation	<u>66,318,541</u>	<u>6,921,757</u>	<u>2,588,474</u>	<u>70,651,824</u>
Other capital assets, net	<u>\$ 82,839,227</u>	<u>\$ 15,006,472</u>	<u>\$ 0</u>	<u>\$ 97,845,699</u>

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 1,062,960	\$ 0	\$ 0	\$ 1,062,960
Construction in progress	<u>35,233,076</u>	<u>19,846,376</u>	<u>23,226,481</u>	<u>31,852,971</u>
Total	<u>\$ 36,296,036</u>	<u>\$ 19,846,376</u>	<u>\$ 23,226,481</u>	<u>\$ 32,915,931</u>
Other capital assets:				
Land improvements	\$ 26,579,277	\$ 64,042	\$ 0	\$ 26,643,319
Structures and other improvements	93,487,124	23,223,284	0	116,710,408
Equipment	<u>5,676,523</u>	<u>255,326</u>	<u>127,808</u>	<u>5,804,041</u>
Total other capital assets at historical cost	<u>125,742,924</u>	<u>23,542,652</u>	<u>127,808</u>	<u>149,157,768</u>
Less accumulated depreciation:				
Land improvements	10,784,117	891,168	0	11,675,285
Structures and other improvements	44,832,436	4,927,183	0	49,759,619
Equipment	<u>4,681,889</u>	<u>329,556</u>	<u>127,808</u>	<u>4,883,637</u>
Total accumulated depreciation	<u>60,298,442</u>	<u>6,147,907</u>	<u>127,808</u>	<u>66,318,541</u>
Other capital assets, net	<u>\$ 65,444,482</u>	<u>\$ 17,394,745</u>	<u>\$ 0</u>	<u>\$ 82,839,227</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

NOTE 4 - LONG-TERM LIABILITIES

**Bonds Payable**

For the 1994 bonds, an irrevocable letter of credit has been established in a dollar amount equal to the original principal amount of the 1994 bonds plus interest for 65 days at 15 percent per annum. This letter of credit is drawn upon to pay all principal and interest when due on the 1994 bonds and to pay the purchase price of any 1994 bonds due upon an optional or mandatory tender. The 1994 Series A bonds were paid in full in December 2003. Interest is subject to change. See discussion of interest rates below.

Bonds payable at June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
2003 First Mortgage Revenue Bonds, Series A and B, various annual principal payments with interest payments, at various interest rate modes as defined in the official statement, payable January 8, 2004 and each fifth Thursday following. Series A is subject to arbitrage. Series B is not subject. The interest rate modes may convert to other modes than those initially prescribed by the official statement. The interest rate at June 30, 2008 was 3.06%.	\$ 28,650,000	\$ 29,050,000
1998 First Mortgage Revenue Bonds, Series A, B and C, various annual principal payments with interest payments, at various interest rate modes as defined in the official statement, payable July 1, 1999 and monthly thereafter on the first business day of each month. Series A and C are subject to arbitrage. Series B is not subject. The interest rate modes may convert to other modes than those initially prescribed by the official statement, in which case interest may then be payable on January 1 and July 1 of each year. The interest rate at June 30, 2008 was 7.85%.	14,700,000	15,500,000
1994 First Mortgage Revenue Bonds, Series B, various annual principal payments with interest payments initially at 2.85% through June 17, 1994 and thereafter at the "daily rate" payable July 1, 1994 and monthly thereafter on the first business day of each month. The issues may convert to "long-term" rates subject to conditions as described in the official statement. Subject to arbitrage. The interest rate at June 30, 2008 was 1.80%.	<u>1,400,000</u>	<u>1,500,000</u>
Total bonds payable	44,750,000	46,050,000
Less current portion	1,475,000	1,300,000
Less net amount deferred on bond refunding	<u>207,066</u>	<u>217,539</u>
Noncurrent portion of bonds payable	\$ <u>43,067,934</u>	\$ <u>44,532,461</u>

Capitalized interest expense on long-term liabilities totaled approximately \$1,010,000 and \$985,000 in 2008 and 2007, respectively. Interest income used to offset capitalized interest expense totaled approximately \$110,000 and \$300,000 in 2008 and 2007, respectively.

The net amount deferred on bond refunding represents gains on prior bond issuances that are being amortized over the respective lives of those bonds.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)**

**Bonds Payable (continued)**

Debt service requirements to maturity for all bonds outstanding of the Airport, excluding amounts deferred on bond refundings, are as follows:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	1,475,000	2,056,000	3,531,000
2010	1,350,000	1,973,000	3,323,000
2011	1,725,000	1,896,000	3,621,000
2012	1,600,000	1,796,000	3,396,000
2013	1,775,000	1,701,000	3,476,000
2014-2018	7,750,000	7,125,000	14,875,000
2019-2023	7,725,000	5,343,000	13,068,000
2024-2028	9,875,000	3,405,000	13,280,000
2029-2033	9,425,000	1,196,000	10,621,000
2034	2,050,000	63,000	2,113,000
Total	\$ <u>44,750,000</u>	\$ <u>26,554,000</u>	\$ <u>71,304,000</u>

**Changes in Long-Term Liabilities**

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2008.

<u>Type of Debt</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Bonds payable	\$ <u>46,050,000</u>	\$ <u>0</u>	\$ <u>1,300,000</u>	\$ <u>44,750,000</u>	\$ <u>1,475,000</u>

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2007.

<u>Type of Debt</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Bonds payable	\$ <u>46,950,000</u>	\$ <u>0</u>	\$ <u>900,000</u>	\$ <u>46,050,000</u>	\$ <u>1,300,000</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE 5 - PROPERTY LEASED TO OTHERS**

The Airport leases a portion of its property, plant and equipment under operating lease agreements for parking, concessions and other commercial purposes. Future minimum rental revenues to be received under these operating leases as of June 30, 2008 are as follows:

<u>Year ending June 30:</u>	
2009	\$ 4,179,383
2010	4,252,527
2011	1,842,544
2012	67,559
2013	23,969
Thereafter	<u>88,454</u>
Total	\$ <u>10,454,436</u>

The Airport also leases property through contingent rentals. Revenues from these contingent rentals arise primarily from a percentage of the lessees' gross revenues in excess of minimum guarantees. Several lease agreements provide a minimum lease concession. Contingent rentals for the years ended June 30, 2008 and 2007 were approximately \$2,630,000 and \$2,065,000, respectively.

The approximate cost of the parking lot which is used by the car rental companies is \$5,750,000. The carrying value of the lot, after depreciation of \$480,000 is \$5,270,000. The cost and carrying value of other assets which are rented by the airport are considered part of the terminal building and it is not practical to segregate those amounts.

**NOTE 6 - NET ASSETS**

The amount for "invested in capital assets, net of related debt" represents capital assets net of accumulated depreciation less borrowings attributable to acquisition, construction or improvement of those assets.

Amounts restricted for airline marketing totaling \$150,000 and \$100,000 at June 30, 2008 and 2007, respectively, represent funds received from LFUCG which have been restricted for use in obtaining additional airlines and flights from the Airport. No amounts were due to or from LFUCG at June 30, 2008 and 2007.

**NOTE 7 - PASSENGER FACILITY CHARGES**

The Aviation Safety and Capacity Expansion Act of 1990 authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. During the year ended June 30, 1994, the Airport was approved by the Federal Aviation Administration to impose a \$3.00 passenger facility charge on enplaning revenue passengers. On May 1, 2001 the FAA approved a PFC amendment request that increased the collection level to \$4.50. The FAA has authorized the Airport to collect total net PFC revenue of \$65,579,963 to be applied as follows:

For direct payment on project capital costs	\$ 862,992
To be applied to the debt service and related costs on the 1994 Series A Bonds issued to finance PFC approved project costs	14,322,926
To be applied to the debt service and related costs on the 2003 Series A and B Bonds issued to finance PFC approved project costs	<u>50,394,045</u>
	\$ <u>65,579,963</u>

During the years ended June 30, 2008 and 2007, amounts of \$2,008,943 and \$2,016,698, respectively, were received in passenger facility charges.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE 8 - CONCENTRATIONS**

During the years ended June 30, 2008 and 2007, the Airport earned approximately 42% and 43%, respectively, of airline operations revenue from one carrier and its wholly-owned subsidiary. Parking lot and ground transportation revenue, which are also closely tied to airline operations, provided approximately 53% and 50%, respectively, of total operating revenues. Cash balances are maintained at various banks in the central Kentucky area.

**NOTE 9 - RISK MANAGEMENT**

The Airport is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Airport has purchased commercial insurance to cover these risks. The amount of commercial coverage has not decreased nor has the amount of settlements exceeded coverage in any of the past three fiscal years. It is also the policy of the Airport to purchase a portion of the medical insurance needed to cover its employees.

**NOTE 10 - RETIREMENT PLANS**

The Airport contributes to a defined contribution retirement plan (the Plan), the Blue Grass Airport Employees Retirement Plan, covering all full-time employees of the Airport. The Plan was established by the Board, and may be amended at the discretion of the Board. The Plan, as amended January 1, 2006, states that each employee makes a basic contribution of 5% of gross earnings to participate in the Plan. For public safety employees the required percentage is 7%. The Airport makes a contribution of 9% of total participants' compensation, less forfeitures of terminated participants' nonvested accounts, on a bi-weekly basis. For public safety employees the Airport's contribution rate is 12.15%. The Plan is administered by American Funds Retirement Resources.

On termination of service, a participant may elect to receive distribution of their benefits either by a single lump-sum payment amount or a lifetime annuity option, provided their total account balance is greater than or equal to \$5,000. If the lifetime annuity option is selected, it is anticipated the Plan would use the participant's account balance to purchase an annuity contract. Participants with \$5,000 or less in their account must take a lump-sum distribution payment. Married participants that elect to receive distribution of benefits through an annuity will receive benefits in the form of a joint and survivor annuity, whereby the surviving spouse will continue to receive a benefit for life equal to 50% of the benefit received prior to the death of the participant, unless otherwise elected as defined by the Plan. Single participants who elect to receive distribution of their benefits through an annuity will receive their benefits in the form of a lifetime annuity.

Contributions to the Plan made by the Airport for the years ended June 30, 2008 and 2007 were \$410,256 and \$380,899 respectively. Required contributions made by plan participants for the years ended June 30, 2008 and 2007 were \$230,668 and \$214,609, respectively. Since the Plan assets are held in trust for the benefit of the Plan members, the related assets of the Plan are not included in the accompanying statements of net assets.

In April 2007, the Airport implemented an additional retirement plan under Internal Revenue Code section 457(b). The 457(b) plan allows for annual employee salary deferrals up to \$15,500. The Airport does not contribute to this plan.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

NOTE 11 - POST EMPLOYMENT BENEFITS

On July 15, 1998, the Board approved a plan to provide certain post employment benefits to qualifying employees of the Airport. Employees who retire after completing 27 years of service, or 20 years of service for public safety officers, will receive up to \$250 each month for medical insurance coverage. This amount was increased to \$275 per month on June 15, 2005. The amount will remain fixed until changed by the Board, as it deems necessary, at its sole discretion. This benefit will be paid until the retiree is eligible for coverage by any other health insurance, including Medicare and Medicaid. A related accrual for the present value of estimated future cash payments has been made in the accompanying financial statements using a discount rate of 6%. The amount of this accrual at June 30, 2008 and 2007 respectively is \$450,000 and \$416,000. There is no required employee contribution related to this benefit. The liability is assessed annually and is adjusted based on any changes made to the assumptions. The effect on the liability due to changes in assumptions is recorded as an increase or decrease in expense in the year of change. At June 30, 2008 and 2007, three retired employees were eligible to receive the benefit for medical insurance coverage.

Also, a "non-qualified" deferred compensation agreement was established by the Airport to facilitate the retirement of five employees who could have received a higher retirement benefit from the County Employees Retirement System, had the Board elected to participate in that plan. A related accrual for the present value of a portion of the estimated future cash payments was made in the accompanying financial statements using a discount rate of 10%. The amount of this accrual at June 30, 2008 and 2007, respectively, is approximately \$505,000 and \$540,000. Specific assets of the Airport are not set aside for payment of this benefit. There is no required employee contribution related to this benefit. At June 30, 2008, one employee had retired and is receiving monthly payments of \$2,874.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

On August 27, 2006, Comair Flight 5191 attempted to depart Blue Grass Airport, bound for Atlanta, Georgia. It crashed on a farm situated adjacent to the western end of Runway 8/26 at Blue Grass Airport. With one exception, all persons on board the aircraft died. Persons purporting to represent at least 24 of the occupants of Flight 5191 have notified the Airport that they are considering or intend to make some form of claim against the Airport relating to Flight 5191. Dozens of lawsuits have arisen from the crash of Flight 5191, but news media reports indicate that Comair and its insurer have settled nearly all of the passenger claims. The Airport has been named as a third party defendant in some of the lawsuits and as a defendant in at least four pending lawsuits. Claims against the Airport have been made on behalf of the pilot, the co-pilot, the flight attendant and Comair. The Airport has notified its insurer and the insurer is providing a defense. An appeal of the Fayette Circuit Court's determination that the Airport is immune from suit for these claims is pending before the Kentucky Supreme Court. At this time, management is unable to assess whether the likelihood of an unfavorable outcome of the lawsuits is either probable or remote.

As of June 30, 2008, several uncompleted construction projects funded in-part by Federal grants remain open. Upon completion and final approval by the Inspector General, these projects will be closed out and a final account will be rendered. Management does not anticipate any material adjustments to be made as these contracts are closed; therefore, no provision for such has been reflected in the financial statements.

The Airport is subject to federal, state, and local regulations in regards to the discharge of various materials into the environment. Costs are routinely incurred to remove, contain, and neutralize existing environmental contaminants and these costs are generally expensed as incurred. Future costs for existing conditions are not readily determinable and are not reflected in the financial statements. Threats to initiate litigation against the Airport for property damage caused by noise, air, water and soil pollution, and alterations to natural drainage have been made. The Airport believes these threats are without merit. No litigation has been initiated at this time, therefore, no provision for such is reflected in the accompanying financial statements.

The Airport is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; general liability claims; and natural disasters. The Airport manages these risks through the purchase of commercial insurance.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULES OF GENERAL FUND EXPENSES**

Year Ended June 30, 2008

	General	Building	Safety, Rescue	Administration	Engineering	Operations	Total
	Maintenance	Maintenance	and Security				
Salaries and wages	\$ 754,108	\$ 343,386	\$ 1,082,708	\$ 1,312,279	\$ 380,401	\$ 210,177	\$ 4,083,059
Payroll taxes	52,942	23,446	74,910	88,504	26,262	15,365	281,429
Employee benefits	220,480	85,507	245,698	214,022	68,585	55,770	890,062
Repairs and maintenance	621,790			68,908	18,443	22,816	731,957
Supplies and materials	311,081		58,724	54,116	20,930	11,189	456,040
Uniforms	2,392	1,946					4,338
Training and travel	17,528		15,144	202,844	18,578	357	254,451
Utilities			6,184	872,399			878,583
Insurance				561,513			561,513
Professional services				702,073	20,713		722,786
Public relations and advertising				667,643			667,643
Customs services				56,361			56,361
Retirement plan	69,628	30,811	133,560	119,357	35,869	19,095	408,320
Bad debt recoveries				(17,198)			(17,198)
Miscellaneous	70		2,097	56,324	4,270		62,761
Total	\$ <u>2,050,019</u>	\$ <u>485,096</u>	\$ <u>1,619,025</u>	\$ <u>4,959,145</u>	\$ <u>594,051</u>	\$ <u>334,769</u>	\$ <u>10,042,105</u>

Year Ended June 30, 2007

	General	Building	Safety, Rescue	Administration	Engineering	Operations	Total
	Maintenance	Maintenance	and Security				
Salaries and wages	\$ 693,711	\$ 312,308	\$ 1,018,894	\$ 1,192,360	\$ 357,541	\$ 240,822	\$ 3,815,636
Payroll taxes	49,294	21,020	70,670	77,563	23,883	17,173	259,603
Employee benefits	190,092	84,755	227,993	187,201	67,635	66,526	824,202
Repairs and maintenance	565,886			83,467	5,363	46,290	701,006
Supplies and materials	256,348		76,393	42,972	23,241	14,850	413,804
Uniforms	6,025	2,161	7,166				15,352
Training and travel	12,819		31,742	219,140	14,203	1,406	279,310
Utilities				815,101			815,101
Insurance				479,874			479,874
Professional services				627,423	15,236		642,659
Public relations and advertising				588,950			588,950
Customs services				54,539			54,539
Retirement plan	64,016	27,406	190,282	109,520	33,474	22,323	447,021
Bad debt recoveries				(241,199)			(241,199)
Miscellaneous	116		3,246	70,328	3,987		77,677
Total	\$ <u>1,838,307</u>	\$ <u>447,650</u>	\$ <u>1,626,386</u>	\$ <u>4,307,239</u>	\$ <u>544,563</u>	\$ <u>409,390</u>	\$ <u>9,173,535</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**COMPARISON TO BUDGET - GENERAL FUND**  
Year Ended June 30, 2008

	<u>Actual</u>	<u>Budget</u>	<u>Difference</u>	<u>Percent difference</u>
<b>Revenues:</b>				
Airline operations	\$ 4,031,164	\$ 4,345,595	\$ (314,431)	(7.24%)
General aviation	631,601	548,688	82,913	15.11%
Air freight	49,483	49,315	168	0.34%
Ground transportation	2,115,711	2,016,241	99,470	4.93%
Parking	4,057,317	3,900,000	157,317	4.03%
Concessions and rentals	627,002	592,380	34,622	5.84%
Interest income	157,853	245,000	(87,147)	(35.57%)
Local government grant	50,000	0	50,000	100.00%
Other	171,615	42,000	129,615	308.61%
	<u>11,891,746</u>	<u>11,739,219</u>	<u>152,527</u>	1.30%
<b>Expenses:</b>				
Personnel expenses	5,917,321	5,502,218	415,103	7.54%
Professional expenses	722,786	636,400	86,386	13.57%
Marketing and public relations	667,643	665,000	2,643	0.40%
Insurance	561,513	456,235	105,278	23.08%
Utilities	878,583	820,000	58,583	7.14%
Repairs and maintenance	731,957	534,500	197,457	36.94%
Supplies	456,040	320,000	136,040	42.51%
Provision for bad debts	(17,198)	0	(17,198)	(100.00%)
Customs services	56,361	70,000	(13,639)	(19.48%)
Other	67,099	181,980	(114,881)	(63.13%)
	<u>10,042,105</u>	<u>9,186,333</u>	<u>855,772</u>	9.32%
 Operating income - General Fund	 <u>\$ 1,849,641</u>	 <u>\$ 2,552,886</u>	 <u>\$ (703,245)</u>	 (27.55%)



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF REMAINING OBLIGATIONS ON**  
**ALL BOND FUNDS COMBINED**  
June 30, 2008

<u>Remaining Debt Service</u>	<u>Total</u>
July 1, 2008	\$ 1,375,000
April 1, 2009	100,000
July 1, 2009	1,250,000
April 1, 2010	100,000
July 1, 2010	1,625,000
April 1, 2011	100,000
July 1, 2011	1,500,000
April 1, 2012	100,000
July 1, 2012	1,675,000
April 1, 2013	100,000
July 1, 2013	1,950,000
April 1, 2014	100,000
July 1, 2014	1,125,000
April 1, 2015	100,000
July 1, 2015	1,400,000
April 1, 2016	100,000
July 1, 2016	1,300,000
April 1, 2017	100,000
July 1, 2017	1,475,000
April 1, 2018	100,000
July 1, 2018	1,225,000
April 1, 2019	100,000
July 1, 2019	1,475,000
April 1, 2020	100,000
July 1, 2020	1,525,000
April 1, 2021	100,000
July 1, 2021	1,475,000
April 1, 2022	100,000
July 1, 2022	1,625,000
July 1, 2023	1,725,000
July 1, 2024	1,875,000
July 1, 2025	1,950,000
July 1, 2026	2,100,000
July 1, 2027	2,225,000
July 1, 2028	2,375,000
July 1, 2029	1,625,000
July 1, 2030	1,700,000
July 1, 2031	1,825,000
July 1, 2032	1,900,000
July 1, 2033	2,050,000
	<u>\$ 44,750,000</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF REMAINING OBLIGATIONS ON THE**  
**JUNE 16, 1994 FIRST MORTGAGE REVENUE BONDS**  
June 30, 2008

DESCRIPTION

Issuer: Lexington-Fayette Urban County Airport Corporation  
(A corporate agency and instrumentality of the Lexington-Fayette Urban County Airport Board and the Lexington-Fayette Urban County Government).

Amount of issue: \$11,200,000 (1994 Series A Bonds)  
\$ 3,200,000 (1994 Series B Bonds)

Interest rate: 2.85% through June 17, 1994 and thereafter at the "daily rate" payable July 1, 1994 and monthly thereafter on the first business day of each month. The issues may convert to "long-term" rates subject to conditions as described in the official statement.

Paying agent: JP Morgan Chase

Purpose of issue: Airport expansion and improvement projects

During the year ended June 30, 1994, the 1994 bonds were issued to finance a portion of the costs of certain improvements to the Airport. A portion of the costs of the 1994 project is to be paid by Passenger Facility Charges (PFCs) collected. The Airport has been authorized by the Federal Aviation Administration (FAA) to impose and collect PFCs with respect to designated components of the 1994 project to be financed with the 1994 Series A Bonds.

With this issue, a "Debt Service Reserve Fund" has been established. From the proceeds of this issue an amount equal to 10% of the principal amount of the bonds outstanding has been deposited to this fund.

The 1994 Bond Series is subject to optional redemption provisions. These redemption provisions vary depending on the interest payment method in effect. In general, whenever the interest rate mode is other than the "long-term rate" following a conversion, the bonds are subject to redemption, in whole or in part, at the option of the Corporation, at a redemption price of 100% of the principal amount thereof at various interest payment dates. In the event the interest rate mode becomes the "long-term rate" following a conversion, the bonds will be subject to redemption, in whole or in part, at the option of the Airport, at redemption prices ranging from 100% to 102% of the principal amount thereof.

Notice of prior redemption is to be given by first class mail sent to each registered owner of any 1994 series bonds.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF REMAINING OBLIGATIONS ON THE**  
**JUNE 16, 1994 FIRST MORTGAGE REVENUE BONDS (CONTINUED)**  
June 30, 2008

<u>Remaining Debt Service</u>	<u>Series A</u>	<u>Series B</u>	<u>Total</u>
April 1, 2009	\$ 0	\$ 100,000	\$ 100,000
April 1, 2010	0	100,000	100,000
April 1, 2011	0	100,000	100,000
April 1, 2012	0	100,000	100,000
April 1, 2013	0	100,000	100,000
April 1, 2014	0	100,000	100,000
April 1, 2015	0	100,000	100,000
April 1, 2016	0	100,000	100,000
April 1, 2017	0	100,000	100,000
April 1, 2018	0	100,000	100,000
April 1, 2019	0	100,000	100,000
April 1, 2020	0	100,000	100,000
April 1, 2021	0	100,000	100,000
April 1, 2022	0	100,000	100,000
	<u>\$ 0</u>	<u>\$ 1,400,000</u>	<u>\$ 1,400,000</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF REMAINING OBLIGATIONS ON THE**  
**APRIL 9, 1998 FIRST MORTGAGE REVENUE BONDS**  
June 30, 2008

DESCRIPTION

Issuer: Lexington-Fayette Urban County Airport Corporation  
(A corporate agency and instrumentality of the Lexington-Fayette Urban County Airport Board and the Lexington-Fayette Urban County Government).

Amount of issue: \$11,200,000 (1998 Series A Bonds)  
\$ 2,600,000 (1998 Series B Bonds)  
\$ 6,700,000 (1998 Series C Bonds)

Interest rate: Various interest rate modes as defined in the official statement, including a "flexible rate", "daily rate", "weekly rate", "semi-annual rate", "annual rate" or "long-term rate". The 1998 Series A Bonds were issued bearing interest initially at a tax-exempt "daily rate" and the 1998 Series B Bonds and 1998 Series C Bonds were issued bearing interest initially at a taxable "weekly rate".

Paying agent: JP Morgan Chase

Purpose of issue: 1998 Series A Bonds - construction of airport parking lot - non-rental cars  
1998 Series B Bonds - construction of airport parking lot - rental cars  
1998 Series C Bonds - current refunding of a portion of 1988 Bonds

During the year ended June 30, 1998, the 1998 bonds were issued to finance a portion of the costs to construct a multi-level car facility, a rental car facility, and the current refunding of a portion of the 1988 Bonds.

With this issue, a "Debt Service Reserve Fund" has been established. From the proceeds of this issue an amount equal to 8.11% of the principal amount of the bonds outstanding has been deposited to this fund for the Series A Bonds and 10% of the principal amount of the bonds outstanding has been deposited to this fund for the Series B and Series C Bonds.

The 1998 Bond Series is subject to optional redemption provisions. These redemption provisions vary depending on the interest payment method in effect. In general, whenever the interest rate mode is other than the "long-term rate" following a conversion, the bonds are subject to redemption, in whole or in part, at the option of the Corporation, at a redemption price of 100% of the principal amount thereof at various interest payment dates. In the event the interest rate mode becomes the "long-term rate" following a conversion, the bonds will be subject to redemption, in whole or in part, at the option of the Airport, at redemption prices ranging from 100% to 102% of the principal amount thereof.

Notice of prior redemption is to be given by first class mail sent to each registered owner of any 1998 series bonds.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF REMAINING OBLIGATIONS ON THE**  
**APRIL 9, 1998 FIRST MORTGAGE REVENUE BONDS (CONTINUED)**  
June 30, 2008

<u>Remaining Debt Service</u>	<u>Series A</u>	<u>Series B</u>	<u>Series C</u>	<u>Total</u>
July 1, 2008	\$ 200,000	\$ 100,000	\$ 500,000	\$ 800,000
July 1, 2009	200,000	100,000	500,000	800,000
July 1, 2010	300,000	100,000	600,000	1,000,000
July 1, 2011	300,000	100,000	600,000	1,000,000
July 1, 2012	300,000	100,000	600,000	1,000,000
July 1, 2013	300,000	200,000	700,000	1,200,000
July 1, 2014	300,000	200,000	0	500,000
July 1, 2015	400,000	200,000	0	600,000
July 1, 2016	400,000	200,000	0	600,000
July 1, 2017	400,000	200,000	0	600,000
July 1, 2018	400,000	0	0	400,000
July 1, 2019	500,000	0	0	500,000
July 1, 2020	500,000	0	0	500,000
July 1, 2021	500,000	0	0	500,000
July 1, 2022	500,000	0	0	500,000
July 1, 2023	600,000	0	0	600,000
July 1, 2024	600,000	0	0	600,000
July 1, 2025	700,000	0	0	700,000
July 1, 2026	700,000	0	0	700,000
July 1, 2027	800,000	0	0	800,000
July 1, 2028	800,000	0	0	800,000
	<u>\$ 9,700,000</u>	<u>\$ 1,500,000</u>	<u>\$ 3,500,000</u>	<u>\$ 14,700,000</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF REMAINING OBLIGATIONS ON THE**  
**DECEMBER 2, 2003 FIRST MORTGAGE REVENUE BONDS**  
June 30, 2008

DESCRIPTION

Issuer: Lexington-Fayette Urban County Airport Corporation  
(A corporate agency and instrumentality of the Lexington-Fayette Urban County Airport Board and the Lexington-Fayette Urban County Government).

Amount of issue: \$24,500,000 (2003 Series A Bonds)  
\$ 4,550,000 (2003 Series B Bonds)

Interest rate: Various interest rate modes as defined in the official statement, including a "flexible rate", "daily rate", "weekly rate", "semi-annual rate", "annual rate", "long-term rate" or "Dutch auction rate".

Paying agent: JP Morgan Chase

Purpose of issue: Airport expansion and improvement projects

The 2003 bonds were issued to finance the 2003 Project. The 2003 Project includes the cost of designing and constructing certain airfield improvement, including rehabilitation and expansion of the air carrier aircraft parking ramp, rehabilitation of Runway 8/26 and certain Runway 4/22 safety area and taxiway improvements, acquiring and constructing security improvements including upgrades to the access control system and automobile height restrictors, designing and constructing passenger terminal improvements including a concourse gate addition, designing and constructing Airport entrance road improvements, expanding the existing rental car ready/return lot and constructing other related improvements, and relocating the Airport's existing air freight building.

When the interest rate mode is the Dutch auction rate, the 2003 Bonds are subject to redemption at the option of the Board, upon the written direction of the Board, at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date. The 2003 Series A Bonds are subject to extraordinary redemption prior to maturity from unexpected moneys in the 2003 Construction Fund at a redemption price equal to the principal amount plus accrued interest to the redemption date.

Notice of prior redemption is to be given by first class mail sent to each registered owner of any 2003 series bonds.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF REMAINING OBLIGATIONS ON THE**  
**DECEMBER 2, 2003 FIRST MORTGAGE REVENUE BONDS (CONTINUED)**  
June 30, 2008

<u>Remaining Debt Service</u>	<u>Series A</u>	<u>Series B</u>	<u>Total</u>
July 1, 2008	\$ 475,000	\$ 100,000	\$ 575,000
July 1, 2009	375,000	75,000	450,000
July 1, 2010	525,000	100,000	625,000
July 1, 2011	425,000	75,000	500,000
July 1, 2012	575,000	100,000	675,000
July 1, 2013	625,000	125,000	750,000
July 1, 2014	525,000	100,000	625,000
July 1, 2015	675,000	125,000	800,000
July 1, 2016	600,000	100,000	700,000
July 1, 2017	750,000	125,000	875,000
July 1, 2018	700,000	125,000	825,000
July 1, 2019	825,000	150,000	975,000
July 1, 2020	875,000	150,000	1,025,000
July 1, 2021	825,000	150,000	975,000
July 1, 2022	950,000	175,000	1,125,000
July 1, 2023	950,000	175,000	1,125,000
July 1, 2024	1,075,000	200,000	1,275,000
July 1, 2025	1,050,000	200,000	1,250,000
July 1, 2026	1,175,000	225,000	1,400,000
July 1, 2027	1,200,000	225,000	1,425,000
July 1, 2028	1,325,000	250,000	1,575,000
July 1, 2029	1,375,000	250,000	1,625,000
July 1, 2030	1,425,000	275,000	1,700,000
July 1, 2031	1,550,000	275,000	1,825,000
July 1, 2032	1,600,000	300,000	1,900,000
July 1, 2033	1,725,000	325,000	2,050,000
	<u>\$ 24,175,000</u>	<u>\$ 4,475,000</u>	<u>\$ 28,650,000</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF COMBINING BALANCE SHEETS**  
 June 30, 2008

ASSETS

	General Fund	Plant Fund	Funds Held in Escrow			Total	Eliminations	Total After Eliminations
			Special Revenue Fund	Construction Funds	Debt Service Funds			
<b>Current assets:</b>								
Cash	\$ 1,712,253	\$	\$ 361,075	\$	\$	\$ 2,073,328	\$	\$ 2,073,328
Investments	4,541,558		10,365,000	1,509,961	5,747,177	22,163,696		22,163,696
Accounts receivable, net	1,350,956				13	1,350,969		1,350,969
Accrued interest receivable					150	150		150
Prepaid expenses	264,254					264,254		264,254
Due from General Fund			150,000			150,000	(150,000)	0
Total current assets	<u>7,869,021</u>	<u>0</u>	<u>10,876,075</u>	<u>1,509,961</u>	<u>5,747,340</u>	<u>26,002,397</u>	<u>(150,000)</u>	<u>25,852,397</u>
<b>Capital assets:</b>								
Investment in Plant		169,560,483				169,560,483		169,560,483
Accumulated depreciation		(70,651,824)				(70,651,824)		(70,651,824)
Capital assets, net	<u>0</u>	<u>98,908,659</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>98,908,659</u>	<u>0</u>	<u>98,908,659</u>
<b>Other assets:</b>								
Construction in progress				17,387,311		17,387,311		17,387,311
Bond issue costs, net					1,490,261	1,490,261		1,490,261
Total other assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>17,387,311</u>	<u>1,490,261</u>	<u>18,877,572</u>	<u>0</u>	<u>18,877,572</u>
Total assets	<u>\$ 7,869,021</u>	<u>\$ 98,908,659</u>	<u>\$ 10,876,075</u>	<u>\$ 18,897,272</u>	<u>\$ 7,237,601</u>	<u>\$ 143,788,628</u>	<u>\$ (150,000)</u>	<u>\$ 143,638,628</u>

LIABILITIES

<b>Current liabilities:</b>								
Bonds payable	\$	\$	\$	\$	\$ 1,475,000	\$ 1,475,000	\$	\$ 1,475,000
Accounts payable	1,162,852		28,305	616,311		1,807,468		1,807,468
Accrued payroll and benefits	1,238,014					1,238,014		1,238,014
Accrued interest payable					154,500	154,500		154,500
Due to Special Revenue Fund	150,000					150,000	(150,000)	0
Total current liabilities	<u>2,550,866</u>	<u>0</u>	<u>28,305</u>	<u>616,311</u>	<u>1,629,500</u>	<u>4,824,982</u>	<u>(150,000)</u>	<u>4,674,982</u>
<b>Noncurrent liabilities:</b>								
Bonds payable					43,067,934	43,067,934		43,067,934
Total liabilities	<u>2,550,866</u>	<u>0</u>	<u>28,305</u>	<u>616,311</u>	<u>44,697,434</u>	<u>47,892,916</u>	<u>(150,000)</u>	<u>47,742,916</u>

Commitments and contingencies

NET ASSETS

Invested in capital assets, net of related debt		98,908,659		16,771,000	(30,999,442)	84,680,217		84,680,217
Restricted			10,847,770	1,509,961	(6,460,391)	5,897,340		5,897,340
Unrestricted	5,318,155					5,318,155		5,318,155
Total net assets	<u>5,318,155</u>	<u>98,908,659</u>	<u>10,847,770</u>	<u>18,280,961</u>	<u>(37,459,833)</u>	<u>95,895,712</u>	<u>0</u>	<u>95,895,712</u>
Total liabilities and net assets	<u>\$ 7,869,021</u>	<u>\$ 98,908,659</u>	<u>\$ 10,876,075</u>	<u>\$ 18,897,272</u>	<u>\$ 7,237,601</u>	<u>\$ 143,788,628</u>	<u>\$ (150,000)</u>	<u>\$ 143,638,628</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF COMBINING BALANCE SHEETS**  
 June 30, 2007

ASSETS

	General Fund	Plant Fund	Funds Held in Escrow			Total	Eliminations	Total After Eliminations
			Special Revenue Fund	Construction Funds	Debt Service Funds			
<b>Current assets:</b>								
Cash	\$ 3,649,965	\$	\$ 210,872	\$	\$ 512	\$ 3,861,349	\$	\$ 3,861,349
Investments	3,966,000		9,624,000	1,452,499	5,682,251	20,724,750		20,724,750
Accounts receivable, net	1,330,476			60,662	2,718	1,393,856		1,393,856
Accrued interest receivable					150	150		150
Prepaid expenses	270,926					270,926		270,926
Due from General Fund			100,000			100,000	(100,000)	0
Total current assets	<u>9,217,367</u>	<u>0</u>	<u>9,934,872</u>	<u>1,513,161</u>	<u>5,685,631</u>	<u>26,351,031</u>	<u>(100,000)</u>	<u>26,251,031</u>
<b>Capital assets:</b>								
Investment in Plant		150,220,728				150,220,728		150,220,728
Accumulated depreciation		(66,318,541)				(66,318,541)		(66,318,541)
Capital assets, net	<u>0</u>	<u>83,902,187</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>83,902,187</u>	<u>0</u>	<u>83,902,187</u>
<b>Other assets:</b>								
Construction in progress				31,852,971		31,852,971		31,852,971
Bond issue costs, net					1,617,996	1,617,996		1,617,996
Total other assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>31,852,971</u>	<u>1,617,996</u>	<u>33,470,967</u>	<u>0</u>	<u>33,470,967</u>
Total assets	<u>\$ 9,217,367</u>	<u>\$ 83,902,187</u>	<u>\$ 9,934,872</u>	<u>\$ 33,366,132</u>	<u>\$ 7,303,627</u>	<u>\$ 143,724,185</u>	<u>\$ (100,000)</u>	<u>\$ 143,624,185</u>

LIABILITIES

<b>Current liabilities:</b>								
Bonds payable	\$	\$	\$	\$	\$ 1,300,000	\$ 1,300,000	\$	\$ 1,300,000
Accounts payable	480,742		5,441	757,009		1,243,192		1,243,192
Accrued payroll and benefits	1,169,326					1,169,326		1,169,326
Accrued interest payable					96,014	96,014		96,014
Due to Special Revenue Fund	100,000					100,000	(100,000)	0
Total current liabilities	<u>1,750,068</u>	<u>0</u>	<u>5,441</u>	<u>757,009</u>	<u>1,396,014</u>	<u>3,908,532</u>	<u>(100,000)</u>	<u>3,808,532</u>
<b>Noncurrent liabilities:</b>								
Bonds payable					44,532,461	44,532,461		44,532,461
Total liabilities	<u>1,750,068</u>	<u>0</u>	<u>5,441</u>	<u>757,009</u>	<u>45,928,475</u>	<u>48,440,993</u>	<u>(100,000)</u>	<u>48,340,993</u>

Commitments and contingencies

NET ASSETS

Invested in capital assets, net of related debt		83,902,187		31,095,962	(32,967,887)	82,030,262		82,030,262
Restricted			9,929,431	1,513,161	(5,656,961)	5,785,631		5,785,631
Unrestricted	7,467,299					7,467,299		7,467,299
Total net assets	<u>7,467,299</u>	<u>83,902,187</u>	<u>9,929,431</u>	<u>32,609,123</u>	<u>(38,624,848)</u>	<u>95,283,192</u>	<u>0</u>	<u>95,283,192</u>
Total liabilities and net assets	<u>\$ 9,217,367</u>	<u>\$ 83,902,187</u>	<u>\$ 9,934,872</u>	<u>\$ 33,366,132</u>	<u>\$ 7,303,627</u>	<u>\$ 143,724,185</u>	<u>\$ (100,000)</u>	<u>\$ 143,624,185</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
Year Ended June 30, 2008

	General Fund	Plant Fund	Funds Held in Escrow			Total
			Special Revenue Fund	Construction Funds	Debt Service Funds	
<b>Operating revenues:</b>						
Airline operations	\$ 4,031,164	\$	\$	\$	\$	\$ 4,031,164
General aviation	631,601					631,601
Air freight	49,483					49,483
Ground transportation	2,115,711					2,115,711
Parking lot	4,057,317					4,057,317
Concessions and rentals	627,002					627,002
Other income	171,615					171,615
Total operating revenues	<u>11,683,893</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,683,893</u>
<b>Operating expenses:</b>						
Administration	4,959,145					4,959,145
General maintenance	2,050,019					2,050,019
Safety, Rescue, and Security	1,619,025					1,619,025
Engineering	594,051					594,051
Building maintenance	485,096					485,096
Operations	334,769		31,610			366,379
Depreciation expense		6,921,757				6,921,757
Total operating expenses	<u>10,042,105</u>	<u>6,921,757</u>	<u>31,610</u>	<u>0</u>	<u>0</u>	<u>16,995,472</u>
Operating income (loss)	1,641,788	(6,921,757)	(31,610)	0	0	(5,311,579)
<b>Non-operating revenues (expenses):</b>						
Passenger facility charges			2,008,943			2,008,943
Contract facility charges			645,547			645,547
Investment earnings, net	157,853		272,664	4,930	83,826	519,273
Interest expense including annual fees				(3,050)	(811,563)	(814,613)
Capital grants				3,653,157		3,653,157
Local government grant	50,000					50,000
Amortization expense					(138,208)	(138,208)
Net non-operating revenues	<u>207,853</u>	<u>0</u>	<u>2,927,154</u>	<u>3,655,037</u>	<u>(865,945)</u>	<u>5,924,099</u>
Income (loss) before transfers	1,849,641	(6,921,757)	2,895,544	3,655,037	(865,945)	612,520
<b>Interfund transfers:</b>						
General Fund to Plant Fund	(1,184,921)	1,184,921				0
General Fund to Debt Service Funds	(2,961,558)				2,961,558	0
General Fund to Construction Funds	(1,829,511)			1,829,511		0
Special Revenue Fund to General Fund	1,977,205		(1,977,205)			0
Construction Funds to Debt Service Funds				930,598	(930,598)	0
Construction Funds to Plant Fund		20,743,308		(20,743,308)		0
Net interfund transfers	<u>(3,998,785)</u>	<u>21,928,229</u>	<u>(1,977,205)</u>	<u>(17,983,199)</u>	<u>2,030,960</u>	<u>0</u>
Change in net assets	(2,149,144)	15,006,472	918,339	(14,328,162)	1,165,015	612,520
Net assets, beginning of year	<u>7,467,299</u>	<u>83,902,187</u>	<u>9,929,431</u>	<u>32,609,123</u>	<u>(38,624,848)</u>	<u>95,283,192</u>
Net assets, end of year	<u>\$ 5,318,155</u>	<u>\$ 98,908,659</u>	<u>\$ 10,847,770</u>	<u>\$ 18,280,961</u>	<u>\$ (37,459,833)</u>	<u>\$ 95,895,712</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
Year Ended June 30, 2007

	General Fund	Plant Fund	Funds Held in Escrow			Total
			Special Revenue Fund	Construction Funds	Debt Service Funds	
<b>Operating revenues:</b>						
Airline operations	\$ 4,185,906	\$	\$	\$	\$	\$ 4,185,906
General aviation	510,340					510,340
Air freight	50,128					50,128
Ground transportation	2,008,812					2,008,812
Parking lot	3,572,516					3,572,516
Concessions and rentals	613,686					613,686
Other income	132,059					132,059
Total operating revenues	<u>11,073,447</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,073,447</u>
<b>Operating expenses:</b>						
Administration	4,307,239					4,307,239
General maintenance	1,838,307					1,838,307
Safety, Rescue, and Security	1,626,386					1,626,386
Engineering	544,563					544,563
Building maintenance	447,650					447,650
Operations	409,390		4,105			413,495
Depreciation expense		6,147,909				6,147,909
Total operating expenses	<u>9,173,535</u>	<u>6,147,909</u>	<u>4,105</u>	<u>0</u>	<u>0</u>	<u>15,325,549</u>
Operating income (loss)	1,899,912	(6,147,909)	(4,105)	0	0	(4,252,102)
<b>Non-operating revenues (expenses):</b>						
Passenger facility charges			2,016,698			2,016,698
Contract facility charges			533,764			533,764
Investment earnings, net	219,062		321,856	5,710	154,430	701,058
Interest expense including annual fees				(10,311)	(937,945)	(948,256)
Capital grants				18,490,593		18,490,593
Local government grant	50,000					50,000
Amortization expense					(254,745)	(254,745)
Net non-operating revenues	<u>269,062</u>	<u>0</u>	<u>2,872,318</u>	<u>18,485,992</u>	<u>(1,038,260)</u>	<u>20,589,112</u>
Income (loss) before transfers	2,168,974	(6,147,909)	2,868,213	18,485,992	(1,038,260)	16,337,010
<b>Interfund transfers:</b>						
General Fund to Plant Fund	(316,174)	316,174				0
General Fund to Debt Service Funds	(2,772,341)				2,772,341	0
General Fund to Construction Funds	24,906			(24,906)		0
Special Revenue Fund to General Fund	1,227,813		(1,227,813)			0
Construction Funds to Debt Service Funds				874,474	(874,474)	0
Construction Funds to Plant Fund		23,226,480		(23,226,480)		0
Net interfund transfers	<u>(1,835,796)</u>	<u>23,542,654</u>	<u>(1,227,813)</u>	<u>(22,376,912)</u>	<u>1,897,867</u>	<u>0</u>
Change in net assets	333,178	17,394,745	1,640,400	(3,890,920)	859,607	16,337,010
Net assets, beginning of year	<u>7,134,121</u>	<u>66,507,442</u>	<u>8,289,031</u>	<u>36,500,043</u>	<u>(39,484,455)</u>	<u>78,946,182</u>
Net assets, end of year	<u>\$ 7,467,299</u>	<u>\$ 83,902,187</u>	<u>\$ 9,929,431</u>	<u>\$ 32,609,123</u>	<u>\$ (38,624,848)</u>	<u>\$ 95,283,192</u>





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Offices in Lexington and Louisville

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Lexington-Fayette Urban County Airport Board  
Lexington, Kentucky

We have audited the financial statements of the Lexington-Fayette Urban County Airport Board (the Airport) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Airport's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters involving compliance and other matters that we reported to management of the Airport in a separate letter dated November 19, 2008.

This report is intended solely for the information of the Airport's Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Potter & Company, LLP*

POTTER & COMPANY, LLP  
November 19, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Lexington-Fayette Urban County Airport Board  
Lexington, Kentucky

Compliance

We have audited the compliance of the Lexington-Fayette Urban County Airport Board (the Airport) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The Airport's major federal programs are identified in the accompanying schedule of federal financial assistance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

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 OMB Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport'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. Our audit does not provide a legal determination on the Airport's compliance with those requirements.

In our opinion, the Airport complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Airport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Airport's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

To the Board of Directors  
Lexington-Fayette Urban County Airport Board  
Lexington, Kentucky

Page Two

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Airport's Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Potter & Company, LLP*

POTTER & COMPANY, LLP  
November 19, 2008



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA No.</u>	<u>Federal Project Number</u>	<u>Total Federal Program or Award Amount</u>	<u>Current Year Federal Expenditures</u>
<u>U.S. Department of Transportation</u>				
Direct Program:				
Airport Improvement Program	20.106	3-32-0028-34	\$ 10,316,912	\$ 1,755,034
	20.106	3-32-0028-35	13,680,280	396,884
	20.106	3-32-0028-37	8,460,393	1,188,122
	20.106	3-32-0028-39	6,550,300	262,833
	20.106	3-32-0028-40	3,426,800	564,096
	20.106	3-32-0028-41	100,000	100,000
	20.106	3-32-0028-42	3,511,242	30,442
Total			<u>\$ 46,045,927</u>	<u>\$ 4,297,411</u>



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2008

1. Summary of Significant Accounting Policies

Basis of Presentation – The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Lexington-Fayette Urban County Airport Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Contingency

The grant revenue amounts received and expensed are subject to audit and adjustment. If any expenditures are disallowed by the grantor as a result of such an audit, any claim for reimbursement to the grantor would become a liability of the Authority. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2008

Summary of auditor's results

The auditor's report dated November 19, 2008, expresses an unqualified opinion on the financial statements of Lexington-Fayette Urban County Airport Board (the Airport).

Our audit disclosed no material weaknesses or significant deficiencies that are considered to be material weaknesses in relation to internal control over financial reporting or internal control over the major federal award program.

No instances of noncompliance material to the Airport's financial statements were disclosed during the audit.

The auditor's report dated November 19, 2008 on compliance for the Airport's major program expresses an unqualified opinion.

No audit findings relative to the major federal award program for the Airport are reported in this Schedule.

The Airport's major federal program for the year ended June 30, 2008 was the Airport Improvement Program (CFDA Number 20.106).

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The Airport qualified as a low-risk auditee under the provisions of OMB Circular A-133.

Findings - Financial Statement Audit

No matters were reported.

Federal Award Findings and Questioned Costs

No matters were reported.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
SCHEDULE OF PRIOR AUDIT FINDINGS AND THEIR RESOLUTION  
Year Ended June 30, 2008

No findings that are required to be reported in accordance with *Government Auditing Standards* were reported for the year ended June 30, 2007.



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE (PFC) PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND THE SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED**

To the Board of Directors  
Lexington-Fayette Urban County Airport Board  
Lexington, Kentucky

We have audited the compliance of Lexington-Fayette Urban County Airport Board (the Airport) with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2008. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

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 Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport'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. Our audit does not provide a legal determination on the Airport's compliance with those requirements.

In our opinion, the Airport complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Airport's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to the Passenger Facility Charge program being audited may occur and not be prevented or detected by the entity's internal control. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

To the Board of Directors  
Lexington-Fayette Urban County Airport Board  
Lexington, Kentucky

Page Two

Schedule of Expenditures of Passenger Facility Charges

We have audited the basic financial statements of the Airport as of and for the year ended June 30, 2008, and have issued our report thereon dated November 19, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole.

The accompanying schedule of passenger facility charges collected and expended is presented for purposes of additional analysis as specified in the Guide and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Airport's Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Potter & Company, LLP*

POTTER & COMPANY, LLP  
November 19, 2008



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
**SCHEDULE OF PFC FINDINGS AND QUESTIONED COSTS**  
Year ended June 30, 2008

Summary of auditor's results

We have issued an unqualified opinion, dated November 19, 2008, on the financial statements of Lexington-Fayette Urban County Airport Board (the Airport) as of and for the year ended June 30, 2008.

Our audit disclosed no material weaknesses or significant deficiencies that are considered to be material weaknesses in relation to internal control over financial reporting or internal control.

Our audit disclosed no instances of noncompliance which are material to Airport's financial statements.

We have issued an unqualified opinion, dated November 19, 2008, on the Airport's compliance for the Passenger Facility Charge program.

Our audit disclosed no findings required to be reported under the provisions of the *Passenger Facility Charge Audit Guide for Public Agencies*.

Findings - Financial Statement Audit

Our audit disclosed no findings required to be reported under the provisions of the *Passenger Facility Charge Audit Guide for Public Agencies*.

Passenger Facility Charge Program Findings and Questioned Costs

Our audit disclosed no findings required to be reported under the provisions of the *Passenger Facility Charge Audit Guide for Public Agencies*.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
SCHEDULE OF PRIOR AUDIT PFC FINDINGS AND THEIR RESOLUTION  
Year ended June 30, 2008

No findings that are required to be reported in accordance with the provisions of the *Passenger Facility Charge Audit Guide for Public Agencies* were reported for the year ended June 30, 2007.



**LEXINGTON-FAYETTE URBAN COUNTY AIRPORT BOARD**  
 SUPPLEMENTARY SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED  
 Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Record of Decision</u>	<u>Impose Authority</u>	<u>Use Authority</u>	<u>PFC Collected</u>	<u>Interest Earned</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>						
Passenger Facility Charge Program	03-05-00-LEX	\$ <u>50,394,045</u>	\$ <u>50,394,045</u>	\$ <u>2,008,943</u>	\$ <u>214,576</u>	\$ <u>1,655,375</u>



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**APPENDIX D**

**SUMMARIES OF THE INDENTURE AND THE LEASE**

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## APPENDIX D

### SUMMARIES OF THE INDENTURE AND THE LEASE

*The following is a summary of certain defined terms as provided in the Trust Indenture, the First Supplemental Indenture and the Lease Agreement. This summary is not to be regarded as a complete statement of the defined terms provided in the Trust Indenture, the First Supplemental Indenture and the Lease Agreement to which reference is made for a complete statement of the actual terms thereof. Copies of the Trust Indenture, the First Supplemental Indenture and the Lease Agreement are on file with the Trustee.*

#### SUMMARY OF DEFINED TERMS

"Act" means Chapter 183 of the Kentucky Revised Statutes, as the same may be amended, modified, revised, supplemented, or superseded from time to time.

"Additional Obligation Instruments" means agreements providing for the repayment of money that the Board may, from time to time, be authorized to enter into under the laws of the Commonwealth. The definition of Additional Obligation Instruments does not include "Bond" or "Bonds," "Note" or "Notes."

"Aggregate Annual Debt Service" means, as of any particular date of computation and with respect to a Fiscal Year or other specified 12-month period, the aggregate Debt Service Charges for all Outstanding Obligations coming due in such period.

"Airport" means Blue Grass Airport, together with any additions thereto, or improvements or enlargements thereof, hereafter made.

"Airport Facilities" means land, buildings, equipment, runways, and other improvements and appurtenances necessary for the operation and maintenance of the Airport, and further includes site improvements, utilities, machinery, furnishings and any separate or connected buildings, structures, improvements, sites, open space and green space areas, utilities or equipment to be used in, or in connection with the operation or maintenance of, or supplementing or otherwise related to the services or facilities to be provided by such facilities.

"Airport Project" means any capital improvement at or related to the Airport that would constitute Airport Facilities, or any cost or expense paid or incurred in connection with or related to the Airport whether or not of a capital nature and whether or not related to Airport Facilities, including but not limited to, amounts needed to satisfy any judgment and the cost of any noise mitigation programs.

"Alternate Credit Support Instrument" means a substitute Credit Support Instrument or liquidity device taking the place of the then current Credit Support Instrument and satisfying the applicable requirements of the First Supplemental Indenture, which shall be issued by a bank, savings institution, insurer or other financial institution designated by the Board as providing such Alternate Credit Support Instrument.

"Authenticating Agent" means the Trustee and the Registrar for the series of Obligations and any bank, trust company or other Person designated as an Authenticating Agent for such series of Obligations by or in accordance with Section 6.16 of the Trust Indenture.

"Board" means the Lexington-Fayette Urban County Airport Board of Lexington, Fayette County, Kentucky, an agency of the Urban County Government, created pursuant to the Act.

"Bond" or "Bonds" means any bond, or all of the bonds, or an issue or series of bonds, as the case may be, as so identified in the certificate of the Fiscal Officer, of the Board issued pursuant to the 2008 General Bond Resolution, a Series Resolution and the Trust Indenture. The definition of Bond and Bonds does not include "Note" or "Notes" or Additional Obligation Instruments.

"Bond Counsel" means an attorney or firm of attorneys of nationally recognized standing on the subject of municipal bonds selected by the Board or its counsel and acceptable to the Trustee.

"Business Day" means a day of the year, other than a Saturday or Sunday, on which banks located in the city in which the designated corporate trust office of the Trustee is located are not required or authorized to remain closed or a day on which The New York Stock Exchange is not closed.

"Commercial Paper Rate" means the interest rate for each Series 2008 Bond as determined with respect to such Series 2008 Bond as provided in the First Supplemental Indenture.

"Commonwealth" means the Commonwealth of Kentucky.

"Contract Facility Charge" means the "contract facility charge" authorized by resolution of the Governing Body, relating to improvements for rental car facilities.

"Costs of Airport Facilities" means the costs of or related to Airport Facilities, and the financing thereof, for the payment of which Obligations may be issued under the Act.

"Credit Support Instrument" means an irrevocable letter of credit, line of credit, standby bond purchase agreement, insurance policy, guaranty or surety bond or similar instrument (including any related agreement of the Board to reimburse a Credit Support Provider for draws made on such Credit Support Instrument) providing for the payment of or guaranteeing the payment of principal or purchase price of and interest on Obligations when due, either to which the Board is a party or which is provided at the request of the Board.

"Credit Support Provider" means the provider of a Credit Support Instrument.

"Credit Support Provider Bonds" as to the Credit Support Instruments for the Series 2008 Bonds, this term shall have the same meaning as "Pledged Bonds" in the Reimbursement Agreement.

"Daily Rate" means the interest rate to be determined for a series of Series 2008 Bonds on each Business Day pursuant to the First Supplemental Indenture.

"Debt Service Charges" means, generally, for any applicable time period, (a) the principal (including any Mandatory Sinking Fund Requirements), interest and redemption premium, if any, required to be paid by the Board on Obligations pursuant to any Series Resolution, less any capitalized interest for such time period and accrued interest on deposit in the Debt Service Payment Account; (b) any amounts due to a Credit Support Provider, to the extent as set forth in a Credit Support Instrument, that do not exceed the corresponding Lease Rental Payments then due with respect to the Obligations related to such Credit Support Instrument; and (c) any Hedge Payments.

"Debt Service Fund" means the Debt Service Fund authorized and created in Section 4.03 of the Trust Indenture.

"Debt Service Payment Account" means the Debt Service Payment Account within the Debt Service Fund authorized and created pursuant to Section 4.03 of the Trust Indenture.

"Debt Service Reserve Fund" means the Debt Service Reserve Fund authorized and created pursuant to Section 4.03 of the Trust Indenture.

"Debt Service Reserve Fund Credit Instrument" means a letter of credit, surety bond or non-cancelable insurance policy issued by a domestic or foreign bank, insurance company or other financial institution whose debt obligations are rated "Aa" or better by Moody's, or "AA" or better by S&P or "AA" or better by Fitch as of the date of issuance thereof. Any such letter of credit, surety bond or insurance policy shall be issued in the name of the Trustee and shall contain no restrictions on the ability of the Trustee to receive payments thereunder other than a certification of the Trustee that the funds drawn thereunder are to be used for purposes for which moneys in the Debt Service Reserve Fund may be used.

"Debt Service Reserve Requirement" means the least of (a) the maximum Aggregate Annual Debt Service in any succeeding Bond Year; (b) 125% of the average Aggregate Annual Debt Service on all Outstanding Bonds; or (c) an amount equal to 10% of the proceeds of any series of Obligations; provided that not more than 10% of the proceeds of any series of Obligations shall be required to be deposited in the Debt Service Reserve Fund and, if such amount is so deposited, the amount of such deposit plus the amount of all prior deposits required upon the issuance of Obligations shall constitute the Debt Service Reserve Requirement until the earlier of (i) the date the next series of Obligations is issued or (ii) the date such amount equals the requirement set forth in clause (a) above.

"Eligible Investments" means any investment authorized by Section 66.480 of the Kentucky Revised Statutes, as the same may be amended, modified, revised, supplemented, or superseded from time to time.

"Event of Default" means an Event of Default as defined in the Trust Indenture and/or the Lease Agreement.

"FAA" means the Federal Aviation Administration or any successor agency thereof.

"Fiscal Officer" means the Director of Administration and Finance or such other person designated by the Governing Body to act as Fiscal Officer for purposes of the Trust Indenture.

"Fiscal Year" means a period of twelve consecutive months constituting the fiscal year of the Board commencing on the first day of July of any year and ending on the last day of June of the next succeeding calendar year, both inclusive, or such other consecutive twelve month period as hereafter may be established from time to time for budgeting and accounting purposes of the Board by the Governing Body to be evidenced, for purposes hereof, by a certificate of a Fiscal Officer filed with the Trustee.

"Fitch" means Fitch, Inc.

"Fixed Rate" means the interest rate per annum on a series of Series 2008 Bonds established in accordance with the First Supplemental Indenture.

"General Operating Fund" means the General Operating Fund authorized and created in Section 4.01 of the Trust Indenture, which General Operating Fund shall also serve as the Operation and Maintenance Fund, to be used to pay Operation and Maintenance Expenses, pursuant to the provisions of the Act.

"Governing Body" means the Governing Body of the Board, or if there shall be no such Governing Body, such Person or body which, pursuant to law or the organizational documents of the Board, is vested with the power to direct the management and policies of the Board, and shall include any committee empowered to act on behalf of such Governing Body or body.

"Government Auditing Standards" means those principles of accounting applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, as such principles are from time to time supplemented or amended.

"Government Bonds" means (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged; (b) obligations issued by a Person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of, premium, if any, and interest on which is fully guaranteed as a full faith and credit obligation of the United States of America (including any securities described in (a) or (b) issued or held in book-entry form on the books of the Department of Treasury of the United States of America or Federal Reserve Bank); (c) securities which represent an interest in the securities described in (a) and (b) above; (d) repurchase agreements with respect to securities described in (a) or (b) above that mature in 30 days or less, with a provider rated at least "Baa3" by Moody's; and (e) money market mutual funds rated "Aaa" by Moody's that invest only in securities described in (a) or (b) above.

"Hedge Payment" means a payment due to a Hedge Provider under an Interest Rate Hedge Agreement that corresponds to interest due on Obligations, specifically excluding, unless otherwise provided in a Supplemental Indenture with respect to a particular series of Obligations, any termination payment under an Interest Rate Hedge Agreement.

"Hedge Provider" means the provider of an Interest Rate Hedge Agreement.

"Holder" means any Person in whose name a registered Obligation is registered.

"Independent Airport Consultant" means a consultant selected by the Board with expertise in the administration, financing, planning, maintenance and operations of airports and facilities thereof, and who, in the case of an individual, shall not be an officer or employee of the Board.

"Interest Payment Dates" means the dates specified in the applicable Supplemental Trust Indenture on which interest on the Obligations or any series of Obligations is to be paid.

"Interest Rate Hedge Agreement" means an interest rate swap, an interest rate cap or other such arrangement obtained by the Board (or the Trustee on behalf of the Board) with the goal of lowering the effective interest rate to the Board on Obligations or hedging the exposure of the Board with respect to its obligations on the Obligations against fluctuations in prevailing interest rates.

"Lease Agreement" means the Lease Agreement, dated as of November 1, 2008, between the Board, as lessor, and the Urban County Government, as lessee, as the same may from time to time be amended or supplemented by one or more Supplemental Leases.

"Lease Rental Payments" means the rental payments made by the Urban County Government, as lessee, under the Lease.

"Long-Term Rate" means the interest rate to be determined for a term of at least 6 months pursuant to the First Supplemental Indenture.

"Mandatory Sinking Fund Requirements" means amounts required by any Series Resolution or the Supplemental Trust Indenture to be deposited to the Debt Service Payment Account in any fiscal year for the purpose of retiring principal maturities of Obligations which by the terms of such Obligations are due and payable, if not called for prior redemption, in any subsequent fiscal year.

"Maturity Date" means the respective maturity dates for the 2008 Series A Bonds, the 2008 Series B Bonds and the 2008 Taxable Series C Bonds, as set forth in the First Supplemental Indenture.

"Maximum Interest Rate" means (i) with respect to the 2008 Series A Bonds, the rate per annum equal to the lesser of (a) 12% per annum or (b) the maximum rate permitted by applicable law; (ii) with respect to the 2008 Series B Bonds, the rate per annum equal to the lesser of (a) 12% per annum or (b) the maximum rate permitted by applicable law; (iii) with respect to the 2008 Taxable Series C Bonds, the rate per annum equal to the lesser of (a) 15% per annum or (b) the maximum rate permitted by applicable law; or (iv) with respect to Credit Support Provider Bonds, the rate set forth in the Reimbursement Agreement.

"Moody's" means Moody's Investors Service, Inc., a Delaware corporation, and its successors and assigns.

"Notes" or "Note" means any note or all of the notes, or an issue of notes, as the case may be, as so identified in the certificate of the Fiscal Officer issued by the Board in anticipation of the issuance of Obligations or receipt of grants or appropriations to pay Costs of Airport Facilities, or to pay costs of refunding or retirement of Notes previously issued pursuant to the Act, the 2008 General Bond Resolution, a Series Resolution and the Trust Indenture. The definition of Note and Notes does not include "Bond" or "Bonds," Special Facility Revenue Obligations or Additional Obligation Instruments.

"Obligations" means Bonds, Notes and Additional Obligation Instruments and do not include Special Facility Revenue Obligations.

"Operation and Maintenance Expenses" means, for any Fiscal Year, the costs incurred by the Board in operating and maintaining the Airport during such Fiscal Year, either directly or indirectly, including, without limitation (but exclusive of such expenses as may be capitalized in connection with an Airport Project):

(a) the following costs and expenses incurred by the Board for employees employed at the Airport, or doing work involving the Airport: direct salaries and wages (including overtime pay), together with payments or costs incurred for associated payroll expense, such as union contributions, cash payments to pension funds, retirement funds or unemployment compensation funds, life, health, accident and unemployment insurance premiums, deposits for self-insurance, vacations and holiday pay, and other fringe benefits;

(b) costs of materials, supplies, machinery and equipment and other similar expenses which, under Government Auditing Standards, are not capitalized;

(c) costs of maintenance, landscaping, decorating, repairs, renewals and alternations not reimbursed by insurance, and which, under Government Auditing Standards, are not capitalized;

(d) costs of water, energy, telecommunications service and all other utilities and services whether furnished by the Board or purchased by the Board and furnished by independent contractors at or for the Airport;

(e) costs of rentals of real property and costs of rental equipment or other personal property;

(f) costs of premiums for insurance, including property damage, public liability, burglary, bonds of employees, workers' compensation, disability, automobile, and all other insurance covering the Airport or its operations;

(g) the amount of any judgment or settlement arising as a result of the Board's ownership, operation and maintenance of the Airport payable by the Board during said Fiscal Year, including, without limitation, the amount of any judgment or settlement arising as a result of claims, actions, proceedings or suits alleging a taking of property or interests in property without just compensation, trespass, nuisance, property damage, personal injury or similar claims, actions, proceedings or suits based upon the environmental impacts, including, without limitation, those resulting from the use of the Airport for the landing and taking off of aircraft;

(h) costs incurred in collecting and attempting to collect any sums due the Board in connection with the operation of the Airport;

(i) costs of advertising at or for the Airport;

(j) compensation paid or credited to persons or firms appointed or engaged, from time to time, to render advice and perform architectural, engineering, construction management, financial, legal, accounting, testing, consulting or other professional services in connection with the management, operation, expansion, alteration, reconstruction, betterment or other improvement of the Airport or any of its structures or facilities, and which, under Government Auditing Standards, are not capitalized;

(k) any other cost incurred or allocated to the Airport necessary to comply with any valid rule, regulation, policy or order of any federal, state or local government, agency or court, and which, under Government Auditing Standards, are not capitalized; and

(l) all other direct and indirect expenses, whether similar or dissimilar, which arise out of the Board's ownership, operation or maintenance of the Airport, including any taxes payable by the Board which may be lawfully imposed upon the Airport by entities other than the Board.

"Original Purchaser" means, as to any Obligations, the Person or Persons expressly named in the applicable Series Resolution or Purchase Agreement as the original purchaser of those Obligations from the Board.

"Outstanding" means, as of any date, Notes and Bonds which have been authenticated, and with respect to all Obligations, have been delivered, or are then being delivered, by the Trustee or the Board under the Trust Indenture except:

(a) Obligations surrendered for exchange or transfer or canceled because of payment or redemption at or prior to such date;

(b) Obligations for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited prior to such date with the Trustee or Paying Agents (whether upon or prior to the maturity or redemption date of any such Obligations), or which are deemed to have been paid and discharged pursuant to the provisions of the Trust Indenture;

provided that if such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee, and provided, further, that if such Obligations are to be purchased for cancellation, a firm offer for sale stating the price has been received and accepted; and

(c) Lost, stolen, mutilated or destroyed Obligations in lieu of which others have been authenticated, if applicable, (or payment, when due, of which is made without replacement) under the Trust Indenture.

"Passenger Facility Charge" means the passenger facility charge as authorized under Section 1113(e) of the Federal Aviation Act of 1958, [as amended by Section 9110 of the Omnibus Budget Reconciliation Act of 1990], and as approved by the FAA from time to time with respect to the Airport.

"Paying Agents" means any banks or trust companies designated as the paying agencies or places of payment for Obligations by or pursuant to the applicable Series Resolution, and their successors designated pursuant to the Trust Indenture, and shall also mean the Trustee when so designated for such purpose.

"Payment Date" means any date on which principal of or interest on any Obligations is payable in accordance with its terms and the terms of this Indenture and the related Supplemental Trust Indenture or, in the case of Credit Support Instruments or Hedge Payments payable under Interest Rate Hedge Agreements, in accordance with the terms of the instrument creating such Credit Support Instrument and Interest Rate Hedge Agreement.

"Person" means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, a limited liability company, an unincorporated organization, or a government or any agency or political subdivision thereof.

"Pledged Funds" means the Debt Service Fund, the Debt Service Reserve Fund and accounts therein and any other funds or accounts permitted by, established under, or identified in the Trust Indenture or a Series Resolution and designated as Pledged Funds; provided that, any separate subaccount within the Redemption and Purchase Account created for a series of Obligations, as provided in Sections 4.01 and 4.04, shall be a Pledged Fund only with respect to the particular series of Obligations for which it was created. Unless otherwise provided in a Supplemental Trust Indenture pledging the General Operating Fund as security for all Outstanding Obligations, the General Operating Fund shall not be a Pledged Fund.

"Predecessor Obligation" of any particular Obligation means every previous Obligation evidencing all or a portion of the same debt as that evidenced by the particular Obligation. For the purposes of this definition, any Bond or Note authenticated and delivered under Section 2.07 of the Trust Indenture in lieu of a lost, stolen or destroyed Bond or Note shall, except as otherwise provided in Section 2.07, be deemed to evidence the same debt as the lost, stolen or destroyed Bond or Note.

"Project" means collectively, the 1994 Project, the 1998 Project, the 2003 Project and the acquisition, construction, installation and equipping of the 2008 Project all as described in Exhibit A to the Lease Agreement.

"Project Fund" means the Project Fund created in Section 4.05 of the Trust Indenture.

"Purchase Agreement" means, as to any series of Obligations, the agreement between the Board and the Original Purchaser of such Obligations.

"Purchase Price" means, as to any series of Obligations, the amount provided for in the Series Resolution or the Purchase Agreement authorized thereby, plus accrued interest, if any, on the aggregate principal amount of those Obligations from their date to the date of their delivery to the Original Purchaser and payment therefor.

"Rating Service" means Fitch, Moody's, S&P or any other nationally recognized rating service.

"Redemption and Purchase Account" means the Redemption and Purchase Account authorized and created pursuant to Section 4.04 of the Trust Indenture.

"Refunding Obligations" means all or any portion of Obligations authenticated and delivered on original issuance for the purpose of the refunding of Outstanding Obligations.

"Register" means the books kept and maintained by the Registrar for the registration and transfer of Obligations pursuant to the Trust Indenture.

"Registrar" means, with respect to a series of Obligations, the keeper of the Register for those Obligations, which shall be the Trustee except as may be otherwise provided by or pursuant to the Series Resolution for those Obligations, each of which shall be a transfer agent registered in accordance with Section 17A(c) of the Securities Exchange Act of 1934.

"Reimbursement Agreement" means the Reimbursement, Credit and Security Agreement, dated as of November 1, 2008, by and between the Board and JPMorgan Chase Bank, National Association.

"Remarketing Agent" means any entity which acts as the remarketing agent with respect to a series of Obligations.

"S&P" means Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies, and its successors and assigns.

"Series Resolution" means a Resolution of the Governing Body authorizing one or more series of Obligations and the execution and delivery of a Supplemental Trust Indenture, all in accordance with the 2008 General Bond Resolution and the Trust Indenture.

"Series 2008 Ordinance" means Ordinance No. 241-2008 adopted by the Urban County Council on October 23, 2008.

"Sinking Fund" means the fund so designated and established by the Lessee, from which Lease Rental Payments shall be made.

"Special Facility Revenue Obligations" means bonds, notes or other evidences of indebtedness of the Board, which bonds, notes or other evidences of indebtedness are not payable from General Revenues or any other moneys or securities held under this Indenture.

"Supplemental Trust Indenture" means any one or more of Supplemental Trust Indentures entered into by the parties pursuant to the Trust Indenture and a Series Resolution.

"Supplemental Lease" means a lease supplemental to or amendatory of the Lease Agreement, executed and delivered by the Board and the Urban County Government in accordance with Section 2.02 of the Trust Indenture.

"Trust Indenture" means the Trust Indenture, dated as of November 1, 2008, between the Board and the Trustee, as the same may be duly amended, modified or supplemented in accordance with its terms.

"Trustee" means the Trustee at the time serving under the Trust Indenture, and each Supplemental Trust Indenture, originally The Bank of New York Mellon Trust Company, N.A. and any successor Trustee as determined or designated under or pursuant to the Trust Indenture.

"2008 General Bond Resolution" means the resolution of the Governing Body adopted on October 15, 2008, authorizing the execution and delivery of the Trust Indenture.

"Urban County Council" means the Urban County Council of the Urban County Government, or any succeeding governing or legislative body of the Urban County Government.

"Urban County Government" means the Lexington-Fayette Urban County Government, an urban county local government organized and existing under the laws of the Commonwealth.

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## SUMMARY OF THE TRUST INDENTURE

*The following is a summary of certain provisions of the Trust Indenture, dated as of November 1, 2008, between the Board and The Bank of New York Mellon Trust Company, N.A., as Trustee. This summary is not to be regarded as a complete statement of the Trust Indenture to which reference is made for a complete statement of the actual terms thereof. Copies of the Trust Indenture are on file with the Trustee.*

### **General Operating Fund**

The General Operating Fund shall be maintained by the Board. All General Revenues shall be deposited in the General Operating Fund.

All General Revenues collected by the Board shall be applied by the Board in the following order of priority:

- (a) to the payment of Operation and Maintenance Expenses as incurred;
- (b) at least three Business Days prior to the first day of each month, to make a transfer to the Debt Service Payment Account of the Debt Service Fund in an amount (i) equal to the interest on all Outstanding Obligations or corresponding amounts with respect to Credit Support Instruments and Hedge Payments then due and (ii) to the extent accrued but not yet payable, equal to the amount unpaid in respect of the next Interest Payment Date for such Outstanding Obligations or corresponding amounts with respect to Credit Support Instruments and Hedge Payments, divided by the number of months preceding such Interest Payment Date;
- (c) at least three Business Days prior to the first day of each month, to make a transfer to the Debt Service Payment Account of the Debt Service Fund in an amount equal to the principal of all Outstanding Obligations or corresponding amounts with respect to Credit Support Instruments payable on the next Payment Date for principal of such Outstanding Obligations and Credit Support Instruments, divided by the number of months preceding such Payment Date;
- (d) to transfer to the Debt Service Reserve Fund, as further provided in the Trust Indenture;
- (e) to the payment of any amounts due to a Credit Support Provider that are not related to reimbursement of such Credit Support Provider for the payment of Debt Service Charges with draws under a Credit Support Instrument; and
- (f) to the payment of any amounts due from the Board to the Urban County Government under the Lease.

The Board shall also establish and maintain such other funds and accounts as the Board is required to establish and maintain or deems necessary or advisable to establish and maintain with respect to the Airport.

## **Funds Held By the Trustee**

The Trustee will hold and administer the Debt Service Fund, the Debt Service Reserve Fund and the Project Fund created under the Trust Indenture, together with the accounts contained therein, upon the terms and conditions, including, without limitation, the terms and conditions set forth in the Trust Indenture and the applicable Series Resolution and/or Supplemental Trust Indenture for the investment of moneys deposited in such Funds, set forth in the applicable Series Resolution and the Trust Indenture.

### **Debt Service Fund**

There will be maintained in the Debt Service Fund the following Accounts: the Debt Service Payment Account and the Redemption and Purchase Account. The Trustee will maintain a separate subaccount within the Debt Service Payment Account for each series of Obligations and each separate subaccount will secure only the particular series of Obligations to which it is related. (Section 4.02)

### **Use of Debt Service Payment Account**

The Debt Service Account is pledged to and will be used solely for the payment of Debt Service Charges in their order of maturity; provided that Lease Rental Payments may be transferred to the Debt Service Reserve Fund up to amounts transferred to the Debt Service Account from the Debt Service Reserve Fund.

Proceeds of Obligations designated by the Fiscal Officer and amounts required to be paid from the General Operating Fund and all Lease Rental Payments shall be deposited in the Debt Service Payment Account; provided that, if amounts are transferred from the Debt Service Reserve Fund and as a result thereof the amount remaining in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement, the related Lease Rental Payment then due shall be deposited in the Debt Service Reserve Fund. If sufficient funds are not on deposit in the Debt Service Payment Account to enable the Trustee to pay Debt Service Charges when due, the amount of such deficiency shall be transferred by the Trustee from the Debt Service Reserve Fund to the Debt Service Payment Account. Amounts drawn on a Credit Support Instrument shall be deposited in the related Credit Support Account.

If a Credit Support Account has been established, the principal (including any Mandatory Sinking Fund Requirements), interest and redemption premium, if any, required to be paid by the Board on the related Obligations shall be paid first from amounts on deposit in such Credit Support Account and then from other amounts available in the Debt Service Payment Account for such purpose. Upon receiving funds for the payment of Debt Service Charges pursuant to a draw on a Credit Support Instrument, the Trustee shall apply related amounts deposited in the Debt Service Payment Account by the Board to the reimbursement of the Credit Support Provider for such draw in accordance with the terms of the related Credit Support Instrument.

If, three Business Days prior to any date that the payment of Debt Service Charges are due, sufficient funds are not on deposit in the Debt Service Payment Account to enable the Trustee to pay such Debt Service Charges, and if the Trustee shall have transferred funds from a Debt Service Reserve Fund to the Debt Service Payment Account to forestall a default in the payment of Debt Service Charges, then in each such instance the Trustee shall immediately notify the Fiscal Officer of the Board and the Urban County Government in writing of such event and request that the Urban County Government pay the Lease Rental Payment then due to cure such deficiency or to restore the amount transferred from the Debt Service Reserve Fund. (Section 4.03)

## **Debt Service Reserve Fund**

The Trustee will hold and administer a Debt Service Reserve Fund to be used, solely for the payment of Debt Service Charges with respect to any series of Obligations for which a reserve fund has been mandated pursuant to the Series Resolution which authorized the issuance of such series of Obligations. A separate subaccount shall be created in the Debt Service Reserve Fund for each series of Obligations for which a reserve fund has been mandated by the Series Resolution which authorized such series of Obligations and each separate subaccount shall secure only the particular series of Obligations to which it is related.

If, on any date that Debt Service Charges are due, the amount on deposit in the Debt Service Payment Account is insufficient to pay such Debt Service Charges on such date, the Trustee, without necessity for any order by the Board, shall immediately transfer from the Debt Service Reserve Fund an amount sufficient to make up such deficiency in the Debt Service Payment Account.

Subject to the foregoing, any amount in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement (a) may be transferred to the General Operating Fund and (b) upon the refunding of any Obligations may be deposited in the Redemption Account established for the Obligations to be refunded, if and to the extent ordered by the Fiscal Officer.

Within one hundred eighty (180) days after the end of each Fiscal Year, the Board shall determine the value of amounts on deposit in the Debt Service Reserve Fund in accordance with Section 4.12, and from the General Operating Fund, transfer to the Debt Service Reserve Fund such amount as may be required so that the amount in the Debt Service Reserve Fund is at least equal to the Debt Service Reserve Requirement.

A Debt Service Reserve Fund Credit Instrument may be deposited with the Trustee by the Board to satisfy the Debt Service Reserve Requirement, but only if the Board receives confirmation from each rating agency then rating Outstanding Obligations that such substitution will not cause a reduction or withdrawal of the then existing ratings on the Obligations. (Section 4.03)

## **Redemption and Purchase Account**

There will be deposited in the Redemption and Purchase Account that portion (if any) of the proceeds of Refunding Obligations, as provided in the Series Resolution authorizing their issuance, allocated to the payment of the principal, interest and redemption premium, if any, or purchase price of the Obligations to be refunded, funded or retired through the issuance of such Refunding Obligations; amounts to be transferred thereto from the Debt Service Reserve Fund by order of the Fiscal Officer pursuant to Section 4.03 of the Trust Indenture; and any other amounts made available by the Board for the purposes of the Redemption and Purchase Account. Amounts for the redemption of Obligations to be provided pursuant to the mandatory sinking fund requirements of the Series Resolution authorizing such Obligations will not be deposited to the credit of the Redemption and Purchase Account, but shall be deposited to the credit of the Debt Service Payment Account.

Any amounts in the Redemption and Purchase Account may be committed, by Series Resolution or other action by the Governing Body, for the retirement of and for Debt Service Charges on specified Obligations and, so long as so committed, will be used solely for such purposes whether directly or through transfer to the Debt Service Fund. Subject to the foregoing provisions of the Trust Indenture, the Fiscal Officer may cause moneys in the Redemption and Purchase Account to be used to purchase any Obligations for cancellation and to redeem any Obligations in accordance with the redemption provisions of the applicable Series Resolution. From moneys in the Redemption and Purchase Account, the Trustee

will transmit or otherwise disburse such amounts at such times as required for the redemption or purchase for cancellation of Obligations, and Debt Service Charges, in accordance with the applicable Series Resolution, or other action by the Governing Body or order of the Fiscal Officer not inconsistent therewith. Any amounts in the Redemption and Purchase Account not required for the purposes thereof pursuant to a commitment theretofore made, may be transferred to the Debt Service Payment Account or the Debt Service Reserve Fund upon order of the Fiscal Officer. (Section 4.04)

### **Project Fund**

Upon the issuance and delivery of Obligations, the proceeds of which will be used to pay Costs of Airport Facilities, there shall be created and ordered maintained with the Trustee, a fund designated the "Lexington-Fayette Urban County Airport Board Project Fund" with an additional series identification for each series of Obligations.

Amounts in a Project Fund will be disbursed therefrom by the Fiscal Officer or other authorized officer of the Board, according to such inspection, audit, and disbursement procedures as may from time to time be established by the Board, for the purpose of paying Costs of Airport Facilities as identified in the related Series Resolution or Supplemental Trust Indenture and to reimburse the Board for any payments which may have been made from other available resources in anticipation of the issuance of such Obligations.

Any balance remaining in a Project Fund after the final payment of all Costs of Airport Facilities for which such Project Fund was created, will be deposited in the Debt Service Fund and (i) credited to the Debt Service Reserve Fund if and to the extent that the Debt Service Reserve Fund contains less than the Debt Service Reserve Requirement, and/or (ii) either applied as a credit against the next deposit required to be made into the Debt Service Payment Account, or used to purchase Obligations in the open market at a purchase price not exceeding par plus accrued interest, as may be directed by the Fiscal Officer; provided that, if proceedings are then pending or imminently contemplated for incurring additional Costs of Airport Facilities which are or will be paid from the proceeds of Obligations, any such unexpended balance may be taken into account in determining the amount of Obligations to be authorized for such purpose, or may otherwise be applied to such Costs of Airport Facilities, in which event such unexpended balance may be transferred to a Project Fund created for such purpose. (Section 4.05)

### **Investment of Debt Service Fund, Debt Service Reserve Fund and Project Fund**

Except as hereinafter provided, moneys in the Debt Service Fund shall be invested and reinvested by the Trustee in Government Bonds and moneys in the Debt Service Reserve Fund and the Project Fund shall be invested and reinvested by the Trustee in Eligible Investments, in each case at the written direction of the Fiscal Officer. Investment of moneys in the Debt Service Fund shall mature or be redeemable at the times and in the amounts necessary to provide moneys to pay Debt Service Charges and the purchase price of Obligations tendered for purchase (if no Credit Support Instrument is available for such purchases) as they become due at stated maturity, by redemption or pursuant to any mandatory sinking fund requirements; provided that no such investment shall mature later than 30 days after its purchase date. Each investment of moneys in the Debt Service Reserve Fund shall mature or be redeemable without penalty within five years. Each investment of moneys in the Project Fund shall mature or be redeemable without penalty at such time as may be necessary to make payments from such fund. In the absence of any written direction from the Fiscal Officer, the Trustee shall invest all funds pursuant to standing written instructions delivered to the Trustee by the Board upon the original issuance of Obligations, as such instructions may be amended from time to time, provided that all such investments shall constitute Eligible Investments. The Trustee may trade with itself or its affiliates in the purchase and sale of securities for such investments.

Subject to any directions from the Fiscal Officer with respect thereto, the Trustee may sell at the best price reasonably obtainable, Debt Service Reserve Fund and Project Fund investments and reinvest the proceeds therefrom in Eligible Investments maturing or redeemable as aforesaid. Any of those investments may be purchased from or sold to the Trustee, the Registrar, an Authenticating Agent, a Paying Agent, or any bank, trust company or savings and loan association affiliated with any of the foregoing. The Trustee shall sell or redeem investments credited to the Debt Service Fund to produce sufficient moneys applicable hereunder to and at the times required for the purposes of paying Debt Service Charges and the purchase price of Obligations tendered for purchase when due as aforesaid, and shall do so without necessity for any order on behalf of the Board and without restriction by reason of any order. An investment made from moneys credited to the Debt Service Fund, the Debt Service Reserve Fund and the Project Fund shall constitute part of that respective fund, and each respective fund shall be credited with all proceeds of sale and income from investment of moneys credited thereto. The Board acknowledges that to the extent the regulations of the Comptroller of the Currency or other applicable regulatory agency grant the Board the right to receive brokerage confirmations of security transactions, the Board waives receipt of such confirmations.

For purposes of qualifying any investment as an Eligible Investment, where such qualification is dependent upon the rating assigned to such investment by a Rating Service, such qualification will be determined as of the date of purchase of such investment or deposit thereof with the Trustee, whichever is later. (Section 4.13)

#### **Power to Issue Obligations and Make Pledges**

The Board is duly authorized pursuant to law to create and issue the Obligations and to pledge the General Revenues and the Pledged Funds in the manner and to the extent provided in the Trust Indenture. The Board shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the General Revenues and the Pledged Funds under the Trust Indenture and all the rights of the Holders under the Trust Indenture against all claims and demands of all Persons whomsoever. (Section 5.01)

#### **General Covenant**

(a) The Board covenants that it will fix and establish, and revise from time to time whenever necessary, such rentals, rates and other charges for the use and operation of the Airport and for certain services rendered by the Board in the operation thereof in order that in each Fiscal Year, General Revenues, together with any cash balances as of the first day of such Fiscal Year that are available for the following, will be at least sufficient:

(i) to provide for (A) the payment of Operation and Maintenance Expenses, (B) any required deposit to any Pledged Fund, (C) the payment of any amounts due to a Credit Support Provider that are not related to reimbursement of such Credit Support Provider for the payment of Debt Service Charges with draws under a Credit Support Instrument, and (D) the payment of any amounts due from the Board to the Urban County Government under the Lease, exclusive of Aggregate Annual Debt Service for the Fiscal Year; and

(ii) to provide for the payment of not less than 100 percent of the Aggregate Annual Debt Service for the Fiscal Year, reduced by (A) amounts available in any capitalized interest account established pursuant to a Supplemental Trust Indenture for disbursement during such Fiscal Year to pay interest on Obligations and (B) anticipated receipts from Passenger Facility Charges and Contract Facility Charges that are available for the payment of Debt Service Charges.

provided that, failure to fix and establish rates, rentals and charges that are sufficient to pay the amount set forth in clause (i)(D) above shall not constitute an Event of Default.

(b) If during any Fiscal Year, General Revenues, such Passenger Facility Charges, such Contract Facility Charges and such cash balance are estimated to produce less than the amount required under paragraph (a) of this Section, the Board shall revise its rentals, fees and charges or alter its methods of operation or take other action in such manner as is necessary to produce the amount so required in such Fiscal Year.

(c) Within 60 days after the end of each Fiscal Year, the Board shall furnish to the Trustee a calculation of the coverage required under paragraph (a) of this Section certified by the Fiscal Officer.

(d) If the certificate specified in the preceding paragraph for any year indicates that the Board has not satisfied its obligations under paragraph (a) above, then as soon as practicable, but in any event no later than 60 days after the receipt by the Trustee of such certificate, the Board shall employ an Independent Airport Consultant to review and analyze the financial status and the administration and operation of the Airport and to submit to the Board, within 60 days after employment of the Independent Airport Consultant, a written report on the same, including the action which the Independent Airport Consultant recommends should be taken by the Board with respect to the revision of its Airport rentals, fees, and charges, alteration of its methods of operation or the taking of other action that is projected to result in producing the amount so required in the then-current Fiscal Year or, if less, the maximum amount deemed feasible by the Independent Airport Consultant. Promptly upon its receipt of the recommendations the Board shall, after giving due consideration to the recommendations, revise its Airport rentals, fees and charges or alter its methods of operation, which revisions or alterations need not comply with the Independent Airport Consultant's recommendations so long as any revisions or alterations are projected by the Board to result in compliance with paragraph (a) above. The Board shall transmit copies of the Independent Airport Consultant's recommendations to the Trustee and to each owner of Obligations who has requested the same.

(e) If at any time and as long as the Board is in full compliance with the provisions of this Section other than paragraph (a) above, there shall be no Event of Default under the Trust Indenture as a consequence of the Board's failure to satisfy the covenant contained in paragraph (a) during such period. (Section 5.02)

## **Management**

The Board covenants that in order to assure the efficient management and operation of the Airport and to assure the Holders of the Obligations that the Airport will be economically and efficiently operated on the basis of sound business principles, it will operate and maintain the Airport. The Board will not take, or allow any other person to take, any action which would cause the Federal Aviation Administrator of the FAA, Department of Transportation, or any successor to the powers and authority of such Administrator, to suspend or revoke the Airport's airport operating certificate issued under the Federal Aviation Act of 1958, or any successor statute. (Section 5.06)

## **Operation and Maintenance of Airport**

The Board shall operate and maintain the Airport in good repair and working order and shall make such repairs thereto as shall be necessary or appropriate in the prudent management thereof to insure its economic and efficient operation. The Board will operate the Airport in a manner that will entitle it to charge and collect rentals, fees and charges which the Board is entitled to receive or as

otherwise permitted by law and shall take such reasonable measures permitted by law to enforce payment to it of such rentals, fees and charges. (Section 5.07)

### **Events of Default**

Events of Default under the Trust Indenture include:

(a) Failure to pay any Debt Service Charges or the purchase price of Obligations tendered for purchase when and as the same shall have become due and payable;

(b) Failure by the Board to perform or observe any other covenant, agreement or condition on the part of the Board contained in the Trust Indenture or in the Obligations, which failure or Event of Default shall have continued for a period of 30 days after written notice, by registered or certified mail, given to the Board by the Trustee, specifying the failure or Event of Default and requiring the same to be remedied, which notice shall be given by the Trustee upon the written request of the Holders of not less than twenty-five percent in aggregate principal amount of the Obligations then Outstanding; provided that the Person or Persons requesting such notice may agree in writing to a 90-day extension of such period prior to the expiration of the initial 30-day period; provided further, however, that if the Board shall proceed to take curative action which, if begun and prosecuted with due diligence, cannot be completed within a period of 90 days, then such period shall be increased without such written extension up to 180 days as shall be necessary to enable the Board to diligently complete such curative action;

(c) The Board shall (i) admit in writing its inability to pay its debts generally as they become due, (ii) have an order for relief entered in any case commenced by or against it under federal bankruptcy laws, as now or hereafter in effect, (iii) commence a proceeding under any federal or state bankruptcy, insolvency, reorganization or similar laws, or have such a proceeding commenced against it and have either an order of insolvency or reorganization entered against it or have the proceeding remain undismissed and unstayed for 90 days, (iv) make an assignment for the benefit of creditors, or, (v) have a receiver or trustee appointed for it or for the whole or substantial part of its property.

(d) The failure of any Credit Support Provider to honor any drawing in accordance with the terms of a Credit Support Instrument.

(e) The Trustee's receipt of written notice from the Credit Support Provider stating that an event of default exists under the terms of a Credit Support Instrument and directing the Trustee to declare an Event of Default hereunder.

Additional "Events of Default" applicable to a particular series of Obligations may be set forth in a Supplemental Trust Indenture relating to those Obligations or in the form of that Obligation. (Section 7.01)

### **Acceleration**

Upon the occurrence of any Event of Default as defined in the Trust Indenture, the Trustee may, and upon the written request of the Holders of not less than 25 percent in aggregate principal amount of the Obligations Outstanding or a Credit Support Provider shall, declare the principal of all Obligations, together with accrued interest thereon, to be immediately due and payable on the announced accelerated maturity date. Upon any such declaration, which shall be made by a notice in writing given to the Board, the principal of and accrued interest, if any, on the Obligations shall become and be immediately due and

payable on the accelerated maturity date announced in such notice, which date shall be a Business Day not more than five days following the date of declaration of acceleration. Interest on the accelerated Obligations shall accrue to the announced accelerated maturity date; provided that interest shall continue to accrue on such Obligations after the announced accelerated maturity date (until funds are on deposit) to the extent that moneys are not on deposit on such date in the Debt Service Fund for the retirement of the principal of the Obligations. If Obligations are secured by a Credit Support Instrument, amounts payable under this Section shall be paid first from amounts drawn on such Credit Support Instrument and then from other amounts available for such purpose. Notwithstanding the foregoing, Lease Rental Payments shall be applied only to the payment of Debt Service Payments as they become due and payable, in the order of their respective payment dates, as if no acceleration of Debt Service Payments had been declared under the provisions of this paragraph.

The provisions of the above paragraph are subject, however, to the condition that if, at any time after such principal and interest on Obligations shall have been so declared due and payable, (a) all sums payable hereunder except the principal of, and interest accrued after the next preceding Payment Date on, the Obligations accelerated which have not reached their stated maturity dates and which are due and payable solely by reason of said declaration shall have been duly paid or provided for by deposit with the Trustee or Paying Agents hereunder from moneys supplied by the Board; (b) all existing Event of Defaults hereunder shall have been fully cured, to the extent then capable of being cured; and (iii) if such declaration was pursuant to Section 7.01(e) of the Trust Indenture, the Trustee has received written notice from the related Credit Support Provider to rescind the declaration of acceleration and the related Credit Support Instrument has been fully reinstated (and the Credit Support Provider is not in default of its obligations under the related Credit Support Instrument), then and in every such case such payment or provisions for payment shall ipso facto constitute a waiver of such Event of Default and its consequences and an automatic rescission and annulment of such declarations under the above paragraph, but no such waiver or rescission shall extend to or affect any subsequent Event of Default or impair any rights consequent thereon.

### **Supplemental Trust Indentures Not Requiring Consent of Holders**

The Board and the Trustee without the consent of, or notice to, any of the Holders, may enter into indentures supplemental to the Trust Indenture and other instruments evidencing the existence of a lien as shall not, in the opinion of the Trustee, be inconsistent with the terms and provisions of the Trust Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, inconsistency or formal defect or omission in the Trust Indenture or in any Supplemental Trust Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders or the Trustee;
- (c) To subject additional revenues or property to the lien and pledge of the Trust Indenture;
- (d) To add to the covenants and agreements of the Board contained in the Trust Indenture other covenants and agreements thereafter to be observed for the protection of the Holders, or, if in the judgment of the Trustee such is not to the prejudice of the Trustee or the Holders, to surrender or limit any right, power or authority reserved to or conferred upon the Board in the Trust Indenture, including the limitation of rights of redemption so that in certain

instances Obligations of different series will be redeemed in some prescribed relationship to one another;

(e) To evidence any succession to the Board and the assumption by such successor of the covenants and agreements of the Board contained in the Trust Indenture or other instrument providing for the operation of the Board or Airport Facilities, and the Obligations;

(f) In connection with the issuance of Obligations in accordance with Sections 2.01 and 2.02 of the Trust Indenture;

(g) To permit the Trustee to comply with any obligations imposed upon it by law;

(h) To permit the exchange of Obligations, at the option of the Holder or Holders thereof, for coupon Obligations of the same series payable to bearer, in an aggregate principal amount not exceeding the unmatured and unredeemed principal amount of the Predecessor Obligations, bearing interest at the same rate or rates and maturing on the same date or dates, with coupons attached representing all unpaid interest due or to become due thereon if, in the opinion of nationally recognized Bond Counsel selected by the Board and acceptable to the Trustee, that exchange would not result in the interest on any of the Obligations Outstanding becoming subject to federal income taxation;

(i) To specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, the Registrar and any Authenticating Agents or Paying Agents;

(j) To achieve compliance of the Trust Indenture with any applicable federal or Kentucky laws, including tax laws;

(k) To modify any provisions of the Trust Indenture in order to obtain a Credit Support Instrument or Interest Rate Hedge Agreement, so long as such modifications affect only the Obligations to which such Credit Support Instrument or Interest Rate Hedge Agreement relate; and

(l) In connection with any other change to the Trust Indenture which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the Holders of the Obligations.

The provisions of (g) and (j) above will not be deemed to constitute a waiver by the Trustee, the Registrar, the Board or any Holder of any right which it may have in the absence of those provisions to consent to the application of any change in law to the Trust Indenture or the Obligations. (Section 8.01)

### **Supplemental Trust Indentures Requiring Consent of Holders**

Exclusive of supplemental indentures referred to in Section 8.01 of the Trust Indenture and subject to the terms and provisions and limitations contained in this paragraph, and not otherwise, the Holders of a majority in aggregate principal amount of the Obligations then Outstanding shall have the right, from time to time, anything contained in the Trust Indenture to the contrary notwithstanding, to consent to and approve the execution by the Board and the Trustee of such other indenture or indentures supplemental to the Trust Indenture as shall be deemed necessary and desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Trust Indenture; provided that nothing in this paragraph or in the Trust Indenture will permit, or be construed as permitting, a Supplemental Trust Indenture providing for (a)(i) a

reduction in the percentage of Obligations the consent of the Holders of which are required to consent to such Supplemental Trust Indenture or (ii) a preference or priority of any Obligation or Obligations over any other Obligation or Obligations, without the consent of the Holders of all Obligations then Outstanding, (b) effect a change in the times, amount or currency of payment of the principal of, premium, if any, on or interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of each such Obligation so affected or (c) modify the right of the Holders of not less than twenty-five percent in aggregate principal amount of the Obligations then Outstanding and in default as to payment of principal, premium or interest to compel the Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of a majority in aggregate principal amount of the Obligations then Outstanding.

If at any time the Board requests that the Trustee enter into any such Supplemental Trust Indenture for any of the purposes of Section 8.02 of the Trust Indenture, the Trustee, upon being satisfactorily indemnified with respect to expenses, shall cause notice of the proposed execution of such Supplemental Trust Indenture to be mailed by first class mail, postage prepaid, to all Holders of Obligations then Outstanding at their addresses as they appear on the Registrar at the close of business on the Business Day immediately preceding that mailing. The Trustee will not, however, be subject to any liability to any Holder by reason of its failure to mail, or the failure of such Holder to receive, the notice required by the Trust Indenture, and any such failure shall not affect the validity of such Supplemental Trust Indenture when consented to and approved as provided in Section 8.02 of the Trust Indenture. Such notice will briefly set forth the nature of the proposed Supplemental Trust Indenture and will state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Holders.

If within such period, not exceeding one year, as prescribed by the Board, following the mailing of such notice, the Trustee receives an instrument or instruments purporting to be executed by the Holders of a majority in aggregate principal amount of the Obligations then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Trust Indenture described in such notice and will specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Trustee, thereupon, but not otherwise, the Trustee will execute such Supplemental Trust Indenture in substantially such form; without liability or responsibility to any Holder of any Obligation, whether or not such Holder will have consented thereto.

Any such consent is binding upon the Holder of the Obligation giving such consent, upon any subsequent Holder of such Obligation and upon the Holder of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Trustee, prior to the execution by the Trustee of such Supplemental Trust Indenture, such revocation and, if such Obligation or Obligations are transferable by delivery, proof that such Obligations are held by the signer of such revocation in the manner permitted by Section 10.01 of the Trust Indenture. At any time after the Holders of the required percentage of the Obligations shall have filed their consents to the Supplemental Trust Indenture, the Trustee shall make and file with the Board a written statement that the, Holders of such required percentage of the Obligations have filed such consents. Such written statement shall be conclusive evidence that such consents have been so filed.

If the Holders of the required percentage in aggregate principal amount of the Obligations shall have consented to and approved the execution thereof as provided in the Trust Indenture, no Holder of any Obligation has any right to object to the execution of such Supplemental Trust Indenture, to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question

the propriety of the execution thereof or to enjoin or restrain the Trustee or the Board from executing the same or from taking any action pursuant to the provisions thereof. (Section 8.02)

### **Authorization to the Trustee; Effect of Supplemental Trust Indentures**

The Trustee is authorized to join with the Board in the execution of any such Supplemental Trust Indenture provided for in the Trust Indenture and to make the further agreements and stipulations which may be contained therein. Any Supplemental Trust Indenture executed in accordance with the provisions of the Trust Indenture will thereafter form a part of the Trust Indenture, all the terms and conditions contained in any such Supplemental Trust Indenture as to any provision authorized to be contained therein will be deemed to be part of the terms and conditions of the Trust Indenture for any and all purposes, the Trust Indenture will be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Trust Indenture of the Board, the Trustee, the Registrar, the Authenticating Agents, the Paying Agents and all Holders of Obligations then Outstanding will thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments. Express reference to such executed Supplemental Trust Indenture may be made in the text of any Obligations issued thereafter, if deemed necessary or desirable by the Trustee or the Board. There will be no modification, change or amendment to the Trust Indenture or any other document related to the Obligations which affects the rights, duties or obligations of the Trustee thereunder, without the Trustee's prior written consent. (Section 8.03)

### **Opinion of Counsel**

The Trustee is entitled to receive, and shall be fully protected in relying upon, the opinion of any counsel approved by it, who may be counsel for the Board, as conclusive evidence that any such proposed Supplemental Trust Indenture complies with the provisions of the Trust Indenture and that it is proper for the Trustee, under the provisions of the Trust Indenture, to join in the execution of such Supplemental Trust Indenture. (Section 8.04)

### **Modification by Unanimous Consent**

Notwithstanding anything contained elsewhere in the Trust Indenture, the rights and obligations of the Board and of the Holders of the Obligations, and the terms and provisions of the Obligations and the Trust Indenture or any Supplemental Trust Indenture, may be modified or altered in any respect with the consent of the Board and the consent of the Holders of all of the Obligations then Outstanding and the Trustee. (Section 8.05)

### **Release of Trust Indenture**

If the Board pays or cause to be paid and discharged, or there shall otherwise be paid to the Holders of the Outstanding Obligations all Debt Service Charges due or to become due thereon and provision shall also be made for paying all other sums payable under the Trust Indenture, then and in that event the Trust Indenture (except for Sections 4.02, 4.04, 9.02 and 9.03 thereof) will cease, determine and become null and void, and the covenants, agreements, and other obligations of the Board under the Trust Indenture are discharged and satisfied, and thereupon the Trustee will release the Trust Indenture, including the cancellation and discharge of the lien thereof, and execute and deliver to the Board such instruments in writing as required to satisfy and terminate the lien thereof and to enter on the records such satisfaction and discharge and to re-convey to the Board the estate created by the Trust Indenture and such other instruments to evidence such release and discharge as may be reasonably required by the Board, and the Trustee and Paying Agents will assign and deliver to the Board any property at the time subject to the lien of the Trust Indenture which may then be in their possession, except amounts in the

Debt Service Fund required to be held by the Trustee and Paying Agents under Section 4.08 of the Trust Indenture or otherwise for the payment of Debt Service Charges. (Section 9.01)

### **Payment and Discharge of Obligations**

All the Outstanding Obligations of one or more series will be deemed to have been paid and discharged within the meaning of the Trust Indenture, including without limitation, Section 9.01 of the Trust Indenture if either (i) the Trustee as paying agent and any Paying Agents are required to hold, in the Debt Service Payment Account in trust for and irrevocably committed thereto, sufficient moneys or (ii) the Trustee is required to hold, in the Debt Service Fund in trust for and irrevocably committed thereto, investments described in clauses (a) or (b) of the definition of Government Bonds as of the date of the determination required in Section 9.02 of the Trust Indenture which are, in either case, certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest (at the maximum permitted interest rate for any period that the actual rate on any Obligations cannot be determined) as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (likewise to be held in trust and committed, except as provided in the Trust Indenture), be sufficient together with moneys referred to in clause (i) above, for the payment, at their maturity, redemption or due date, as the case may be, of all Debt Service Charges on those Obligations to their maturity, redemption or due date, as the case may be, or if Event of Default in such payment will have occurred on such date then to the date of the tender of such payment; provided that if any of such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption will have been duly given or irrevocable provisions satisfactory to the Trustee have been duly made for the giving of such notice; provided that if the Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given or irrevocable provision satisfactory to the Trustee shall have been duly made for the giving of such notice. (Section 9.02)

### **Survival of Certain Provisions**

Notwithstanding the foregoing, those provisions of a Series Resolution and the Trust Indenture relating to the maturity of Obligations, interest payments and dates thereof, optional and mandatory redemption provisions, credit against Mandatory Sinking Fund Requirements, exchange, transfer and registration of Obligations, replacement of mutilated, destroyed, lost or stolen Obligations, the safekeeping and cancellation of Obligations, non-presentment of Obligations, the holding of moneys in trust, repayments to the Board from the Pledged Funds and the rights, remedies and duties of the Trustee and the Registrar in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee, the Registrar, the Authenticating Agent, Paying Agents and the Holders notwithstanding the release and discharge of the lien of the Trust Indenture. The provisions of the Article IX of the Trust Indenture shall survive the release and discharge of the Trust Indenture. (Section 9.03)

### **Limitation of Rights**

With the exception of rights expressly conferred in the Trust Indenture, nothing expressed or mentioned in or to be implied from the Trust Indenture or the Obligations is intended or shall be construed to give to any Person other than the parties to the Trust Indenture, the Board, any Credit Support Provider and the Holders of the Obligations any legal or equitable right, remedy or claim under or in respect to the Trust Indenture or any covenants, conditions and provisions in contained in the Trust Indenture; the Trust Indenture and all of the covenants, conditions and provisions of the Trust Indenture being intended to be and being for the sole and exclusive benefit of the parties hereto, the Board, any Credit Support Provider and the Holders of the Obligations as provided in the Trust Indenture. (Section 10.02)

## SUMMARY OF THE FIRST SUPPLEMENTAL INDENTURE

*The following is a summary of certain provisions of the First Supplemental Trust Indenture, dated as of November 1, 2008, between the Board and The Bank of New York Mellon Trust Company, N.A., as Trustee. This summary is not to be regarded as a complete statement of the First Supplemental Indenture to which reference is made for a complete statement of the actual terms thereof. Copies of the First Supplemental Indenture are on file with the Trustee.*

### **Credit Support Instrument**

(a) During any time that Series 2008 Bonds are Daily Rate Bonds, Weekly Rate Bonds, Commercial Paper Rate Bonds or Long-Term Rate Bonds, the Board shall maintain a Credit Support Instrument, with a reasonable term out unless (1) the Board maintains cash and marketable securities in an amount not less than the principal amount of said indebtedness and (2) said indebtedness is rated in the highest short term category by at least one Rating Service.

(b) The Credit Support Instrument shall be an obligation of the Credit Support Provider to pay to the Trustee upon request made by the Trustee with respect to the Series 2008 Bonds related thereto and in accordance with the terms thereof:

(1) With respect to each series of Series 2008 Bonds, an amount equal to the aggregate Outstanding principal amount of such Series 2008 Bonds to pay the portion of the Purchase Price of such Series 2008 Bonds equal to the principal amount of such Series 2008 Bonds which are delivered or required to be delivered to the Trustee for purchase or to pay the principal amount of such Series 2008 Bonds when due at their stated maturity or by sinking fund redemption (or optional redemption if authorized by the Credit Support Instrument) or upon acceleration; and

(2) An amount equal to the interest to accrue on such Series 2008 Bonds for a period at least equal to (A) the maximum number of days between Interest Payment Dates in the applicable Daily Rate, Weekly Rate, Commercial Paper Rate or Long-Term Rate (as applicable), plus (B) the minimum number of days required to reinstate the interest portion of such Credit Support Instrument, calculated at the Maximum Interest Rate to pay the portion of the Purchase Price equal to interest on such Series 2008 Bonds delivered or required to be delivered to the Trustee for purchase, plus (C) the number of days required to pay the interest accrued on such Series 2008 Bonds upon acceleration, all subject to and including any period of time for which notice must be given prior to effectuating any of the aforesaid actions.

(c) (1) If a Credit Support Instrument is in effect, said Credit Support Instrument shall expire in accordance with its terms. At the request of the Board, the Credit Support Provider may provide for an extension of the expiration date of the Credit Support Instrument to a date not earlier than 364-days from the Credit Support Instrument termination date being extended, or the maturity date of the applicable series of Series 2008 Bonds, as applicable, plus fifteen (15) days, whichever is earlier. Upon satisfaction of the aforesaid provisions for extension of the Credit Support Instrument and compliance with the 90-day timing provision in Section 9(e) hereof, the Series 2008 Bonds shall not be subject to mandatory tender.

(2) With respect to providing an Alternate Credit Support Instrument, the Board may, not less than sixty (60) days prior to the Interest Payment Date next preceding the stated termination date of the current Credit Support Instrument (or if an Alternate Credit Support Instrument is being provided but not in connection with the stated termination date of the current

Credit Support Instrument, then on the date selected for substitution, which substitution date shall be an Interest Payment Date, which Interest Payment Date must occur prior to the termination date of the current Credit Support Instrument), at the Board's option, provide for the delivery to the Trustee of an Alternate Credit Support Instrument having a term of not less than the shorter of (A) 364-days from the Credit Support Instrument termination date or 364-days from the Credit Support Instrument substitution date (if the substitution is not being provided for in connection with the stated termination of the current Credit Support Instrument) of the Credit Support Instrument it is replacing, or (B) the remaining term of the applicable series of Series 2008 Bonds plus fifteen (15) days.

(3) Prior to the replacement of the Credit Support Instrument with an Alternate Credit Support Instrument, the following conditions shall have been met: (i) the Trustee shall have received from the Board written notice of such replacement, including notice of the form of the Alternate Credit Support Instrument and an irrevocable commitment to issue such Alternate Credit Support Instrument from the issuer thereof, with the right to approve such form, not less than sixty (60) days prior to the Interest Payment Date next preceding the Credit Support Instrument termination date or Credit Support Instrument substitution date (if the substitution is not being provided for in connection with the stated termination date of the current Credit Support Instrument); (ii) the Trustee shall have received the following not less than sixty (60) days prior to the Interest Payment Date next preceding the Credit Support Instrument termination date or Credit Support Instrument substitution date (if the substitution is not being provided for in connection with the stated termination date of the current Credit Support Instrument) (A) the form of an opinion of counsel for the issuer of the Alternate Credit Support Instrument that it constitutes a legal, valid and binding obligation of the issuer in accordance with its terms, and (B) with respect to the 2008 Series A Bonds and 2008 Series B Bonds the form of an opinion of Bond Counsel that such replacement will not cause interest thereon to become subject to federal income taxation, both of which executed opinions shall be delivered no later than the Interest Payment Date preceding the effective date of the Alternate Credit Support Instrument.

If the Credit Support Instrument is extended in accordance with Section 11, and further, complies with Section 9(e) of the First Supplemental Indenture, and such extension is a date not earlier than 364-days from the Credit Support Instrument termination date being extended or fifteen (15) days following the maturity date of the applicable series of Series 2008 Bonds, whichever is earlier, then the Series 2008 Bonds shall not be subject to mandatory tender as set forth in Section 9(e) of the First Supplemental Indenture.

(d) Any Alternate Credit Support Instrument shall be a bond insurance policy, letter of credit or other similar irrevocable agreement or arrangement that constitutes a Credit Support Instrument, or any combination thereof, with a term of at least 364-days (unless the term of coverage to maturity of the applicable Series 2008 Bonds is for a shorter period of time), issued by one or more commercial banks or savings and loan associations, insurance companies or other financial institutions.

(e) If a Credit Support Instrument is in effect with respect to the Series 2008 Bonds,

(1) The Trustee shall present all notices, drafts, demands, claims and other documents required by such Credit Support Instrument (in the manner therein permitted and by the time required thereby) to draw or claim funds thereunder in an amount sufficient, and by the time required, to pay the principal of and interest on (but not the Purchase Price of) the affected Series 2008 Bonds to become due at the Maturity Date thereof (whether by reason of the stated maturity thereof, upon mandatory redemption, optional redemption or declaration of acceleration), and the interest thereon to become due on each Interest Payment Date or to become

immediately due upon a declaration of acceleration, but in every case only in respect of Series 2008 Bonds which are not registered in the name of the Board or any affiliate thereof or which are not Credit Support Provider Bonds and deposit the same in the Credit Support Account of the Debt Service Fund; or

(2) The Trustee shall present all drafts, demands and other documents required by the Credit Support Instrument (in the manner therein permitted and by the time required thereby) for the payment of funds thereunder (after taking into account funds from remarketing then held by the Trustee) in an amount which is sufficient to pay, on each Purchase Date, the Purchase Price of the applicable series of Series 2008 Bonds which are required to be purchased on such Purchase Date, but in every case only in respect of Series 2008 Bonds which are not registered in the name of the Board or any affiliate thereof or any guarantor or which are not Credit Support Provider Bonds, and shall deposit the same in the applicable subaccount of the Bond Purchase Account.

(f) Payments of the principal of and interest on Series 2008 Bonds bearing interest at a Daily Rate, Weekly Rate, Commercial Paper Rate or Long-Term Rate (as applicable), whether at stated maturity, on an Interest Payment Date, upon any redemption, including by mandatory sinking fund redemption or optional redemption, or upon acceleration are to be made by the Trustee from the following sources in the order of priority indicated:

- (1) moneys paid to the Trustee from drawings under the Credit Support Instrument, if any; and
- (2) General Revenues or other funds available to the Board.

If a Credit Support Instrument is in effect and the drawing under the Credit Support Instrument is insufficient to pay amounts due and payable under Section 11(f) of the First Supplemental Indenture or if the Credit Support Provider does not make the requisite payment under the Credit Support Instrument (for any reason) for amounts due and payable under this subsection (f), the Trustee shall immediately (and without delay) notify the Board and the Urban County Government of such occurrence (in accordance with Section 4.02 of the Trust Indenture), and the Board shall continue to be responsible to make timely payments on the Series 2008 Bonds.

(g) Upon and following the conversion of any Series 2008 Bonds to the Fixed Rate, such Series 2008 Bonds shall no longer be payable from or secured by the Credit Support Instrument, unless a Credit Support Instrument is furnished at any time by the Board with respect to the Series 2008 Bonds while bearing interest at the Fixed Rate.

#### **Credit Support Provider Deemed Owner; Limitation on Rights**

For all purposes of the First Supplemental Indenture (other than receipt of payments), the Credit Support Provider shall, so long as the Credit Support Instrument shall be in effect and the Credit Support Provider shall not have wrongfully dishonored any properly presented draw presented in strict conformity with the Credit Support Instrument (any dishonor for a reason permitted by the Credit Support Instrument or pursuant to any administrative or judicial order, ruling, finding or decision shall not be deemed "wrongful" for purposes hereof), be deemed the holder of all Series 2008 Bonds. As such, the Credit Support Provider may take all actions permitted by Article VII of the Trust Indenture to be taken by the holders of the Series 2008 Bonds, to the exclusion of the actual holders of the Series 2008 Bonds; the purpose of Section 11 of the First Supplemental Indenture being to permit the Credit Support Provider to direct the taking of actions and enforcement of remedies permitted by such Article so long as Credit

Support Instrument shall be in effect and the Credit Support Provider shall not have wrongfully dishonored any properly presented draw under the Credit Support Instrument.

All rights of the Credit Support Provider to consent to certain extensions, remedies, waivers, actions and amendments shall cease, determine and become null and void (a) for so long as the Credit Support Provider wrongfully dishonors any properly presented draft (or other appropriate form of demand) presented in strict conformity with the requirements of the Credit Support Instrument and has not honored a subsequent draft (or other appropriate form of demand), if any, thereunder or (b) if no Credit Support Instrument is in effect or any Credit Support Instrument terminates in accordance with its terms. (Section 12)

### **Remarketing Agent**

The Board shall, with the consent of the Credit Support Provider (which consent shall not be unreasonably withheld), appoint the Remarketing Agent, who shall be acceptable to the Credit Support Provider for the Series 2008 Bonds while bearing interest at the Daily Rate, Weekly Rate, Commercial Paper Rates or Long-Term Rates, subject to the conditions set forth in Section 13 of the First Supplemental Indenture. Initially, J.P. Morgan Securities Inc. shall be Remarketing Agent, which appointment shall be conclusively evidenced by the execution of a Remarketing Agreement. The Remarketing Agent shall designate to the Trustee its designated office and signify its acceptance of the duties and obligations imposed upon it by a written instrument or agreement delivered to the Board, the Credit Support Provider and the Trustee.

The Remarketing Agent may or shall resign as Remarketing Agent with respect to the applicable series of Series 2008 Bonds for which it is the Remarketing Agent as provided in the Remarketing Agreement. The Remarketing Agent may be removed as Remarketing Agent with respect to the applicable series of Series 2008 Bonds for which it is the Remarketing Agent as provided in the Remarketing Agreement; provided that no such removal shall be effective until a successor Remarketing Agent has been appointed and has accepted such appointment. Subject to the terms of the Remarketing Agreement, in the event of the resignation or removal of a Remarketing Agent, such Remarketing Agent shall pay over, assign and deliver any moneys and Series 2008 Bonds held by it in such capacity to its successor or, if there is no successor, to the Trustee as hereinafter provided.

In the event that the Board shall fail to appoint a Remarketing Agent, or in the event that a Remarketing Agent shall be dissolved, or if the property or affairs of a Remarketing Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Board shall not have appointed its successor as Remarketing Agent, the Trustee, notwithstanding the provisions of the first paragraph of Section 13 of the First Supplemental Indenture, shall ipso facto be deemed to be the Remarketing Agent for the applicable series of Series 2008 Bonds for all purposes of this First Supplement until such appointment of the successor Remarketing Agent; provided, that the Trustee, in its capacity as Remarketing Agent, shall not be required to remarket Series 2008 Bonds or establish interest rates or interest indices.

The Trustee, within 30 days of the resignation or removal of a Remarketing Agent or the appointment of a successor Remarketing Agent, shall give notice thereof by first class mail to the Credit Support Provider, to the applicable Rating Service and to the registered owners of the Series 2008 Bonds. (Section 13)

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## SUMMARY OF THE LEASE AGREEMENT

*The following is a summary of certain provisions of the Lease Agreement, dated as of November 1, 2008, between the Board (the "Lessor") and the Urban County Government (the "Lessee"). This summary is not to be regarded as a complete statement of the Lease Agreement to which reference is made for a complete statement of the actual terms thereof. Copies of the Lease Agreement are on file with the Trustee.*

### **Lease of Project**

Lessor hereby demises, leases and lets to Lessee, and Lessee rents, leases and hires from Lessor, the Project in accordance with the provisions of this Lease Agreement, to have and to hold for the Lease Term; provided that the Lessor shall continue to maintain and operate the Airport as provided in Chapter 183 of the Kentucky Revised Statutes. Upon and during acquisition, construction, installation and equipping of the Project, all leasehold rights granted to Lessee by Lessor under this Lease Agreement shall vest in Lessee, without any further action on the part of Lessor. (Section 2)

### **Lease Rental Payments**

(a) Lessee agrees to pay to Lessor during the Lease Term, the Lease Rental Payments specified in the Lease Agreement. The Interest Component of the Lease Rental Payments (as provided in the Lease Agreement) shall not exceed the applicable Maximum Interest Rate. The Lease Rental Payments during the Lease Term will be absolute and unconditional in all events; provided that, no Lease Rental Payments will be due from the Lessee so long as, at least three Business Days prior to the applicable Payment Date, the amount required to pay Debt Service Charges on the Series 2008 Bonds is on deposit in the Debt Service Payment Account of the Debt Service Fund, other than as a result of (i) the transfer of an amount from the Debt Service Reserve Fund that causes the amount in the Debt Service Reserve Fund to be less than the Debt Service Reserve Requirement or (ii) a draw on a Debt Service Reserve Fund Credit Instrument. If the Trustee has transferred amounts from the Debt Service Reserve Fund to the Debt Service Fund, the Lease Rental Payment then due shall be the amount (i) required to cause the amount on deposit in the Debt Service Reserve Fund to equal the Debt Service Reserve Requirement and/or (ii) the amount required to reimburse the draw made on the Debt Service Reserve Fund Credit Instrument. If a Lease Rental Payment has not been included in the budget of the Urban County Government for the fiscal year in which a payment is required, at the meeting of the Urban County Council immediately succeeding receipt of notice from the Trustee that such payment is required, such budget shall be amended to include all remaining Lease Rental Payments for that fiscal year.

(b) Lessee agrees to deposit the Lease Rental Payments in the Sinking Fund and to pay from the Sinking Fund directly to the Trustee, the Lease Rental Payments specified in the Lease Agreement, for deposit directly in the Debt Service Payment Account of the Debt Service Fund and such Lease Rental Payments shall not be deemed revenues or assets of the Lessor. Each payment shall be applied first to payment of the interest component of the Lease Rental Payment to which it relates; provided, however, Lessee may make advance payments of principal components of Lease Rental Payments. Such Lease Rental Payments shall correspond to the principal of and interest on and redemption premium, if any, on the Series 2008 Bonds.

(c) Lease Rental Payments made by the Lessee hereunder (the "Advances") shall be repaid by the Lessor to the Lessee, on or about the first day of each month, from General Revenues or any other source, to the extent amounts are available after Lessor's (i) payment or the provision for payment of current and future Operation and Maintenance Expenses, (ii) payment of all amounts then due that are related to Debt Service Payments, (iii) deposit of any amounts required to be deposited in the Debt

Service Reserve Fund, (iv) payment of any amounts due a Credit Support Provider. Advances shall accrue interest at a rate equal to the interest rate (or average of the interest rates) on the Obligations to which such Advances relate. Notwithstanding any other provision of the Lease Agreement, Lessor's failure to repay any Advances shall not relieve the Lessee of its obligations to make any future Lease Rental Payments when due; provided, however, Lessee may exercise any right, remedy or privilege which may be available to it under the applicable laws of the Commonwealth or any other applicable law or proceed by appropriate court action to enforce the terms of the Lease Agreement or to recover damages to the extent such right, remedy or privilege does not reduce or change the time for payment of the Lease Rental Payments. (Section 5)

### **General Obligation Pledge**

The obligation of the Lessee created by the Lease Agreement shall be a full general obligation of the Lessee and, for the payment of the Lease Rental Payments, the full faith, credit and revenues of the Lessee are hereby pledged for the prompt payment thereof. During the period the Lease Agreement is outstanding, there shall be levied on all the taxable property in the Lessee, in addition to all other taxes, without limitation as to rate, a direct tax annually in an amount sufficient to pay the Lease Rental Payments when and as due; provided, however, that in each year to the extent that the other taxes of the Lessee are available for the payment of the Lease Rental Payments and are appropriated for such purpose, the amount of such direct tax upon all of the taxable property in the Lessee shall be reduced by the amount of such other taxes so available and appropriated. As provided in the Series 2008 Ordinance, the funds derived from said tax levy hereby required or other available taxes shall be placed in the Sinking Fund and, together with interest collected on the same, are irrevocably pledged for the payment of all bonds issued under KRS Chapter 66 and Tax Supported Leases, as defined in KRS Chapter 66, including the Lease Rental Payments, when and as the same fall due. (Section 7)

### **Title**

(a) The Lessor shall continue to retain legal title to the Project and the Project Site during the Lease Term, subject to the Lessee's rights under the Lease Agreement. Lessor and Lessee agree that the Lease Agreement or any other appropriate documents may be filed or recorded to evidence the parties' respective interests in the Project and the Lease Agreement.

(b) Title to the Project shall, upon Lessee's request, be transferred to Lessee in fee simple absolute and Lessor's interest therein shall pass to Lessee upon demand, without cost, upon the complete payment and performance by Lessee of all of its obligations during the Lease Term.

(c) Lessee's leasehold interest shall, without any action by the Lessor or Lessee, immediately terminate upon (i) any termination of the Lease Agreement, or (ii) the occurrence of an Event of Default.

(d) The parties agree to execute such instruments and do such things as are reasonably requested by the other party and as may be required by law in order to effectuate transfer of any and all of one party's right, title and/or interest in the Project, as is, to the other party. (Section 8)

### **Use; Maintenance and Repair**

(a) Lessor will (i) use the Project in a manner consistent with the use by similar governmental entities that own and operate airports and for the use contemplated by the Lease Agreement and the Kentucky Revised Statutes with respect to operating the Project for public airport purposes; (ii) comply in all material respects with all laws, insurance policies and regulations relating to the use and

maintenance of the Project; and (iii) pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Project.

(b) Lessor will (i) cause the Project to be kept in good condition and furnish all parts, mechanisms and devices required therefor under law, and (ii) obtain and maintain any governmental licenses and permits required for ownership and operation of the Project.

(c) Lessor will maintain, or by contract provide for the proper maintenance of, the Project in accordance with Section 9 of the Lease Agreement during the Lease Term.

(d) Lessee agrees that during the Lease Term it will not impair the Lessor's abilities to operate and maintain the Project.

(e) Lessor shall pay or cause to be paid, on or before the due date thereof, all charges for water, gas, sewers, electricity, light, heat, power, telephone and other services used, rendered or supplied to the Lessor in connection with the use and occupancy of the Project. (Section 9)

### **Events of Default**

The occurrence of any one or more of the following events constitutes an "Event of Default" under the Lease Agreement:

(a) Lessee's failure to make any Lease Rental Payment (or any other payment) as it becomes due in accordance with the terms of the Lease Agreement;

(b) Lessee's failure to perform or observe any other covenant, condition or agreement to be performed or observed by it under the Lease Agreement or any document delivered by Lessee pursuant to or in connection with this document, and the failure is not cured or steps satisfactory to Lessor taken to cure the failure, within 15 days after written notice of the failure to Lessee by Lessor; or

(c) The discovery by Lessor that any material statement, representation or warranty made by Lessee in the Lease Agreement or in any writing delivered by Lessee pursuant to or in connection with the Lease Agreement is false, misleading or erroneous in any material respect. (Section 16)

### **Remedies**

Upon the occurrence of an Event of Default, and as long as the Event of Default is continuing, Lessor may, at its option, exercise any one or more of the following remedies as to the Project, to whichever the Event of Default pertains:

(a) By appropriate court action, enforce the general obligation pledge set forth in Section 3 of the Series 2008 Ordinance and Section 7 of the Lease Agreement so that during the remaining Lease Term there is levied on all the taxable property of the Lessee, in addition to all other taxes, without limitation as to rate, a direct tax annually in an amount sufficient to pay the Lease Rental Payments when and as due;

(b) By written notice to Lessee, enter and take immediate possession of the Project;

(c) Sell or lease the Project or sublease it for the account of Lessee, holding Lessee liable for all Lease Rental Payments and other payments due during the remaining Lease Term to the extent that such selling, leasing or subleasing fails to provide amounts which are sufficient to pay the remaining Lease Rental Payments when due, with any proceeds of the sale of the Project being applied first to all past due Lease Rental Payments and then to the Principal Component of Lease Rental Payments in inverse order of their due date; and

(d) Exercise any other right, remedy or privilege which may be available to it under the applicable laws of the Commonwealth or any other applicable law or proceed by appropriate court action to enforce the terms of the Lease Agreement or to recover damages for the breach of the Lease Agreement or to rescind the Lease Agreement as to any or all of the Project. (Section 17)

**Reserved Right of Partial Release and Conveyance of Portions of Project, Rights-of-Way and/or Easements**

The Lease Agreement is subject to the reserved right of the Lessor to withdraw any unimproved portion(s) of the Project Site described in such Lease Agreement from the Project, to release or convey, with or without consideration, such easements, rights-of-way, licenses, or other rights, over, upon or beneath the surface of the Project Site as may reasonably be required, and to cause the Trustee to join in the execution of any document necessary to accomplish the provisions of such conveyance or release. (Section 22)

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**APPENDIX E**

**FORM OF BOND COUNSEL OPINION**

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[Date of Delivery]

Lexington-Fayette Urban County Airport Board  
Lexington, Kentucky

Re: \$46,395,000 Lexington-Fayette Urban County Airport Board Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series A (Lexington-Fayette Urban County Government General Obligation) (AMT) (the "2008 Series A Bonds") dated December 9, 2008;

\$26,235,000 Lexington-Fayette Urban County Airport Board Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series B (Lexington-Fayette Urban County Government General Obligation) (Non-AMT) (the "2008 Series B Bonds") dated December 9, 2008;

\$4,445,000 Lexington-Fayette Urban County Airport Board Variable Rate General Airport Taxable Revenue Refunding Bonds, 2008 Series C (Lexington-Fayette Urban County Government General Obligation) (Taxable) (the "2008 Series C Bonds") dated December 9, 2008

Ladies and Gentlemen:

We are acting as Bond Counsel and have examined the Constitution and laws of the Commonwealth of Kentucky, together with a certified copy of proceedings adopted by the Lexington-Fayette Urban County Airport Board (the "Board"), an agency of the Lexington-Fayette Urban County Government, created pursuant to Chapter 183 of the Kentucky Revised Statutes, in connection with the authorization, sale and issuance by the Board of its (i) \$46,395,000 Lexington-Fayette Urban County Airport Board Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series A (Lexington-Fayette Urban County Government General Obligation) (AMT) (the "2008 Series A Bonds"); (ii) \$26,235,000 Lexington-Fayette Urban County Airport Board Variable Rate General Airport Revenue and Revenue Refunding Bonds, 2008 Series B (Lexington-Fayette Urban County Government General Obligation) (Non-AMT) (the "2008 Series B Bonds"); and (iii) \$4,445,000 Lexington-Fayette Urban County Airport Board Variable Rate General Airport Taxable Revenue Refunding Bonds, 2008 Series C (Lexington-Fayette Urban County Government General Obligation) (Taxable) (the "2008 Series C Bonds" and collectively with the 2008 Series A Bonds and the 2008 Series B Bonds, the "2008 Bonds"), each dated the date hereof.

The 2008 Bonds have been authorized and issued pursuant to Chapter 183 of the Kentucky Revised Statutes (the "Act"), a General Bond Resolution adopted by the Board on October 15, 2008 (the "General Bond Resolution") and a 2008 Series Bond Resolution adopted by the Board on October 15, 2008 (the "Series Resolution" and together with the General Resolution, the "Bond Legislation"). Pursuant to the Bond Legislation, the Board has authorized a Trust Indenture dated as of November 1, 2008, as amended and supplemented by the First Supplemental Trust Indenture, dated as of November 1, 2008, (collectively, the "Indenture"), by and between the Board and The Bank of New York Mellon Trust Company, N.A. (the "Trustee").

In addition, the airport facilities (as described herein) are being leased by the Board to the Lexington-Fayette Urban County Government (the "Urban County Government") pursuant to a Lease Agreement, dated as of November 1, 2008 (the "Lease Agreement"), by and between the Board and the Urban County Government, for a period coterminous with the final maturity of the 2008 Bonds. Lease rental payments (the "Lease Rental Payments") by the Urban County Government to the Board under the

Lease are required to be sufficient to pay when due the principal, interest and redemption premium, if any, on the 2008 Bonds.

The 2008 Bonds are being issued for the purpose of (i) refunding the outstanding Lexington-Fayette Urban County Airport Corporation First Mortgage Revenue Bonds, 1994 Series B, dated June 16, 1994, First Mortgage Airport Parking Revenue Bonds, 1998 Series A, dated April 9, 1998, First Mortgage Taxable Airport Revenue Bonds, 1998 Series B, dated April 9, 1998, First Mortgage Airport Refunding Revenue Bonds, 1998 Series C, dated August 3, 1998, First Mortgage Airport Revenue Bonds, 2003 Series A, dated December 2, 2003 and First Mortgage Taxable Airport Revenue Bonds, 2003 Series B, dated December 2, 2003; (ii) financing the costs of the acquisition of additions, extensions, and improvements to the present airport facilities at the Airport consisting of runway relocation, taxiway realignment, terminal drive relocation, sanitary sewer improvements and terminal renovations (the "2008 Project"); (iii) funding a debt service reserve fund; and (iv) paying costs of issuance in connection with the 2008 Bonds.

In our capacity as Bond Counsel, we have examined such documents and matters and conducted such research as we have deemed necessary to enable us to express the opinions set forth herein. As to certain questions of fact, we have relied upon statements and certifications of certain of the officers, officials, directors and employees of the Board, consulting engineers and consulting financial experts and public officials. In rendering the opinions set forth herein, we have assumed the authenticity of all documents submitted to us as originals, the legal capacity of natural persons and the conformity to the originals of all documents submitted to us as copies. We have assumed that parties to contracts and documents other than the Board had the requisite power and authority to enter into and perform all obligations of all contracts and documents to which they are parties. We have assumed the due authorization by all requisite action, and the execution and delivery by such other parties of such contracts and documents, and the validity and binding effect thereof on such other parties. We have also relied, for purposes of the opinions set forth below, on the representations and warranties made in such documents by all parties thereto.

We have examined certified copies of the Indenture, the Bond Legislation and the Lease and have relied on the representations made therein by the parties thereto, without undertaking to verify the same by independent investigation. We have relied on an opinion of even date herewith of Stites & Harbison, PLLC, counsel for the Board, as to the legal creation, existence and good standing of the Board, the legal authority of the Board to adopt the Bond Legislation and to issue the 2008 Bonds and perform its duties and obligations thereunder, and with respect to other matters thereto. We have also examined a conformed copy of an executed and authenticated 2008 Bond of each series.

Based upon the foregoing, it is our opinion that, as of the date hereof:

1. The Board is a validly existing agency of the Urban County Government, created pursuant to Chapter 183 of the Kentucky Revised Statutes, and the Urban County Government is a political subdivision of the Commonwealth of Kentucky.
2. The Board has valid right and lawful authority to adopt the Bond Legislation, enter into the Indenture, enter into the Lease, issue the 2008 Bonds and perform its duties, obligations and covenants pursuant to the terms and conditions of the Bond Legislation.
3. The Indenture and the Lease have been duly authorized, executed and delivered by the Board and constitute valid and binding legal obligations of the Board, enforceable in accordance with their respective terms.

4. The Lease has been duly authorized, executed and delivered by the Urban County Government and constitutes a valid and binding legal obligation of the Urban County Government, enforceable in accordance with its terms.

5. The Lease Rental Payments, as defined in the Lease, unless paid from other sources, are payable from taxes to be levied by the Urban County Government without limitation as to rate.

6. The 2008 Bonds have been duly authorized and issued by the Board in accordance with the Constitution and laws of the Commonwealth of Kentucky, including the Act and the Bond Legislation, and pursuant to the Act are issued by the Board for airport and air navigation facilities.

7. The 2008 Bonds are valid and binding special obligations of the Board and are enforceable in accordance with their terms, payable from and secured by a pledge of the General Revenues and the Pledged Funds, as defined in the Indenture, and the Lease Rental Payments.

8. Under existing law, including current statutes, regulations, rulings and judicial decisions and assuming continuing compliance by the Board with the covenants contained in the Tax Regulatory and No-Arbitrage Certificate, dated December \_\_, 2008, executed by the Board (the "Tax Certificate"), interest on the 2008 Series A Bonds and the 2008 Series B Bonds (the "2008 Tax-Exempt Bonds") is excludible from gross income for federal income tax purposes under Section 103(a) of the Code, except for interest on any 2008 Series A Bonds during any period that it is held by a "substantial user" of the facilities financed with proceeds of such 2008 Series A Bonds or a "related person" of such "substantial user" as such quoted terms are defined for purposes of Section 147(a) of the Code. In addition, under present law, interest on the 2008 Series A Bonds is an item of tax preference under Section 57(a) of the Code in computing the federal alternative minimum tax for individuals and corporations, and interest on the 2008 Series B Bonds is taken into account in determining the adjusted current earnings under Section 56(g) of the Code in computing the federal alternative minimum tax for corporations. In the further opinion of Bond Counsel, under present law, interest on the 2008 Series C Bonds (the "2008 Taxable Bonds") is fully includible in gross income for federal income tax purposes.

9. Under the laws of the Commonwealth of Kentucky, as presently enacted and construed, interest on the 2008 Tax-Exempt Bonds is exempt from income taxation by the Commonwealth of Kentucky, and the 2008 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences arising from the receipt of interest on the 2008 Bonds.

Other provisions of the Code may give rise to adverse federal income tax consequences to particular 2008 Bondholders. The scope of this opinion is strictly limited to matters addressed above and no opinion is expressed hereby regarding such other federal or Kentucky tax consequences that may arise due to ownership of the 2008 Bonds.

Rights of the holders of the 2008 Bonds and the enforceability thereof under the same may be subject to the exercise of judicial discretion, the sovereign police powers of the Commonwealth of Kentucky and the Constitutional powers of the United States of America, and to bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors.

Very truly yours,

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**APPENDIX F**

**INFORMATION CONCERNING THE BANK**

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## **JPMORGAN CHASE BANK, NATIONAL ASSOCIATION**

JPMorgan Chase Bank, National Association (“the Bank”) is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of September 30, 2008, JPMorgan Chase Bank, National Association, had total assets of \$1,768.7 billion, total net loans of \$687.0 billion, total deposits of \$1,013.4 billion, and total stockholder’s equity of \$125.6 billion. These figures are extracted from the Bank’s unaudited Consolidated Reports of Condition and Income (the “Call Report”) as at September 30, 2008, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at [www.fdic.gov](http://www.fdic.gov).

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2007, of JPMorgan Chase & Co., the 2007 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the “SEC”) by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC’s website at [www.sec.gov](http://www.sec.gov).

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The information contained in this Appendix relates to and has been obtained from the Bank. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

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