

NEW ISSUE – BOOK-ENTRY ONLY

RATINGS: See “RATINGS” herein

*In the opinion of Eckert Seamans Cherin & Mellott, LLC, Bond Counsel, to be delivered upon the issuance of the Series 2004A Bonds, under existing law and assuming compliance by the Susquehanna Area Regional Airport Authority with certain requirements of the Internal Revenue Code of 1986, as amended, that must be met subsequent to the issuance of the Series 2004A Bonds, with which the Authority has certified, represented and covenanted its compliance, interest on the Series 2004A Bonds is excluded from gross income for federal income tax purposes, except for any period during which the Series 2004A Bonds are held by a person who is a “substantial user” of the facilities financed or a “related person,” as those terms are used in Section 147(a) of the Code, but is an item of tax preference in calculating the federal alternative minimum tax liability of individuals, trusts, estates and corporations. Also, in the opinion of Bond Counsel, under existing law, the Series 2004 Bonds are exempt from personal property taxes in the Commonwealth of Pennsylvania and the interest on the Series 2004 Bonds is exempt from Pennsylvania state and local personal income tax and the Commonwealth of Pennsylvania Corporate Net Income Tax. See “TAX MATTERS” herein for a more detailed discussion. **Interest on the Series 2004B Bonds is fully taxable for federal income tax purposes.***

SUSQUEHANNA AREA REGIONAL AIRPORT AUTHORITY**\$27,800,000****\$1,875,000****Airport System Revenue Bonds, Series 2004A
(AMT)****Airport System Revenue Bonds, Series 2004B
(Taxable)****Periodic Auction Reset Securities - PARSSM****Periodic Auction Reset Securities - PARSSM****Dated:** Date of Delivery**Due:** January 1, in the years as shown on the inside front cover

The Susquehanna Area Regional Airport Authority’s \$27,800,000 aggregate principal amount of Airport System Revenue Bonds, Series 2004A (AMT) (the “Series 2004A Bonds”) and \$1,875,000 aggregate principal amount of Airport System Revenue Bonds, Series 2004B (Taxable) (the “Series 2004B Bonds” together with the Series 2004A Bonds, the “Series 2004 Bonds”) will be issued as fully registered bonds, without coupons, and when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), to which payments of the principal of, premium, if any, and interest on the Series 2004 Bonds will be made. Purchasers will acquire beneficial interests in the Series 2004 Bonds, in the principal amounts described below, in book-entry only form. DTC will remit such payments to its participants who will be responsible for remittance to beneficial owners of the Series 2004 Bonds. See **Appendix G - Book Entry Only System.**

The Series 2004 Bonds will be issued initially as periodic auction reset securities (the “PARSSM Bonds”) in the minimum denominations of \$25,000 and integral multiples thereof. The Series 2004 Bonds will bear interest from their date of delivery to and including the first Auction Date as described on the inside front cover of this Official Statement, and thereafter at the PARS Rates determined pursuant to the Auction Procedures. Interest on the Series 2004 Bonds will be payable on the PARS Interest Payment Dates for the Series 2004 Bonds as described herein. The interest rates on the Series 2004 Bonds may be converted, at the option of the Authority and subject to certain conditions and restrictions, to different interest rates, including Variable Rates or Fixed Rates, in which event such Series 2004 Bonds are subject to mandatory tender as described herein. The Series 2004 Bonds will mature in the years and in the principal amounts, and will bear interest at the rates as shown on the inside front cover of this Official Statement. **The Series 2004 Bonds are subject to optional and mandatory redemption prior to maturity as described herein.**

The Series 2004 Bonds are being issued to provide funds: (i) to finance a portion of the costs of certain capital projects for the Harrisburg International Airport, (ii) to pay interest on the Series 2004 Bonds through April 1, 2005, (iii) to fund a deposit to the Debt Service Reserve Fund with respect to the Series 2004 Bonds, and (iv) to pay the costs of issuance of the Series 2004 Bonds.

The Series 2004 Bonds will be issued under and secured by the Master Trust Indenture, dated as of April 15, 2003, as supplemented by the Second Supplemental Trust Indenture, dated as of August 1, 2004, both by and between the Authority and Manufacturers and Traders Trust Company, as the Trustee. The Series 2004 Bonds will be payable solely from, and secured by a pledge of, Net Revenues of the Airport System, as described herein. The Series 2004 Bonds will be on a parity with the outstanding Bonds and any additional Bonds that may be issued in the future under the Master Trust Indenture.

Payment of the principal of and interest on the Series 2004 Bonds when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Series 2004 Bonds by Financial Guaranty Insurance Company.



The Series 2004 Bonds are limited obligations of the Authority. The Series 2004 Bonds shall not be deemed to constitute a debt or liability of the County of Dauphin, Cumberland, or York, the City of Harrisburg or York, the Township of Fairview or Lower Swatara, the Commonwealth of Pennsylvania or of any political subdivision thereof, except the Authority, or a pledge of the faith and credit of any of the aforesaid Counties, Cities, Townships, the Commonwealth of Pennsylvania or any political subdivision thereof, and neither the aforesaid Counties, Cities, Townships, the Commonwealth of Pennsylvania nor any such political subdivision thereof is obligated to pay the Series 2004 Bonds or interest thereon, and neither the full faith and credit nor the taxing power of the Counties, Cities, Townships, Commonwealth of Pennsylvania or any political subdivision thereof, is pledged to the payment of the principal of or interest on the Series 2004 Bonds. The Authority has no taxing power.

The Series 2004 Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to the approval of their legality by Eckert Seamans Cherin & Mellott, LLC, Harrisburg, Pennsylvania, Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the Authority by Rhoads & Sinon LLP, Harrisburg, Pennsylvania, and for the Underwriter by Hogan & Hartson L.L.P., Washington, D.C. It is expected that the Series 2004 Bonds in book-entry only form will be available for delivery to The Depository Trust Company in New York, New York on or about August 12, 2004.

Goldman, Sachs & Co.

This cover page contains information for quick reference only. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision, paying particular attention to the matters discussed under “CERTAIN INVESTMENT CONSIDERATIONS.”

Dated: July 30, 2004SM is a service mark of Goldman, Sachs & Co.

MATURITY SCHEDULE AND PRICE

\$27,800,000 Airport System Revenue Bonds, Series 2004A (AMT)

Periodic Auction Reset Securities - PARSSM

<u>Due</u>	<u>Amount</u>	<u>Price</u>
January 1, 2034	\$27,800,000	100.00

CUSIP: 86909RAT8*

\$1,875,000 Airport System Revenue Bonds, Series 2004B (Taxable)

Periodic Auction Reset Securities - PARSSM

<u>Due</u>	<u>Amount</u>	<u>Price</u>
January 1, 2011	\$1,875,000	100.00

CUSIP: 86909RAU5*

Subject to mandatory sinking fund redemption as provided in “DESCRIPTION OF THE SERIES 2004 BONDS – Redemption Provisions for Series 2004 Bonds.”

The interest rate for the Initial Period established by Goldman, Sachs & Co., as Underwriter for each Series of the Series 2004 Bonds, applies to the period commencing on their date of issuance to and including the first Auction Date for each Series of the Series 2004 Bonds. Thereafter, so long as any Series of the Series 2004 Bonds have not been converted to Series 2004 Bonds bearing interest at a Variable Rate or Fixed Rate, each Series of the Series 2004 Bonds will bear interest at a PARS Rate that the Auction Agent (initially Wilmington Trust Company for both Series) advises resulting from an Auction conducted for each Auction Period on each Auction Date in accordance with the Auction Procedures described herein, subject to certain conditions and exceptions. Interest on each Series of the Series 2004 Bonds will be payable commencing on the initial PARS Interest Payment Date applicable for each Series and on each PARS Interest Payment date thereafter.

The last day of the Initial Period, the first Auction Date, each Auction Date thereafter, the Auction Period, the initial PARS Interest Payment Date and each PARS Interest Payment Date thereafter for each Series of the Series 2004 Bonds are set forth below. The Auction Date, the PARS Interest Payment Date and the Auction Period are subject to adjustment, may be changed and are subject to certain exceptions, all as described herein.

<u>Series</u>	<u>Last Day of Initial Period</u>	<u>First Auction Date</u>	<u>Auction Date</u>	<u>Auction Period</u>	<u>Initial PARS Interest Payment Date</u>	<u>PARS Interest Payment Date</u>
2004A	September 8, 2004	September 8, 2004	Each 4 th Wednesday	28 Day	September 9, 2004	Each 4 th Thursday
2004B	August 22, 2004	August 20, 2004	Each Friday	7 Day	August 23, 2004	Each Monday

Prospective purchasers of the Series 2004 Bonds should carefully review the terms of and conditions related to the Series 2004 Bonds and the Auction Procedures described in “DESCRIPTION OF THE SERIES 2004 BONDS” and “Appendix H – PARS Provisions.”

** CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are solely for the convenience of the holders of the Series 2004 Bonds. The Authority is not responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the Series 2004 Bonds or as indicated above.*

SUSQUEHANNA AREA REGIONAL AIRPORT AUTHORITY

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Barbara Layne, Treasurer
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Belinda Svirbely, Manager, Operations and Security
Scott Miller, Manager, Marketing and Public Relations
Joseph Reedy, Manager, Properties

Bond Counsel

Eckert Seamans Cherin & Mellott, LLC

Airport Consultant

Leigh Fisher Associates,
a Division of
Jacobs Consultancy Inc.

Auction Agent

Wilmington Trust Company

Authority Solicitor

Rhoads & Sinon LLP

Trustee

Manufacturers and Traders
Trust Company

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2004 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriter to give any information or to make any representations with respect to the Series 2004 Bonds, other than those in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be a sale of the Series 2004 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. 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, their respective responsibilities 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, and such information is not to be construed as the promise or guarantee of the Underwriter.

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 Authority or in any other matter described herein, since the date hereof or the dates of the information contained herein.

This Official Statement contains 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,” “anticipate,” “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 statements. Historical operating statistics and financial results presented in this Official Statement may not be indicative of future performance.

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, must be considered in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provisions or sections in this Official Statement. The offering of the Series 2004 Bonds is made only by means of this entire Official Statement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the Series 2004 Bonds or passed upon the adequacy or accuracy of this Official Statement. Any representation to the contrary is a criminal offense.

THE SERIES 2004 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 NOR HAS THE MASTER TRUST INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2004 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 2004 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN THE OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2004 BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT.

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OFFICIAL STATEMENT

Relating to SUSQUEHANNA AREA REGIONAL AIRPORT AUTHORITY

\$27,800,000	\$1,875,000
Airport System Revenue Bonds, Series 2004A (AMT)	Airport System Revenue Bonds, Series 2004B (Taxable)
Periodic Auction Reset Securities - PARS SM	Periodic Auction Reset Securities - PARS SM

INTRODUCTION

General

This Official Statement, which includes the cover page, inside front cover page, and appendices hereto, is furnished in connection with the offering by the Susquehanna Area Regional Airport Authority (the "Authority") of its \$27,800,000 aggregate principal amount of Airport System Revenue Bonds, Series 2004A (AMT) (the "**Series 2004A Bonds**") and \$1,875,000 aggregate principal amount of Airport System Revenue Bonds, Series 2004B (Taxable) (the "**Series 2004B Bonds**") together with the Series 2004A Bonds, the "**Series 2004 Bonds**"). For a discussion of the terms of the Series 2004 Bonds, see "DESCRIPTION OF THE SERIES 2004 BONDS."

The Authority

The Authority is a joint municipality authority created by the Counties of Dauphin, Cumberland, and York, the Cities of Harrisburg and York, and the Townships of Fairview and Lower Swatara under the Pennsylvania Municipality Authorities Act, 53 Pa. C.S.A. § 5601 *et seq.*, as amended and supplemented (the "**Act**"). Each of the aforementioned municipalities appoints representatives to serve for five-year staggered terms on the Authority's board of directors. On January 2, 1998, the Commonwealth of Pennsylvania (the "**Commonwealth**"), acting through the Pennsylvania Department of Transportation ("**PennDOT**"), transferred operation and ownership of the Harrisburg International Airport, located in the Township of Lower Swatara, Boroughs of Middletown and Highspire, Dauphin County, Pennsylvania, and Capital City Airport, which is the general aviation airport of the Airport System, located in the Township of Fairview, York County, Pennsylvania, to the Authority. The Authority owns, operates, and maintains both the Harrisburg International Airport and Capital City Airport ("**Capital City Airport**"). Additionally, on July 28, 2004, the Authority acquired Franklin County Regional Airport (previously known as Chambersburg Municipal Airport), a general aviation airport approximately 45 miles from the Airport and located in Franklin County, Pennsylvania ("**Franklin County Regional Airport**," together with Harrisburg International Airport and Capital City Airport, the "**Airport System**"). See "THE AUTHORITY."

Harrisburg International Airport

Harrisburg International Airport (the "**Airport**") is a commercial service airport. The Airport is comprised of approximately 800 acres of land, located approximately twelve road miles southeast of Harrisburg, the capital of the Commonwealth, and adjacent to the main Amtrak rail line in Pennsylvania. As of July 2004, four major/national U.S. airlines and seven regional/commuter airlines provided scheduled service to and from the Airport. In addition, as of July 2004, eight all-cargo carriers provided scheduled cargo service at the Airport. See "HARRISBURG INTERNATIONAL AIRPORT" herein for a more complete description of the Airport.

Air Service Region

The Airport Consultant defines an Air Service Region for the Airport that encompasses 28 counties located in central Pennsylvania, and extends to Altoona to the west, University Park to the northwest, Wilkes-

Barre/Scranton to the northeast, Lehigh Valley and Reading to the east, and the Pennsylvania-Maryland border to the south. The Airport Consultant also defines an immediate Air Service Region that is comprised of the seven counties immediately adjacent to the Airport, namely Adams, Cumberland, Dauphin, Lancaster, Lebanon, Perry, and York. In addition to the Air Service Region, a secondary Air Service Region includes areas that are considered by the Authority to have market development potential. See “HARRISBURG INTERNATIONAL AIRPORT – Air Service Region.”

Agreements with Airlines

The Authority has entered into airline operating agreement and terminal building leases (each an “**Airline Agreement**”) with 14 airlines operating at the Airport (collectively, the “**Signatory Airlines**”). The Airline Agreement expires on December 31, 2004. The Signatory Airlines account for approximately 98% of the air traffic activity at the Airport. The Authority is currently in discussions with the Signatory Airlines regarding a proposed new Airline Agreement to become effective as soon as possible after the date of beneficial occupancy (“**DBO**”) of the new terminal building, currently estimated for August 29, 2004 (approximately four months before the expiration of the current Airline Agreement). The Authority intends to implement a revised terminal rental rate, calculated according to commercial compensatory rate-making principles, and gate use and aircraft parking charges at DBO of the new terminal building, pursuant to a rate resolution to be approved by the Authority. The full revised airline rate-making methodology would then be adopted as of January 1, 2005, also pursuant to a rate resolution to be approved by the Authority, if a new Airline Agreement is not adopted by that date. While Authority management has discussed its proposed rate implementation strategy with the Signatory Airlines, the Authority could potentially face a challenge from the Signatory Airlines to the Authority’s proposed airline rate-making methodology (or the timing of its introduction). See “AIRPORT AGREEMENTS – Airline Agreement” for a more detailed discussion.

Events and Other Factors Affecting the Airline Industry and the Airport

Over the last several years, several incidents and general trends, some of which are continuing, have had an adverse impact on air travel and the airline industry which, in turn, have had an adverse effect on the Airport. Among these are the economic downturn in the latter half of 2000 that developed into a recession in March of 2001, the terrorist acts in the United States using commercial aircraft on September 11, 2001, a heightened concern over security in air transportation, the war and continuing military action in Iraq, the hostilities elsewhere in the Middle East, the financial difficulties of most domestic airlines, including the bankruptcy of several airlines and specifically US Airways, the outbreak and rapid spread of severe acute respiratory syndrome (“**SARS**”) in early 2003, and the significant fluctuations in fuel prices.

During this period aviation activity has declined as the major airlines have reduced service levels to control costs in response to decreased passenger demand and financial losses. Several airlines, including United Air Lines (“**United**”), filed for bankruptcy protection and are in various stages of their workouts. US Airways, which is a significant carrier at the Airport, filed for bankruptcy protection in August 2002 and emerged from bankruptcy protection in March 2003, but continues to experience financial difficulties. See “CERTAIN INVESTMENT CONSIDERATIONS—Levels of Airline Traffic and Financial Condition of the Airlines,” “–Effect of Airline Bankruptcies,” and detailed information regarding enplaned passengers at the Airport and activity-based revenues, consisting primarily of landing fees, passenger facility charges (“**PFCs**”), concession revenue and parking revenue, as set forth under “THE AIRPORT AGREEMENTS,” “FINANCIAL INFORMATION,” “REPORT OF THE AIRPORT CONSULTANT” and **Appendix A** – Report of the Airport Consultant.

The future levels of aviation activity and enplaned passenger traffic at the Airport will depend upon several factors, certain of which cannot be controlled by the Authority, including, among others, the financial condition of individual airlines and the viability of continued service, as well as local, regional, national and international economic and political conditions, international hostilities, world health concerns, airline service and route networks, availability and price of aviation fuel, airline economics (including labor relations), airline bankruptcies, competition, airfares, airline industry consolidation and capacity of both the national air traffic control system and the Airport, among others. The impact of various factors which may affect future aviation activity and enplaned passenger traffic at the Airport are discussed in greater detail throughout this Official Statement. See particularly “HARRISBURG INTERNATIONAL AIRPORT,” “FINANCIAL INFORMATION,” “CERTAIN INVESTMENT CONSIDERATIONS,” “REPORT OF THE AIRPORT CONSULTANT,” and **Appendix A** – Report of the Airport Consultant.

US Airways and Other Airlines Serving the Airport

US Airways is the air carrier with the largest market share at the Airport and, with its affiliate, US Airways Express (operated by Allegheny Airlines), accounted for approximately 37% of passenger enplanements at the Airport in 2003. On August 11, 2002, US Airways filed for protection under Chapter 11 of the US Bankruptcy Code in the Eastern District of Virginia, and emerged from bankruptcy on March 31, 2003. As a result of US Airways emerging from bankruptcy on March 31, 2003, the US Airways' pre-reorganization and post-reorganization financial statements are not comparable and the airline is required to report its results for the first three months and the last nine months of 2003 separately. US Airways reported a net operating loss of \$207 million for the three months ended March 31, 2003, and a net loss of \$174 million for the nine months ended December 31, 2003. The results for the three months ended March 31, 2003 include a number of reorganization items, such as a discharge of liabilities. US Airways continues to experience recurring losses, which have prompted its auditor to indicate it has "substantial doubt[s] about [US Airways] ability to continue as a going concern." On July 27, 2004, US Airways reported a net income of \$34 million for the second quarter of 2004; however US Airways continues to sustain a year-to-date loss of \$143 million. US Airways is attempting to further reduce costs to compete with low-cost carriers and meet certain financial covenants relating to its \$900 million loan guaranteed by the Air Transportation Stabilization Board ("ATSB"), by seeking further concessions from its employees and considering the sale of some of its assets.

Passenger service at the Airport is also provided by a number of other airlines, including American Eagle, a commuter affiliate of American Airlines, which provided 8.1% of total passengers in 2003; Comair, a commuter affiliate of Delta Air Lines, which provided 17.5% of total passengers in 2003; Northwest Airlines which, with its regional/commuter affiliates Mesaba Airlines and Pinnacle Airlines, provided 12% of total passengers in 2003; Continental Express which provided 3.6% of total passengers in 2003; and United which, with its regional/commuter affiliate United Express, provided 19.9% of total passengers in 2003. As of the date of this Official Statement, United and US Airways have implemented a code-share alliance program, and Continental Airlines, Delta Air Lines, and Northwest Airlines have also implemented a code-share alliance program.

These airlines have also experienced significant financial losses and have reduced operating schedules. On December 9, 2002, United filed for protection under Chapter 11 of the Bankruptcy Code in the Northern District of Illinois. On June 17, 2004 the ATSB rejected United's application for a \$1.6 billion loan guaranty. United resubmitted a loan application to ATSB on June 22, 2004, seeking a \$1.1 billion loan guaranty, but was again rejected by the ATSB in a final determination issued on June 28, 2004. United continues to operate under bankruptcy protection as efforts are undertaken to restructure the company. The company has stated that it plans to emerge from bankruptcy in 2004. However, there can be no assurance that United will be successful in its efforts to restructure the company or that it will continue to operate at the Airport. On April 1, 2003, Air Canada filed for protection under the Canadian Companies' Creditors Agreements Act. Air Canada currently provides three daily flights from the Airport to Toronto, which are operated by Air Georgian and Jazz (affiliates of Air Canada). In 2003, Air Canada represented 1.2% of total passengers at the Airport.

Security for the Series 2004 Bonds

The Series 2004 Bonds are to be issued and secured pursuant to (i) the Master Trust Indenture, dated as of April 15, 2003 (the "**Master Indenture**"), as supplemented by the First Supplemental Trust Indenture, dated as of April 15, 2003 (the "**First Supplemental Trust Indenture**") and the Second Supplemental Trust Indenture, dated as of August 1, 2004 (the "**Second Supplemental Trust Indenture**" together with the Master Indenture and the First Supplemental Trust Indenture, the "**Indenture**"), all by and between the Authority and Manufacturers and Traders Trust Company, as Trustee (the "**Trustee**"); and (ii) the provisions of the Act. As of the date of this Official Statement, \$103,870,000 aggregate principal amount of Airport System Revenue Bonds, Series 2003A and Series 2003B (together the "**Series 2003 Bonds**"), issued under the Master Indenture, as supplemented by the First Supplemental Trust Indenture, are outstanding. The Authority's Bonds, including the Series 2004 Bonds, are limited obligations of the Authority payable solely from and secured by a pledge of Net Revenues of the Airport System on parity with additional Bonds that may be issued in the future pursuant to the Master Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004 BONDS," **Appendices C** – Definitions, and **D** – Summary of Certain Provisions of the Indenture for a more detailed discussion.

THE SERIES 2004 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM, AND SECURED BY THE PLEDGE OF, NET REVENUES OF THE AIRPORT SYSTEM AND CERTAIN FUNDS AND ACCOUNTS HELD OR SET ASIDE UNDER THE INDENTURE. THE SERIES 2004 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE COUNTIES OF DAUPHIN, CUMBERLAND, OR YORK, THE CITIES OF HARRISBURG OR YORK, THE TOWNSHIPS OF FAIRVIEW OR LOWER SWATARA, OR THE COMMONWEALTH, OR ANY POLITICAL SUBDIVISION THEREOF, EXCEPT THE AUTHORITY, OR A PLEDGE OF THE FAITH AND CREDIT OF ANY OF THE AFOREMENTIONED COUNTIES, CITIES, TOWNSHIPS, OR THE COMMONWEALTH, OR ANY POLITICAL SUBDIVISION THEREOF, AND NEITHER THE COUNTIES, CITIES, TOWNSHIPS, COMMONWEALTH, NOR ANY POLITICAL SUBDIVISION THEREOF IS OBLIGATED TO PAY THE SERIES 2004 BONDS OR THE INTEREST THEREON, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTIES, CITIES, TOWNSHIPS, COMMONWEALTH, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2004 BONDS. THE AUTHORITY HAS NO TAXING POWER.

Series 2004 Bonds Bearing Interest at a PARS Rate

The Series 2004 Bonds will initially be issued as periodic auction reset securities in minimum denominations of \$25,000 and integral multiples thereof. Goldman, Sachs & Co. is the Underwriter (the “**Underwriter**”) and also the Broker-Dealer (the “**Broker-Dealer**”) for the Series 2004 Bonds. The Series 2004 Bonds will bear interest from the date of issuance thereof to and including the Initial Auction Dates set forth on the inside front cover page of this Official Statement at an interest rate established by the Goldman, Sachs & Co., as Underwriter for the Series 2004 Bonds, and thereafter at the interest rate (the “**PARS Rate**”) determined pursuant to the Auction Procedures described herein. The Series 2004 Bonds may be converted, at the option of the Authority and subject to certain conditions and restrictions as set forth in the Second Supplemental Trust Indenture, to Bonds bearing interest at a Variable Rate or a Fixed Rate as described herein, in which case the Series 2004 Bonds are subject to mandatory tender on the date fixed for conversion (the “**Conversion Date**”) at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the Conversion Date. The Series 2004 Bonds are subject to redemption prior to maturity under certain circumstances as described herein.

Prospective purchasers of the Series 2004 Bonds should carefully review the terms of and conditions related to the Series 2004 Bonds and the Auction Procedures described in “DESCRIPTION OF THE SERIES 2004 BONDS” and Appendix H – PARS Provisions.

This Official Statement describes the Series 2004 Bonds only while bearing interest at a PARS Rate. Upon conversion of the Series 2004 Bonds to bear interest at a Variable Rate the Authority is required, among other things, to provide a Credit Facility with respect to the Series 2004 Bonds and appoint a Remarketing Agent. If the Series 2004 Bonds are converted from a PARS Rate to a Variable Rate or Fixed Rate, it is likely that a reoffering document will be prepared in connection with such conversion.

Bond Insurance

Concurrently with the issuance of the Series 2004 Bonds, Financial Guaranty Insurance Company (the “**Financial Guaranty**” or “**Bond Insurer**”) will issue a financial guaranty insurance policy for the Series 2004 Bonds. See “BOND INSURANCE” and **Appendix I** — Specimen of Bond Insurance Policy for a more detailed discussion.

Use of Proceeds

The Series 2004 Bonds are being issued to provide funds: (i) to finance a portion of the costs of certain capital projects for the Airport, as more fully described herein under the caption “THE CAPITAL PROGRAM,” (ii) to pay interest on the Series 2004 Bonds through April 1, 2005, (iii) to fund a deposit to the Debt Service Reserve Fund with respect to the Series 2004 Bonds, and (iv) to pay the costs of issuance of the Series 2004 Bonds. See “APPLICATION OF THE SERIES 2004 BOND PROCEEDS” and “PLAN OF FINANCING.”

The Capital Program

The Authority has developed a Capital Improvement Program (the “**Capital Program**”) to address needed improvements at the Airport and Capital City Airport through 2007, to accommodate future passenger and aircraft activity levels, and to comply with expanded federal security requirements. The Capital Program encompasses airside, terminal, and landside improvements at the Airport, miscellaneous improvements at Capital City Airport, and the acquisition of Franklin County Regional Airport and miscellaneous improvements thereon. The estimated cost of the Capital Program is \$252.4 million, not including costs of issuance, bond reserves and capitalized interest. Of this total, the 2003 Project (as described herein) represents estimated expenditures of \$232.7 million (or 92% of the total expenditures). See “HARRISBURG INTERNATIONAL AIRPORT,” “THE CAPITAL PROGRAM” and “PLAN OF FINANCING.” The proceeds of the Series 2004 Bonds and the earnings on such proceeds will be used to fund the 2003 Project. The 2003 Project encompasses the portion of the Capital Program which includes, along with airside, landside, and miscellaneous improvements at the Airport, the construction of the new terminal building, and related work in addition to a gate expansion for the new terminal building from an 8-gate facility to a 12-gate facility (the 2003 Project, as modified to include the gate expansion at the new terminal building, the “**2003 Project**”). The total capital costs of the 2003 Project are expected to be funded from a combination of sources, including the prior Bonds and Subordinate Bonds which were issued in 2003, the Series 2004 Bonds, PFCs, federal and state grants, and Authority funds. See “THE CAPITAL PROGRAM” and “PLAN OF FINANCING.”

Report of Airport Consultant

Leigh Fisher Associates (the “**Airport Consultant**”) has been retained by the Authority as its Airport Consultant. The Report of the Airport Consultant dated July 30, 2004 (the “**Report of the Airport Consultant**”) is set out herein in full as **Appendix A** – Report of the Airport Consultant, which, among other things, reviews and analyzes the Air Service Region, describes the Capital Program and provides financial forecasts including debt service coverage levels. The Report of the Airport Consultant should be read in its entirety for an understanding of the assumptions and rationale underlying the financial forecasts contained therein. The information in the Report of the Airport Consultant has not been updated subsequent to the date of such report. See “THE REPORT OF THE AIRPORT CONSULTANT.”

Subordinate Bonds

The Authority is authorized to issue Subordinate Bonds subordinate to the pledge of Net Revenues under the Master Indenture. Specifically, the Authority is authorized to issue Subordinate Bonds under (i) the Master Subordinate Trust Indenture, dated as of April 15, 2003 (the “**Master Subordinate Indenture**”), as supplemented by the First Supplemental Subordinate Trust Indenture, dated as of April 15, 2003 (the “**First Supplemental Subordinate Trust Indenture**”) and the Second Supplemental Subordinate Trust Indenture, dated as of April 15, 2003 (the “**Second Supplemental Subordinate Trust Indenture**” together with the Master Subordinate Indenture and the First Supplemental Subordinate Trust Indenture, the “**Subordinate Indenture**”), all by and between the Authority and Manufacturers and Traders Trust Company, as Trustee (the “**Subordinate Trustee**”); and (ii) the provisions of the Act. As of the date of this Official Statement, the Authority has previously issued \$75,160,000 aggregate principal amount of its Subordinate Airport System Revenue Bonds.

Certain Investment Considerations

The Series 2004 Bonds may not be suitable for all investors. Prospective purchasers of the Series 2004 Bonds should read this entire Official Statement including information under the section “CERTAIN INVESTMENT CONSIDERATIONS.”

Continuing Disclosure Undertaking

The Authority has covenanted for the benefit of the owners of the Series 2004 Bonds to provide annually certain financial information and operating data concerning the Authority to each Nationally Recognized Municipal Securities Information Repository certified by the Securities and Exchange Commission (the “**NRMSIRs**”) and to provide notice to the Municipal Securities Rulemaking Board or to the NRMSIRs of certain enumerated events, pursuant to the requirements of Section (b)(5)(i) of Rule 15c2-12 (the “**Rule**”) of the

Securities and Exchange Commission (“SEC”). See “CONTINUING DISCLOSURE UNDERTAKING” and **Appendix F** – Form of Continuing Disclosure Undertaking.

Additional Information

This Official Statement contains brief descriptions of, among other things, the Series 2004 Bonds, the Indenture, the Authority, the Airport System, and the Capital Program. Such descriptions do not purport to be comprehensive or definitive. **All references in this Official Statement to documents are qualified in their entirety by reference to such documents, and references to the Series 2004 Bonds are qualified in their entirety by reference to the form of the Series 2004 Bonds included in the Second Supplemental Trust Indenture.**

The Report of the Airport Consultant is included as **Appendix A**. Certain financial statements of the Authority are included as **Appendix B**. Unless otherwise indicated, capitalized terms used in this Official Statement shall have the meanings set forth in **Appendix C**. A summary of the Indenture is attached hereto as **Appendix D**. The substantially final text of the opinion to be delivered by Bond Counsel, Eckert Seamans Cherin & Mellott, LLC, is included as **Appendix E**. The Authority has undertaken in a Continuing Disclosure Undertaking, the form of which is attached as **Appendix F**, to assist the Underwriter in complying with the provisions of the Rule as promulgated by the SEC under the Securities Exchange Act of 1934, as amended, and as in effect as of the date hereof (the “**Exchange Act**”), by providing annual financial and operating data, and material event notices required by the Rule. A description of the book-entry system maintained by The Depository Trust Company, New York, New York (“**DTC**”) is set forth in **Appendix G**. A description of the PARS Provisions is set forth in **Appendix H**. A specimen of the bond insurance policy is included as **Appendix I**.

Inquiries regarding information about the Authority may be directed to Alfred Testa, Jr., Director of Aviation, 208 Airport Drive, Middletown, Pennsylvania, 17057, Telephone No. (717) 948-3900.

APPLICATION OF THE SERIES 2004 BOND PROCEEDS

General

The Series 2004 Bonds are being issued to provide funds: (i) to finance a portion of the costs of the 2003 Project (as described herein), (ii) to pay interest on the Series 2004 Bonds through April 1, 2005, (iii) to fund a deposit to the Debt Service Reserve Fund with respect to the Series 2004 Bonds, and (iv) to pay the costs of issuance of the Series 2004 Bonds. The following table sets forth the estimated uses of the proceeds of the Series 2004 Bonds:

	<u>Series 2004A</u>	<u>Series 2004B</u>	<u>Total</u> ³
USES:			
Deposit to Construction Fund	\$25,000,000	-	\$25,000,000
Capitalized Interest ¹	-	658,602	658,602
Deposit to Debt Service Reserve Fund	1,504,907	813,641	2,318,547
Costs of Issuance ²	1,292,578	382,713	1,675,291
Contingency	<u>2,515</u>	<u>20,045</u>	<u>22,560</u>
TOTAL	<u>\$27,800,000</u>	<u>\$1,875,000</u>	<u>\$29,675,000</u>

¹ Represents capitalized interest on the Series 2004 Bonds through April 1, 2005.

² Includes underwriter’s discount, legal and other costs of issuance, and bond insurance premium.

³ Totals may not add up due to rounding.

DESCRIPTION OF THE SERIES 2004 BONDS

The Series 2004A Bonds and the Series 2004B Bonds contain certain terms and conditions that are substantially the same. The following is a summary of certain provisions of the Series 2004 Bonds. Reference is hereby made to the Indenture in its entirety for the provisions pertaining to the Series 2004 Bonds. Unless otherwise specified herein, reference in the following summary to the Series 2004 Bonds means each Series of the Series 2004 Bonds and references to documents and defined terms mean such documents and defined terms as they relate to each Series of the Series 2004 Bonds.

Book-Entry Only System

The Series 2004 Bonds will initially be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee for DTC as securities depository for the Series 2004 Bonds. Individual purchases may be made in book-entry only form. Purchasers will not receive certificates representing their interest in the Series 2004 Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2004 Bonds, references herein to the registered owners means Cede & Co. and do not mean the Holders of the Series 2004 Bonds.

So long as Cede & Co. is the registered owner of the Series 2004 Bonds, principal of and interest on the Series 2004 Bonds are payable pursuant to the Auction Procedures. See **Appendix G** – Book-Entry Only System and **Appendix H** – PARS Provisions for a more detailed description.

NEITHER THE AUTHORITY, THE TRUSTEE, THE UNDERWRITER NOR THE BROKER-DEALER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2004 BONDS UNDER THE INDENTURE; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2004 BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE OWNER OF THE SERIES 2004 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2004 BONDS; OR (F) ANY OTHER MATTER RELATING TO DTC OR THE BOOK-ENTRY ONLY SYSTEM.

The Series 2004 Bonds will be issued in the aggregate principal amount as set forth on the inside front cover page of this Official Statement. The Series 2004 Bonds will be issued as fully registered bonds without coupons and in denominations of \$25,000 or any integral multiple thereof. Interest on the Series 2004 Bonds will be payable by check mailed to the registered owners thereof. However, interest on the Series 2004 Bonds will be paid to any owner of \$1,000,000 or more in aggregate principal amount of the Series 2004 Bonds by wire transfer to a wire transfer address within the continental United States upon the written request of such owner received by the Trustee not less than five days prior to the Record Date. As long as the Series 2004 Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See **Appendix G** – Book-Entry Only System. The Series 2004 Bonds will be issued as Bonds that initially bear interest at a PARS Rate but may be converted at the option of the Authority, subject to certain conditions and exceptions, to Bonds that bear interest at different rates including Variable Rates or Fixed Rates. The Series 2004 Bonds will bear interest from their date of delivery to and including their first Auction Date set forth on the inside front cover page of this Official Statement at an interest rate established by the Goldman, Sachs & Co., as Underwriter for the Series 2004 Bonds, and thereafter at the PARS Rate determined pursuant to the Auction Procedures (as hereinafter defined). Following the Initial Period, the Series 2004 Bonds being converted will initially bear interest for an Auction Period as set forth on the inside front cover page of this Official Statement but can be converted to a daily, seven-day, 28-day, 35-day, three-month, six-month or a Special Auction Period. See **Appendix H** – PARS Provisions for a more detailed description. Upon conversion from a PARS Rate Period to a Variable Rate Period or a Fixed Mode, the Series 2004 Bonds being converted will be subject to mandatory tender on the Conversion Date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. Interest on the Series 2004 Bonds in a daily, seven-day, 28-day, 35-day, a three-month or a Special Auction Period of 180 days or less shall be computed on the basis of a 360-day

year for the actual number of days elapsed. Interest on the Series 2004 Bonds in a six-month Auction Period or a Special Auction Period of more than 180 days shall be computed on the basis of a 360-day year of twelve 30-day months.

For further information with respect to Auction Procedures, conversion of the Series 2004 Bonds to a different Auction Period, conversion of the Series 2004 Bonds to a different Rate Period, and the special considerations for the Series 2004 Bonds while bearing interest at a PARS Rate. See Appendix H – PARS Provisions.

Redemption Provisions for Series 2004 Bonds

Optional Redemption. During a PARS Rate Period the Series 2004 Bonds may be redeemed in whole or in part on the PARS Interest Payment Date (as herein defined) immediately following an Auction Period, at the principal amount of the Series 2004 Bonds to be redeemed without premium plus accrued interest.

Mandatory Sinking Fund Redemption. The Series 2004A Bonds bearing interest at a PARS Rate are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, on January 1 of the following years and in the following amounts as shown below; provided, however, if such redemption date is not a PARS Interest Payment Date, the redemption shall occur on the PARS Interest Payment Date immediately preceding such redemption date:

<u>Year</u>	<u>Principal Amount</u>
2011	\$ 375,000
2012	800,000
2013	825,000
2014	850,000
2015	875,000
2016	900,000
2017	950,000
2018	975,000
2019	1,000,000
2020	1,050,000
2021	1,075,000
2022	1,125,000
2023	1,175,000
2024	1,200,000
2025	1,250,000
2026	1,300,000
2027	1,325,000
2028	1,375,000
2029	1,425,000
2030	1,475,000
2031	1,525,000
2032	1,600,000
2033	1,650,000
2034 (final maturity)	1,700,000

The Series 2004B Bonds bearing interest at a PARS Rate are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, on January 1 of the following years and in the following amounts as shown below; provided, however, if such redemption date is not a PARS Interest Payment Date, the redemption shall occur on the PARS Interest Payment Date immediately preceding such redemption date:

<u>Year</u>	<u>Principal Amount</u>
2009	\$725,000
2010	750,000
2011 (final maturity)	400,000

In addition, Series 2004 Bonds in a Special Auction Period may be redeemed prior to the end of the Special Auction Period pursuant to the above sinking fund redemption schedule.

Notice of Redemption

The Trustee will give notice of redemption, in the name of the Authority, to Bondholders affected by such redemption at least 15 days but not more than 30 days before each redemption, send such notice of redemption by first-class mail (or with respect to Series 2004 Bonds held by DTC by an express delivery service for delivery on the next Business Day) to each owner of a Series 2004 Bond to be redeemed. Each such notice shall be sent to the owner's registered address.

Each notice of redemption shall specify: the Series 2004 Bonds to be redeemed; the date of issue and the maturity date thereof; if less than all Series 2004 Bonds of a maturity are called for redemption, the Series 2004 Bonds and the CUSIP number assigned to the Series 2004 Bonds to be redeemed; the principal amount to be redeemed and the interest rate applicable to the Series 2004 Bonds to be redeemed; the date fixed for redemption; the redemption price; the place or places for payment; the Trustee's name; that payment will be made upon presentation and surrender of the Series 2004 Bonds to be redeemed; that interest, if any, accrued to the date fixed for redemption and not paid will be paid as specified in said notice; and that, on and after said date, interest thereon will cease to accrue.

The Authority may provide that, if at the time of mailing of notice of an optional redemption, there shall not have been deposited with the Trustee moneys sufficient to redeem all the Series 2004 Bonds called for redemption, such notice may state that it is conditional, that is, subject to the deposit of the redemption moneys with the Trustee not later than the scheduled redemption date, and such notice shall be of no effect unless such moneys are so deposited. In the event sufficient moneys are not on deposit on the required date, then the redemption shall be canceled and the previous notice shall be of no effect.

The Series 2004A Bonds and the Series 2004B Bonds contain certain terms and conditions that are substantially the same. The following is a summary of the Auction Procedures, the mechanics of converting the Series 2004 Bonds to a different Auction Period or to a different Rate Period, and the special considerations for the Series 2004 Bonds while bearing interest at a PARS Rate. The following summary describes the Series 2004 Bonds only while bearing interest at a PARS Rate. Upon conversion of the Series 2004 Bonds to bear interest at a Variable Rate the Authority is required, among other things, to provide a Credit Facility with respect to the Series 2004 Bonds and appoint a Remarketing Agent. If the Series 2004 Bonds are converted from a PARS Rate to a Variable Rate or Fixed Rate, it is likely that a reoffering document will be prepared in connection with such conversion. Reference is hereby made to the Indenture in its entirety for the detailed provisions pertaining to the Series 2004 Bonds, including provisions relating to conversion to a Variable or Fixed Rate. Unless otherwise specified herein, reference in the following summary to the Series 2004 Bonds means each Series of the Series 2004 Bonds, and references to documents and defined terms mean such documents and defined terms as they relate to each Series of the Series 2004 Bonds. Certain definitions and provisions applicable to the Series 2004 Bonds bearing interest at a PARS Rate are set forth in Appendix H – PARS Provisions. See also Appendix C – Definitions and Appendix D – Summary of Certain Provisions of the Indenture.

Auction Procedures

Certain Definitions. The terms used in this section have the meanings with respect to the Series 2004 Bonds bearing interest at a PARS Rate as set forth below and in **Appendix H – PARS Provisions**.

“*Auction Date*” means with respect to the Series 2004 Bonds (i) if the Series 2004 Bonds are in a daily Auction Period, each Business Day, (ii) if the Series 2004 Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) if the Series 2004 Bonds are in any other Auction Period, the Business Day next preceding each PARS Interest Payment Date for the Series 2004 Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the Series 2004 Bonds in an Auction Period other than the daily Auction Period or Special Auction Period shall be the earlier of (a) the Business Day next preceding the PARS Interest Payment Date next preceding the Conversion Date for such Series 2004 Bonds and (b) the Business Day next preceding the PARS Interest Payment Date next preceding the final maturity date for such Series 2004 Bonds; and provided, further, that if the Series 2004 Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for such Series 2004 Bonds and (y) the Business Day next preceding the final maturity date for such Series 2004 Bonds. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion.

“*Auction Period*” means with respect to the Series 2004 Bonds:

- (a) a Special Auction Period;
- (b) with respect to any Series 2004 Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;
- (c) with respect to any Series 2004 Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);
- (d) with respect to any Series 2004 Bonds in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day),

(iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to any Series 2004 Bonds in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to any Series 2004 Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(g) with respect to any Series 2004 Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding December 31 or June 30;

provided, however, that

(a) if there is a conversion of the Series 2004 Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(b) if there is a conversion of the Series 2004 Bonds with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period,

the next Auction Period will begin on the date of the conversion (*i. e.* the PARS Interest Payment Date for the prior Auction Period) and will end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(c) if there is a conversion of the Series 2004 Bonds with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(d) if there is a conversion of the Series 2004 Bonds with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(e) if there is a conversion of the Series 2004 Bonds with Auctions generally conducted on Thursdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and will end on Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

“*Maximum Rate*” means, with respect to the Series 2004A Bonds, 14% or the maximum interest rate permitted by law; and, with respect to the Series 2004B Bonds, 16% or the maximum interest rate permitted by law.

“*PARS Interest Payment Date*” means the applicable initial PARS Interest Payment Date set forth on the inside front cover page of this Official Statement, and thereafter (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period; (b) when used with respect to a daily Auction Period, the first Business Day of the month

immediately succeeding such Auction Period; (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Special Auction Period, or (ii) 92 or more days, (A) in the case of the Series 2004 Bonds with Auctions generally conducted on Fridays, each thirteen Monday after the first day of such Special Auction Period or the next Business Day if such Monday is not a Business Day and on the Business Day immediately following such Special Auction Period, (B) in the case of the Series 2004 Bonds with Auctions generally conducted on Mondays, each thirteen Tuesday after the first day of such Special Auction Period or the next Business Day if such Tuesday is not a Business Day and on the Business Day immediately following such Special Auction Period, (C) in the case of the Series 2004 Bonds with Auctions generally conducted on Tuesdays, each thirteen Wednesday after the first day of such Special Auction Period or the next Business Day if such Wednesday is not a Business Day and on the Business Day immediately following such Special Auction Period, (D) in the case of the Series 2004 Bonds with Auctions generally conducted on Wednesdays, each thirteen Thursday after the first day of such Special Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Special Auction Period, (E) in the case of the Series 2004 Bonds with Auctions generally conducted on Thursdays, each thirteen Friday after the first day of such Special Auction Period or the next Business Day if such Friday is not a Business Day and on the Business Day immediately following such Special Interest Period.

“PARS Rate” means with respect to the Series 2004 Bonds, while such Series 2004 Bonds bear interest at a PARS Rate, the rate of interest to be borne by such Series 2004 Bonds during each Auction Period which will equal the Auction Rate for each Auction Period; provided, however, that, if the Auction Agent fails to calculate or, for any reason, fails to provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period will be the same as the preceding Auction Period and the PARS Rate for the new Auction Period will be the same as the PARS Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period will be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the PARS Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended, and, in the event Auction Period is extended as set forth in clause (ii) an Auction will be held on the last Business Day of the Auction Period as so extend to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended, provided, further, that if the Series 2004 Bonds are no longer held in book-entry only form they will bear interest at the Maximum Rate, provided, further, that in no event will the PARS Rate exceed the Maximum Rate, and, provided, further, in the event of a failed conversion from a PARS Rate to a Variable Rate or a Fixed Rate or the conversion from one Auction Period to another Auction Period, the affected Series 2004 Bonds will continue as Series 2004 Bonds with a seven-day Auction Period and bear interest at the Maximum Rate for the next Auction Period.

Auction Agent. The Trustee will enter into an Auction Agreement initially with Wilmington Trust Company for the Series 2004 Bonds (the “**Auction Agent**”), pursuant to which, the Auction Agent, as agent for the Trustee, undertakes to perform the duties of Auction Agent under the Second Supplemental Trust Indenture. The Auction Agreement provides, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures. See also “Special Considerations Relating to the Series 2004 Bonds Bearing Interest at a PARS Rate” under this heading.

Auction Date. The first Auction Date for each Series of the Series 2004 Bonds is set forth on the inside front cover of this Official Statement. The Auctions to determine the interest rate with respect to the Series 2004 Bonds for the succeeding Auction Periods are to be initially held on the Auction Dates set forth on the inside front cover of this Official Statement, and thereafter the Auction Dates will be set as described in the Auction Procedures subsection in **Appendix H – PARS Provisions**.

Submission of Orders; Determination of PARS Rate; Allocations; Limits on Transfers. The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in **Appendix H – PARS Provisions**, as are the particulars with regard to the determination of the Auction Rate and the allocation of the Series 2004 Bonds bearing interest at PARS Rates (collectively, the “**Auction Procedures**”). Under the Auction Procedures, among other limitations, an owner or Beneficial Owner may only sell, transfer or otherwise dispose of the Series 2004 Bonds pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer.

Amendment of Terms and Auction Procedures. The provisions of the Second Supplemental Trust Indenture concerning the Auction Procedures including without limitation the definitions of All Hold Rate, Maximum Rate, PARS Index, PARS Interest Payment Date, PARS Rate, may be amended by obtaining the consent of the owners of all Outstanding Series 2004 Bonds bearing interest at a PARS Rate. All owners are deemed to have consented if on the first Auction Date occurring at least 20 days after the Trustee mailed notice of such proposed amendment to such owners, the PARS Rate determined for such date is the Winning Bid Rate.

Conversion to a Different Auction Period

On the Conversion Date for a Series of the Series 2004 Bonds selected for conversion from one Auction Period to another, any Series 2004 Bonds of such Series which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, the Series 2004 Bonds of such Series are to automatically convert to a seven-day Auction Period and bear interest at the Maximum Rate for the first Auction Period and thereafter at an Auction Rate as determined pursuant to the Auction Procedures. In connection with a conversion from one Auction Period to another, written notice of such conversion will be given in accordance with the Auction Procedures; however, the Series 2004 Bonds will not be subject to mandatory tender on such Conversion Date.

Conversion of Series 2004 Bonds to a Different Rate Period; Mandatory Tender

At the option of the Authority, any Series 2004 Bonds may be converted to bear interest at a Variable Rate or a Fixed Rate. On the Conversion Date, the applicable Series of the Series 2004 Bonds to be converted are subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The principal portion of the purchase price of the Series 2004 Bonds so tendered is payable solely from the proceeds of the remarketing of such Series 2004 Bonds. In the event that the conditions for a conversion are not satisfied, including the failure to remarket all applicable Series 2004 Bonds on a mandatory tender date, such Series of the Series 2004 Bonds will not be subject to mandatory tender, are to be returned to their owners, are to automatically convert to a seven-day Auction Period and are to bear interest at the Maximum Rate for the first Auction Period and thereafter at an Auction Rate as determined pursuant to the Auction Procedures.

Special Considerations for the Series 2004 Bonds Bearing Interest at PARS Rates

The Second Supplemental Trust Indenture and the Auction Agreement provide that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice or 30 days notice, if it has not been paid, to the Authority and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five business days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the Series 2004 Bonds will be determined as set forth in the definition of "PARS Rate" above.

The Broker-Dealer Agreement provides that a Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreement, Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules. See "CERTAIN INVESTMENT CONSIDERATIONS – Special Considerations for Series 2004 Bonds."

The Broker-Dealer has advised the Authority that it intends initially to make a market in the Series 2004 Bonds between Auctions; however, the Broker-Dealer is not obligated to make such markets, and no assurance can be given that secondary markets therefor will develop.

As described above, during a PARS Rate Period a beneficial owner of the Series 2004 Bonds may sell, transfer or dispose of the Series 2004 Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or through a Broker-Dealer. The ability to sell the Series 2004 Bond in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all the Series 2004 Bonds at a rate equal to or less

than the Maximum Rate. Changes to the Auction Periods and Auction Dates do not require the amendment of the Auction Procedures or any consents. See **Appendix D** – Summary of Certain Provisions of the Indenture and **Appendix H** – PARS Provisions for a summary of certain provisions of the Indenture and the provisions applicable to the Series 2004 Bonds bearing interest at a PARS Rate. See “CERTAIN INVESTMENT CONSIDERATIONS – Special Considerations for Series 2004 Bonds.”

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004 BONDS

The following are summaries of certain provisions of the Indenture. These summaries do not purport to be comprehensive or definitive. See Appendix C – Definitions and Appendix D – Summary of Certain Provisions of the Indenture for a more complete description of the provisions of the Indenture.

Flow of Funds

The Indenture defines the term Net Revenues to mean, for any given period, Revenues less amounts required to pay the Maintenance and Operation Expenses of the Airport System. Bonds, including the Series 2004 Bonds, are secured by a pledge of Net Revenues of the Airport System. See “Series 2004 Bonds – Pledge of Net Revenues” in this section and **Appendix C** – Definitions. The Authority has covenanted in the Indenture to deposit all Revenues in the Revenue Fund, which is held by the Authority. So long as there are Outstanding Bonds, all Revenues deposited in the Revenue Fund will be applied by the Authority in the manner, at the times and in the order of priority as follows:

(a) *Maintenance and Operation Expenses of the Airport System.* Revenues will be used to pay the current Maintenance and Operation Expenses of the Airport System.

(b) *Debt Service Fund.* Revenues will be paid by the Authority to the Trustee for deposit in the Debt Service Accounts in respect of the Bonds to provide for the payment of principal and interest to become due on the Bonds. The Debt Service Fund is held by the Trustee.

(c) *Debt Service Reserve Fund.* Revenues will be paid by the Authority to the Trustee for deposit in the Debt Service Reserve Fund in respect of the Bonds to be used to pay or replenish the Debt Service Reserve Fund or reimburse a Credit Provider of a Debt Service Reserve Fund Surety Policy. The Debt Service Reserve Fund is held by the Trustee.

(d) *Subordinated Obligation Debt Service Fund.* Revenues will be paid by the Authority to the Subordinate Trustee for deposit in the Subordinate Debt Service Accounts in respect of the Subordinate Bonds to provide for the payment of principal and interest to become due on the Subordinate Bonds. The Subordinate Debt Service Fund is held by the Subordinate Trustee.

(e) *Subordinated Obligation Debt Service Reserve Fund.* Revenues will be paid by the Authority to the Subordinate Trustee for deposit in the Subordinate Debt Service Reserve Fund in respect of the Subordinate Bonds to be used to pay or replenish the Subordinate Debt Service Reserve Fund or reimburse a Subordinate Credit Provider of a Debt Service Reserve Fund Surety Policy. The Subordinate Debt Service Reserve Fund is held by the Subordinate Trustee.

(f) *Maintenance and Operation Reserve Fund.* Revenues will be transferred to the Maintenance and Operation Reserve Fund in the amounts required to maintain a balance therein equal to one-sixth of the amount budgeted for Maintenance and Operation Expenses of the Airport System for the current Fiscal Year. The Maintenance and Operation Reserve Fund is held by the Authority.

(g) *Renewal and Replacement Fund.* Revenues will be transferred to the Renewal and Replacement Fund in the amounts required to maintain a balance therein equal to the Renewal and Replacement Fund Requirement. The Renewal and Replacement Fund is held by the Authority.

(h) *General Fund.* Remaining Revenues will be transferred to the General Fund in the amounts determined by the Authority. The General Fund is held by the Authority and consists of three Accounts as follows:

(i) *Coverage Account.* Revenues, as determined by the Authority, are transferred to the Coverage Account in such amounts as the Authority may determine from time to time. As of June 30, 2004, the Coverage Account's balance was \$240,295. The Authority intends to transfer additional funds to the Coverage Account upon completion of the 2003 Project. The Coverage Account is held by the Authority.

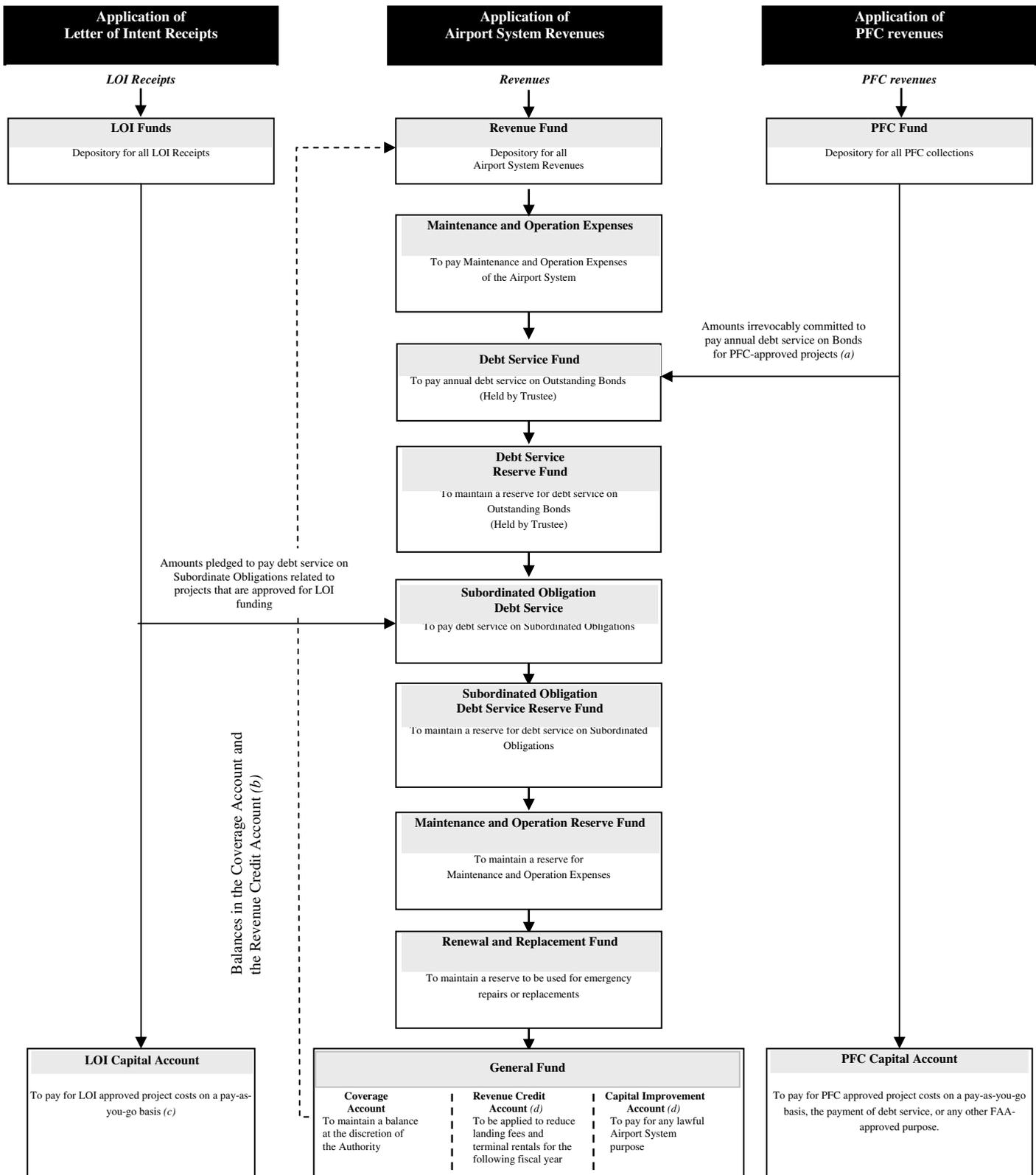
(ii) *Capital Improvement Account.* The next \$750,000 of Revenues will be transferred to the Capital Improvement Account to be used for any lawful Airport System purpose. The Capital Improvement Account is held by the Authority.

(iii) *Revenue Credit Account.* The next \$500,000 of Revenues will be transferred to the Revenue Credit Account. The balance in the Revenue Credit Account at the beginning of each Fiscal Year is expected to be transferred to the Revenue Fund and applied to reduce landing fees and terminal rentals for the following Fiscal Year. The Revenue Credit Account is held by the Authority.

Any amounts remaining after deposits to the Revenue Credit Account have reached \$500,000 are to be divided as follows: (a) 50% to the Capital Improvement Account for use by the Authority for any lawful purpose, and (b) 50% to the Revenue Credit Account.

The following diagram provides a graphic presentation of the flow of funds under the Master Indenture upon the receipt of Revenues.

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- (a) Pursuant to the First Supplemental Indenture and the Second Supplemental Indenture, this commitment is made by the Authority for the period through December 31, 2008.
- (b) Balances in the Revenue Credit Account are transferred to the Revenue Fund at the start of each Fiscal Year. Amounts on deposit in the Coverage Account (not to exceed 25% of Aggregate Annual Debt Service) may be used to demonstrate compliance with the Rate Covenant.
- (c) In the event that LOI Receipts are available after LOI-related debt service is paid.
- (d) Amounts remaining are allocated between the Revenue Credit Account and the Capital Improvement Account.

Pledge of Net Revenues

The Series 2004 Bonds are being issued pursuant to the Indenture and are limited obligations of the Authority payable solely from and secured by a pledge of Net Revenues of the Airport System. The term Net Revenues is defined in the Indenture to mean, for any given period, Revenues less amounts required to pay the Maintenance and Operation Expenses of the Airport System. The term Revenues is defined in the Indenture to mean, except to the extent specifically excluded therefrom, all income, receipts, earnings and revenues received by the Authority from the operation and ownership of the Airport System, including, but not limited to, (a) rates, tolls, fees, rentals, charges and other payments made to or owed to the Authority for the use or availability of the Airport System, and (b) amounts received or owed from the sale or provision of goods and services provided by the Authority, including rental or business interruption insurance proceeds, which are attributable to the Airport System or activities or undertakings related thereto. Additionally, Revenues include amounts released from the Revenue Credit Account to the Revenue Fund and all income, receipts and earnings (except any earnings to be applied by the terms of a Supplemental Indenture to fund Capitalized Interest and the Construction Fund) from the investment of amounts held in the Revenue Fund, any Construction Funds for Bonds and Subordinate Bonds, the Debt Service Funds for Bonds and Subordinate Bonds (except Capitalized Interest or deposits therein), the Debt Service Reserve Funds for Bonds and Subordinate Bonds, the Maintenance and Operation Reserve Fund, the Renewal and Replacement Fund, and any such additional moneys payable to the Authority as are designated as Revenues.

The following, including any investment earnings thereon, are specifically excluded from Revenues: (i) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Bonds or Subordinate Bonds and (ii) Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from Revenues, unless designated as Revenues: (A) grants-in-aid and gifts, (B) any Swap Termination Payments for Bonds or Subordinate Bonds, (C) PFCs, (D) Letter of Intent (“LOI”) Receipts, (E) investment income derived from any moneys or securities which may be placed in escrow or trust to defease Bonds or Subordinate Bonds, (F) any arbitrage earnings which are required to be paid to the U.S. Government pursuant to Section 148 of the Code and (G) capitalized interest. The Authority has not designated PFCs, LOI Receipts, or capitalized interest, or any additional amounts, as Revenues. See **Appendix C - Definitions** for a more complete definition of Revenues.

The Series 2004 Bonds are limited obligations of the Authority payable solely from, and secured by the pledge of, Net Revenues of the Airport System and certain funds and accounts held or set aside under the Indenture. Neither the full faith and credit nor the taxing power of the Counties of Dauphin, Cumberland, or York, the Cities of Harrisburg or York, the Townships of Fairview or Lower Swatara, the Commonwealth of Pennsylvania or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on, the Series 2004 Bonds. None of the properties of the Airport System are subject to any mortgage or other lien for the benefit of the owners of the Series 2004 Bonds. The Authority has no taxing power.

The Authority has covenanted in the Master Indenture not to issue any additional bonds or other obligations with a pledge of or lien on Net Revenues prior or superior to that of the Bonds. Net Revenues shall be available for the equal and proportionate benefit and security of all Bonds.

The Series 2004 Bonds are secured by a pledge of and lien on Net Revenues on a parity with the outstanding Bonds and any additional Bonds issued in the future pursuant to the terms of the Master Indenture. See “Additional Bonds” below.

Use of PFC Revenues for the Payment of Debt Service. While PFC revenues are not included in the definition of Revenues and, therefore, are not pledged to the payment of debt service, pursuant to the First Supplemental Trust Indenture and the Second Supplemental Trust Indenture, the Authority has irrevocably committed to use its PFC revenues for the payment of a portion of the debt service on the Authority’s Bonds, including the Series 2004 Bonds. Specifically, the Authority has committed to annually transfer its PFC revenues from the PFC Fund to pay a portion of the debt service on the Authority’s Bonds, including the Series 2004 Bonds for Fiscal Years 2005 through 2008. See “PLAN OF FINANCING.”

Rate Covenant. The Authority has covenanted in the Master Indenture to fulfill the following requirements:

(a) The Authority, so long as any Bonds remain Outstanding, shall establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that Net Revenues in each Fiscal Year will be at least equal to the following amounts:

(i) the Aggregate Annual Debt Service on any Outstanding Bonds required to be funded by the Authority in each Fiscal Year as required by the Master Indenture;

(ii) the required deposits to the Debt Service Reserve Fund which may be established by a Supplemental Indenture;

(iii) the interest on and principal of any indebtedness required to be funded during such Fiscal Year other than for Outstanding Bonds, including Subordinated Obligations;

(iv) payments of any reserve requirement for debt service for any indebtedness other than for Outstanding Bonds, including Subordinated Obligations;

(v) the reimbursement owed to any Credit Provider as required by a Supplemental Indenture or a Supplemental Subordinate Indenture;

(vi) transfers to the Maintenance and Operation Reserve Fund as required by the Master Indenture; and

(vii) transfers to the Renewal and Replacement Fund as required by the Master Indenture.

(b) The Authority has further agreed that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues, together with the amount on deposit in the Coverage Account, will be equal to at least 125% of Aggregate Annual Debt Service on the Outstanding Bonds. For purposes of this subparagraph (b), the amount on deposit in the Coverage Account taken into account shall not exceed 25% of Aggregate Annual Debt Service on the Outstanding Bonds in such Fiscal Year.

(c) The Authority has agreed that if Net Revenues, together with any amount on deposit in the Coverage Account (only as applied in (b) above), in any Fiscal Year are less than the amount specified in subparagraph (a) or (b) above, the Authority will retain and direct a Consultant to make recommendations as to the revision of the Authority's business operations and its schedule of rentals, rates, fees and charges for the use of the Airport System and for services rendered by the Authority in connection with the Airport System, and after receiving such recommendations or giving reasonable opportunity for such recommendations to be made the Authority shall take all lawful measures to revise the schedule of rentals, rates, fees and charges as may be necessary to produce Net Revenues, together with any amount on deposit in the Coverage Account (only as applied in (b) above), in the amount specified in subparagraph (a) or (b) above in the next succeeding Fiscal Year.

(d) In the event that Net Revenues for any Fiscal Year are less than the amount specified in subparagraph (a) or (b) above, but the Authority promptly has taken prior to or during the next succeeding Fiscal Year all lawful measures to revise the schedule of rentals, rates, fees and charges as required by subparagraph (c) above, such deficiency in Net Revenues shall not constitute an Event of Default under the provisions of the Indenture. Nevertheless, if after taking the measures required by subparagraph (c) above to revise the schedule of rentals, rates, fees and charges, Net Revenues in the next succeeding Fiscal Year (as evidenced by the audited financial statements of the Authority for such

Fiscal Year) are less than the amount specified in subparagraph (a) or (b) above, such deficiency in Net Revenues shall constitute an Event of Default under the provisions of the Indenture.

Debt Service Reserve Fund. The Second Supplemental Trust Indenture establishes the respective Series 2004A Debt Service Reserve Account (the “**Series 2004A Debt Service Reserve Account**”) and Series 2004B Debt Service Reserve Account (the “**Series 2004B Debt Service Reserve Account**”) within the Debt Service Reserve Fund.

Upon issuance of the Series 2004A Bonds, a portion of the proceeds of the Series 2004A Bonds will be deposited to the Series 2004A Debt Service Reserve Account in the amount of \$1,504,906.87 (the “Series 2004A Initial Deposit”). Over the term of the Series 2004A Bonds, amounts on deposit in the Series 2004A Debt Service Reserve Account are intended to accumulate so as to equal the Maximum Annual Debt Service for the Series 2004A Bonds. Additional deposits (the “Series 2004A Transferred Deposits”) to the Series 2004A Debt Service Reserve Account are expected to be made, from time to time, from moneys available to be transferred from the Series 2004B Debt Service Reserve Account. If on January 1, 2011, the sum of the Series 2004A Initial Deposit and the Series 2004A Transferred Deposits on deposit in the Series 2004A Debt Service Reserve Account do not equal the Maximum Annual Debt Service for the Series 2004A Bonds, the Authority is required to deposit additional moneys to the Series 2004A Debt Service Reserve Account so that the amount on deposit therein equals the Maximum Annual Debt Service for the Series 2004A Bonds. The Debt Service Reserve Requirement for the Series 2004A Bonds from the date of issuance to January 1, 2011 shall be the lesser of either (i) the sum of the Series 2004A Initial Deposit and any Series 2004A Transferred Deposits or (ii) the Maximum Annual Debt Service for the Series 2004A Bonds, and thereafter an amount equal to the Maximum Annual Debt Service on the Series 2004A Bonds. In no event will the Debt Service Reserve Requirement for the Series 2004A Bonds exceed the Maximum Annual Debt Service with respect thereto.

Upon issuance of the Series 2004B Bonds, a portion of the proceeds of the Series 2004B Bonds will be deposited to the Series 2004B Debt Service Reserve Account in the amount of \$813,640.63 (the “Series 2004B Initial Deposit”). Such amount is the Debt Service Reserve Requirement for the Series 2004B Bonds. The Debt Service Reserve Requirement for the Series 2004B Bonds shall be the lesser of either (i) the Series 2004B Initial Deposit or (ii) the Maximum Annual Debt Service for the Series 2004B Bonds. In no event will the Debt Service Reserve Requirement for the Series 2004B Bonds exceed the Maximum Annual Debt Service with respect thereto.

The Second Supplemental Trust Indenture provides that when the Series 2004B Bonds mature or are redeemed, amounts remaining in the Series 2004B Debt Service Reserve Account which are no longer needed to satisfy the Debt Service Reserve Requirement for the Series 2004B Bonds shall be transferred by the Trustee to the Series 2004A Debt Service Reserve Account to the extent permitted by the Code. The Authority anticipates that such transfers of moneys from the Series 2004B Debt Service Reserve Account will be sufficient to have on deposit in the Series 2004A Debt Service Reserve Account by January 1, 2011, an amount equal the Maximum Annual Debt Service for the Series 2004A Bonds.

In the event the Authority issues any additional Bonds pursuant to any Supplemental Indenture, the Authority shall be required to deposit an amount in the Debt Service Reserve Fund equal to the Debt Service Reserve Requirement (if any) established for such future Series of additional Bonds under the applicable Supplemental Indenture.

Earnings on investments in the Series 2004A Debt Service Reserve Account are to be transferred to the Interest Subaccount of the Series 2004A Debt Service Account in the Debt Service Fund. The Debt Service Reserve Fund may be drawn upon if the amounts in the Series 2004A Debt Service Account are insufficient to pay in full any principal or interest then due. In the event amounts are withdrawn from the Debt Service Reserve Fund, such amounts shall be deposited in the Series 2004A Debt Service Account for the Series 2004A Bonds.

Earnings on investments in the Series 2004B Debt Service Reserve Account are to be transferred to the Interest Subaccount of the Series 2004B Debt Service Account in the Debt Service Fund. The Debt Service Reserve Fund may be drawn upon if the amounts in the Series 2004B Debt Service Account are insufficient to pay in full any principal or interest then due. In the event amounts are withdrawn from the Debt Service Reserve Fund, such amounts shall be deposited in the Series 2004B Debt Service Account for the Series 2004B Bonds.

Under the Second Supplemental Trust Indenture, the Authority may fund all or a portion of the Debt Service Reserve Requirements for each Series of the Series 2004 Bonds with a Debt Service Reserve Fund Surety Policy. A Debt Service Reserve Fund Surety Policy may be an insurance policy, letter of credit or surety bond deposited in the Debt Service Reserve Fund in lieu of or in partial substitution for cash or securities. The Authority expects to fully fund the Debt Service Reserve Requirements for each Series of the Series 2004 Bonds from bond proceeds.

Additional Bonds. Under the Master Indenture, as a condition to the issuance of any Series of additional Bonds (including the first issuance of Program Bonds), there must be delivered to the Trustee either:

(a) a certificate of an Authorized Representative stating that the Net Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Bonds or preceding the first issuance of the proposed Program Bonds were at least equal to 110% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Bonds, Unissued Program Bonds and the proposed Series of Bonds, calculated as if the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds (if applicable) were Outstanding; or

(b) a certificate of a Consultant to the effect that the Annual Debt Service on the proposed Series of Bonds or the full Authorized Amount of proposed Program Bonds (as applicable) is payable out of Net Revenues and stating that the Authority will be in compliance with the Rate Covenant during either (i) each of the first three Fiscal Years succeeding the date on which the Project is expected to be completed, or (ii) during each of the first five Fiscal Years succeeding the date of issuance of such Bonds, whichever is later.

For purposes of subparagraph (a) above, the Authorized Representative shall be allowed to adjust Net Revenues for any increase in the rates, charges, and fees for the use of the Airport System which has become effective prior to the issuance of such proposed Series of Bonds but which rates, charges, and fees were not in effect for the 12-month period under consideration, in an amount equal to the sum by which the Net Revenues would have been increased if such increase in rates, charges, and fees had been in effect during the whole of the such 12 month period; provided, however, such increase is intended to continue to be effective following the issuance of such proposed Series of Bonds.

The Series 2004 Bonds are being issued under subparagraph (b) above.

In addition, under the Master Indenture, the Authority may issue refunding Bonds pursuant to certain conditions under the Master Indenture without satisfying the additional Bonds test.

Subordinate Indebtedness

In addition to financing the 2003 Project with the proceeds of Bonds, the Authority is authorized to issue Subordinate Bonds and to enter into financing arrangements, subordinate to the pledge of Net Revenues to pay debt service on the Bonds, in order to finance its capital needs. Specifically, the Authority is authorized to issue Subordinate Bonds under (i) the Master Subordinate Indenture; and (ii) the provisions of the Act. The Subordinate Bonds are limited obligations of the Authority payable solely from and secured by a pledge of Subordinate Net Revenues of the Airport System which is subordinate to the pledge thereon for the Bonds and any future Bonds issued pursuant to the Master Indenture, and on a parity with additional Subordinate Bonds that may be issued in the future pursuant to the Master Subordinate Indenture. As of the date of this Official Statement, the Authority has previously issued \$75,160,000 aggregate principal amount of its Subordinate Airport System Revenue Bonds. See **Appendix C** - Definitions for a more complete definition of Subordinate Net Revenues.

Permitted Investments

Moneys and funds held by the Authority shall be invested in Permitted Investments, subject to the restrictions set forth in the Master Indenture. Moneys and funds held by the Trustee under the Master Indenture including moneys in the Debt Service Funds (and the accounts therein) and in the Debt Service Reserve Funds (and the accounts therein), shall be invested as directed by the Authority in Permitted

Investments, subject to the restrictions set forth in the Master Indenture. See “FINANCIAL INFORMATION—Investment Policy,” and **Appendix C - Definitions** for a more complete definition of Permitted Investments.

Events of Default and Remedies; No Acceleration

Events of Default under the Master Indenture and related remedies are described in the Summary of Certain Provisions of the Indenture attached as **Appendix D** hereto. The occurrence of an Event of Default does not grant any right to accelerate payment of the Bonds to either the Trustee or the Holders of the Series 2004 Bonds. The Trustee is authorized to take certain actions upon the occurrence of an Event of Default, including proceedings to enforce the obligations of the Authority under the Indenture. If there is an Event of Default, payments, if any, on the Bonds will be made after Maintenance and Operation Expenses of the Airport System. Since Net Revenues are Revenues net of all amounts needed to pay Maintenance and Operation Expenses of the Airport System, and the Authority is not subject to involuntary bankruptcy proceedings, the Authority may be able to continue indefinitely collecting Revenues and applying them to the operation of the Airport System even if an Event of Default has occurred and no payments are being made on the Bonds.

BOND INSURANCE

All the Series 2004 Bonds will be insured by Financial Guaranty. The following information has been furnished by Financial Guaranty for use in this Official Statement. Neither the Authority nor the Underwriter makes any representation as to the accuracy or the completeness of such information, or as to absence of material adverse changes in such information. Reference is made to **Appendix I** for a specimen of Financial Guaranty’s municipal bond new issue insurance policy.

Payments Under the Policy

Concurrently with the issuance of the Series 2004 Bonds, Financial Guaranty will issue its Municipal Bond New Issue Insurance Policy for the Series 2004 Bonds (the “**Policy**”). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Series 2004 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the “**Fiscal Agent**”), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of the Series 2004 Bonds or the Trustee of the nonpayment of such amount by the Authority. The Fiscal Agent will disburse such amount due on any Series 2004 Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal or interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal or interest shall be vested in Financial Guaranty. The term “nonpayment” in respect of a Series 2004 Bond includes any payment of principal or interest made to an owner of a Series 2004 Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable by Financial Guaranty and the premium will be fully paid at the time of delivery of the Series 2004 Bonds. The Policy covers failure to pay principal of the Series 2004 Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Series 2004 Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment. If the Series 2004 Bonds are accelerated or become subject to mandatory redemption, Financial Guaranty will be obligated to pay principal and interest on the originally scheduled principal (including mandatory sinking fund redemption) and interest payment dates. Upon such payment, Financial Guaranty will become the owner of the Series 2004 Bond, appurtenant coupon or right to payment of principal or interest on such Series 2004 Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Authority, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of

any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the Trustee.

As a condition of its commitment to insure the Series 2004 Bonds, Financial Guaranty may be granted certain rights under the Indenture. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Series 2004 Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom. Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation, a Delaware corporation.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. (“**PMI**”), affiliates of The Blackstone Group L.P. (“**Blackstone**”), affiliates of The Cypress Group L.L.C. (“**Cypress**”) and affiliates of CIVC Partners L.P. (“**CIVC**”) acquired FGIC Corporation (the “**FGIC Acquisition**”) from a subsidiary of General Electric Capital Corporation (“**GE Capital**”). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. GE Capital retained approximately \$234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law (“**Article 69**”), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles (“**SAP**”) and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the three months ended March 31, 2004, and the years ended December 31, 2003 and December 31, 2002, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately \$11.3 billion, \$42.4 billion and \$47.9 billion par value of securities, respectively (of which approximately 50%, 79% and 81%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately \$56.4 million, \$260.3 million and \$232.6 million, respectively. For the three months ended March 31, 2004, Financial Guaranty had reinsured, through facultative arrangements, approximately 0.3% of the risks it had written.

As of March 31, 2004, Financial Guaranty had net admitted assets of approximately \$2.864 billion, total liabilities of approximately \$1.728 billion, and total capital and policyholders' surplus of approximately \$1.136 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of Financial Guaranty as of March 31, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003 and December 31, 2002, which have been filed with the Nationally Recognized Municipal Securities Information Repositories (“**NRMSIRs**”), are hereby included by specific reference in this Official Statement. Any statement contained herein under this heading “**BOND INSURANCE**,” or in any documents included by specific reference herein, shall be modified or

superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by the Authority with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Series 2004 Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Series 2004 Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2004 Bonds. Financial Guaranty does not guarantee the market price or investment value of the Series 2004 Bonds nor does it guarantee that the ratings on the Series 2004 Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Series 2004 Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under this heading "BOND INSURANCE." In addition, Financial Guaranty makes no representation regarding the Series 2004 Bonds or the advisability of investing in the Series 2004 Bonds.

* * * * *

Neither the Authority nor the Underwriter makes any representation as to the accuracy or the completeness of the above information, including any information on the internet site for Financial Guaranty or the SEC, or as to absence of material adverse changes in such information. Reference is made to Appendix I for a specimen of Financial Guaranty's municipal bond new issue insurance policy.

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AGGREGATE DEBT SERVICE REQUIREMENTS

Susquehanna Area Regional Airport Authority

The following table sets forth the annual debt service requirements on the Series 2004 Bonds and the outstanding Bonds and Subordinate Bonds of the Authority:

Fiscal Year	Outstanding	Series 2004A Bonds		Series 2004B Bonds		Total Series 2004	Total Senior Bonds	Total Subordinate	Total Aggregate
	Senior Bonds Debt Service	Principal	Interest	Principal	Interest	Bonds Debt Service *	Debt Service *	Bonds Debt Service*	Debt Service
2004	\$ 3,434,893						\$ 3,434,893	\$ 2,331,003	\$ 5,765,896
2005	5,307,131		383,794		25,885	409,680	5,716,811	3,601,549	9,318,360
2006	5,307,131		986,514		66,536	1,053,050	6,360,182	11,408,312	17,768,493
2007	5,307,131		986,514		66,536	1,053,050	6,360,182	12,878,949	19,239,131
2008	5,307,131		986,514		66,536	1,053,050	6,360,182	13,694,990	20,055,172
2009	5,307,131		989,217	725,000	66,719	1,780,935	7,088,067	15,930,869	23,018,936
2010	5,307,131		986,514	750,000	40,809	1,777,323	7,084,454	6,675,423	13,759,877
2011	5,307,131	375,000	986,514	400,000	14,194	1,775,708	7,082,840	4,476,658	11,559,498
2012	5,307,131	800,000	973,207			1,773,207	7,080,338	4,476,746	11,557,084
2013	5,307,131	825,000	947,406			1,772,406	7,079,538	4,477,250	11,556,788
2014	5,307,131	850,000	915,542			1,765,542	7,072,673	4,476,113	11,548,785
2015	5,307,131	875,000	885,378			1,760,378	7,067,510	4,480,300	11,547,810
2016	5,307,131	900,000	854,328			1,754,328	7,061,459	4,479,006	11,540,466
2017	5,307,131	950,000	824,644			1,774,644	7,081,775	4,476,963	11,558,738
2018	7,852,131	975,000	788,679			1,763,679	9,615,810	1,933,631	11,549,441
2019	9,787,156	1,000,000	754,080			1,754,080	11,541,236		11,541,236
2020	9,783,056	1,050,000	718,594			1,768,594	11,551,650		11,551,650
2021	9,785,206	1,075,000	683,200			1,758,200	11,543,406		11,543,406
2022	9,783,931	1,125,000	643,186			1,768,186	11,552,117		11,552,117
2023	9,782,875	1,175,000	603,264			1,778,264	11,561,139		11,561,139
2024	9,786,231	1,200,000	561,568			1,761,568	11,547,799		11,547,799
2025	9,783,000	1,250,000	520,406			1,770,406	11,553,406		11,553,406
2026	9,787,750	1,300,000	474,627			1,774,627	11,562,377		11,562,377
2027	9,786,500	1,325,000	428,495			1,753,495	11,539,995		11,539,995
2028	9,788,750	1,375,000	381,476			1,756,476	11,545,226		11,545,226
2029	9,788,500	1,425,000	333,594			1,758,594	11,547,094		11,547,094
2030	9,785,000	1,475,000	282,115			1,757,115	11,542,115		11,542,115
2031	9,787,500	1,525,000	229,773			1,754,773	11,542,273		11,542,273
2032	9,784,750	1,600,000	175,656			1,775,656	11,560,406		11,560,406
2033	9,786,000	1,650,000	119,204			1,769,204	11,555,204		11,555,204
2034	0	1,700,000	60,326			1,760,326	1,760,326		1,760,326
Totals	\$227,065,937	\$27,800,000	\$19,464,326	\$ 1,875,000	\$ 347,217	\$ 49,486,543	\$276,552,481	\$ 99,797,762	\$376,350,243

*The assumed interest rate for the Series 2003C Subordinate Bonds and the Series 2004 Bonds is 3.50% per annum.

Future Financings

Following the issuance of the Series 2004 Bonds, the Authority does not expect to issue any additional Bonds under the Master Indenture to fund Projects currently included in the Capital Program, but the Authority may choose to issue refunding bonds from time to time in implementing its plan of financing. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004 BONDS — Additional Bonds,” “PLAN OF FINANCING,” “REPORT OF THE AIRPORT CONSULTANT,” and the Report of the Airport Consultant in **Appendix A**. The Report of the Airport Consultant should be read in its entirety for an explanation of the assumptions and forecasts used therein.

THE AUTHORITY

General

The Authority is a joint municipality authority created by the Counties of Dauphin, Cumberland, and York, the Cities of Harrisburg and York, and the Townships of Fairview and Lower Swatara under the Act. The Authority is governed by fifteen board members. The Counties of Dauphin, Cumberland, and York appoint three board members, respectively, the Cities of Harrisburg and York appoint two board members, respectively, and the Townships of Fairview and Lower Swatara each appoint one board member. Each board member serves a five-year term. A director of aviation is appointed by the board to act on its behalf in connection with the administration of the operational responsibilities of the Authority. The Authority may, under the Act, borrow money and issue bonds and contract with any person for the use by such person of any properties or facilities under the control of the Authority.

The Airport System

On January 2, 1998, the Commonwealth, acting through PennDOT, transferred operation and ownership of the Airport System to the Authority. At the same time, the Authority entered into a management agreement (the “**BAAH Management Contract**”) with BAA Harrisburg, Inc. (“**BAAH**”) for the operation and maintenance of the Airport System. The BAAH Management Contract did not transfer ownership of the Airport System to BAAH, rather the scope of BAAH’s services included the operation, maintenance, and development of the terminal, airfield, landside, water and sewer facilities of the Airport System, as well as administrative management. The Authority retained the responsibility for supervising and maintaining airport police operations, as well as managing the operations of the Industrial Park (as described herein) at the Airport. On or about November 2000, due to the Authority’s concerns relating to decreasing passenger levels and the overall administration of the Airport System, the Authority attempted, without success, to renegotiate the terms of the BAAH Management Contract so that the Authority’s responsibilities in the day-to-day management of the Airport System would be expanded and BAAH’s responsibilities would be significantly reduced. As a result of such failed negotiations, on July 2, 2001, the Authority terminated the BAAH Management Contract with BAAH. Subsequent to the termination of the BAAH Management Contract, BAAH initiated legal action against the Authority for damages. The litigation was settled on December 18, 2001. Under the terms of the settlement, the Authority made a one-time payment to BAAH of \$650,000—representing BAAH’s unreimbursed operational expenses for the first half of 2001 and one additional year of management fees. The settlement released both the Authority and BAAH from any and all future claims or litigation related to BAAH’s management of the Airport System. The management and operation of the Airport System are now accomplished by the Director of Aviation and his staff.

Harrisburg International Airport. The Airport serves as the major scheduled passenger airport for the south central region of Pennsylvania, and is located approximately twelve road miles southeast of downtown Harrisburg, and adjacent to the main Amtrak rail line in Pennsylvania, in Dauphin County. See “HARRISBURG INTERNATIONAL AIRPORT” for further discussion of the Airport.

Capital City Airport. The Authority also owns and operates Capital City Airport, which was founded in 1938 as York State Airport. Capital City Airport is located in Fairview Township, York County, Pennsylvania, and is comprised of approximately 273 acres of land. Capital City Airport is designated as a reliever and general aviation airport, which averaged approximately 55,077 corporate, charter, and private aircraft operations in 2003.

Revenues from the Airport are used to cover any net operating losses incurred by Capital City Airport. Although the Authority's goal is to reduce the amount of such subsidy, the Authority does not expect to completely eliminate the subsidy. In Fiscal Years 2001 and 2002, Capital City Airport had a net operating loss (before depreciation) of \$199,631 and \$169,883, respectively. For Fiscal Year 2003, Capital City Airport had a net operating loss (before depreciation) of \$196,299.

Franklin County Regional Airport. On July 28, 2004, the Authority acquired Franklin County Regional Airport, a general aviation airport approximately 45 miles from the Airport and located in Franklin County, Pennsylvania for a purchase price of \$790,000. A federal grant for \$750,000 (95% of the acquisition cost), and a Commonwealth grant for \$20,000 (2.5% of the acquisition cost) were the primary funding sources for the acquisition. Franklin County Regional Airport is now a part of the Authority's Airport System. Revenues generated, and Maintenance and Expenses incurred at Franklin County Regional Airport will be Revenues and Maintenance and Expenses of the Authority, but it is not expected that the acquisition of Franklin County Regional Airport will have a material impact on Net Revenues of the Authority.

Organization of the Authority

Board of Directors. The present board members and their occupations are as follows:

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Name	Position	Occupation	Appointing Authority	Term Expires
Eric Clancy	Chairman	Vice President, Delta Development Corporation	Cumberland County	01/08
Kim Schaller	Vice Chair	Vice President, HERCO	Dauphin County	01/08
Fred Sembach	Secretary	Chief of Staff to the Majority Whip of the Pennsylvania Senate	Lower Swatara Township	01/05
Barbara Layne	Treasurer	Director, Professional, Drug and Education Information for Pennsylvania Medical Society	Dauphin County	01/06
David Carver	Member	Executive Director, Pennsylvania Economic Development Association	City of York	01/07
Clifford L. Jones	Member	Director of Governor's Action Team, Commonwealth of Pennsylvania	Cumberland County	01/06
Michael Jefferson	Member	Director of Crispus Attucks Association Inc.	City of York	01/05
David C. McIntosh	Member	Retired	York County	01/06
Mario Pirritano	Member	Fairview Township Supervisor	Fairview Township	01/05
David Reichow	Member	Retired	York County	01/08
Judith Schimmel, Esq.	Member	City Solicitor of City of Harrisburg	City of Harrisburg	01/05
G. Edward Schweikert IV, Esq.	Member	Attorney, Boswell, Tintner, Piccola & Wickersham	City of Harrisburg	01/07
William Seeds	Member	Lower Paxton Township Supervisor	Dauphin County	01/04 *
Timothy Tate	Member	President, Stewart & Tate, Inc.	York County	01/09
John Ward	Member	Executive Director of Modern Transportation Partnership	Cumberland County	01/06

* Term has expired but the Board Member continues to serve until his position is replaced with a new Board Member.

Senior Management. Management and operation of the Airport System are accomplished by the Director of Aviation through his staff. The present senior management of the Authority is as follows:

Alfred Testa, Jr. is the Director of Aviation for the Authority. He previously served as Director of Philadelphia International Airport, Director of Manchester Airport in New Hampshire, and Deputy Director of T.F. Greene Airport in Providence, Rhode Island. Mr. Testa received his Bachelor's Degree from the University of Rhode Island and while studying for his Master of Arts Degree, taught Political Science at the University of Rhode Island. He received his law degree from Suffolk University Law School and is a member of the Rhode Island bar. Mr. Testa has taught courses in American Government, International Relations, Business Law and Airport Management on the college level. He is an Accredited Airport Executive by the American Association of Airport Executives ("AAAE").

Timothy J. Edwards is the Deputy Director of Aviation for the Authority and has been actively employed in the airport management profession for 16 years. Prior to joining the Authority, Mr. Edwards served as the Airport Director at Lebanon Municipal Airport in Lebanon, New Hampshire from 1993 through 2003. As Airport Director he was responsible for all airport administration, maintenance and operations. He developed and administered the Lebanon Airport Passenger Facility Charge Program and directed the development of the Airport Business Park. Mr. Edwards was responsible for all airport capital development for compliance with all local, state and federal aviation policies, regulations and grant assurances. Mr. Edwards was also the Airport Operations Manager in Lebanon, New Hampshire from 1989 through 1992. Mr. Edwards

was also employed as the Airport Operations Supervisor at Tweed-New Haven Airport in New Haven Connecticut from 1988-1989. Mr. Edwards is an Accredited Airport Executive by the AAAE and currently serves as President of the Northeast Chapter of the AAAE. Mr. Edwards received a Bachelor of Science degree in Aeronautical Science from Embry-Riddle Aeronautical University in 1981 and is a licensed commercial pilot.

Anthony White is the Deputy Director, Administration and Finance for the Authority. Prior to joining the Authority, Mr. White served as the CFO for Dauphin County, Harrisburg, Pennsylvania, and as the Director of Quality Assurance for Sodexo, a Fortune 500 Company. His experience also includes CFO for Pennsylvania's Department of Public Welfare, the fourth largest health and human services agency in the United States and as Director, Pennsylvania's Department of Revenue; as well as six years of public accounting (taxation) experience, which included Arthur Andersen & Co in Washington D.C. Mr. White received his Bachelor of Science Degree in Accounting from Hampton University, Hampton, Virginia, and also attended Executive Education at The Wharton School of Business, University of Michigan Business School, and Duke University.

David Spaulding is the Deputy Director, Engineering and Planning for the Authority. Mr. Spaulding completed a career with the U.S. Army serving in the Corps of Engineers. His experience includes construction, repair, and maintenance of numerous airfields located in the United States, Germany, Korea and Vietnam. His most recent military assignments included serving as Engineer for the U.S. Forces Command in the Republic of Korea, and serving as Commander of the Kwajalein Atoll and Missile Range in the Marshal Islands where he was responsible for the operation and maintenance of both an international airport and a domestic airport. He has also served as a Director of Facilities Engineering for an 18,000 acre military installation. Prior to joining the Authority he taught at the U.S. Army War College where he lectured and facilitated seminars on topics that included strategic planning, national infrastructure protection, resource management and interagency coordination among federal, state, and local government. Mr. Spaulding received his Bachelor of Science degree from Clarkson College of Technology. He holds a Masters of Science in Engineering Administration from Northeastern University and a Master of Public Administration degree from Shippensburg University. Mr. Spaulding is also an FAA licensed commercial pilot.

Randy Hicks is the Airport Services Manager for the Authority. Mr. Hicks is responsible for the terminal building, customer service, and ground transportation at the Airport. Since 1973, Mr. Hicks has also held positions as a firefighter for Capital City Airport and the Airport, and as an Operations and Maintenance Manager, Airport Manager, and Resource Manager for PennDOT, Bureau of Aviation.

Belinda Svirbely is the Operations and Security Manager for the Authority. Ms. Svirbely previously served in the roles of Assistant Airport Administrator and Operations Specialist at Bradley International Airport in Connecticut, and as a Staff Assistant at Lehigh Valley International Airport. Ms. Svirbely received a Bachelor of Science degree in Air Commerce Transportation from Florida Institute of Technology. She is an Accredited Airport Executive by the American Association of Airport Executives.

Scott Miller is the Manager of Marketing and Public Relations for the Authority. Prior to joining the Authority, Mr. Miller served as a Marketing Manager and Research Coordinator for a business planning, marketing and advertising agency, and as the Marketing Director for a six-radio station cluster, Clear Channel Broadcasting, in Harrisburg, Pennsylvania. Mr. Miller also worked as a summer staff assistant for three years in the Pennsylvania State Senate. He received a Bachelor of Science degree in Public Relations and Government from Shippensburg University.

John Reedy is the Manager of Properties for the Authority. Mr. Reedy's experience includes Revenue Management, International Planning and Bilateral agreement interpretation, International Scheduling, Reservations, Fleet Operations and Corporate Real Estate comprising a twenty year career with United Airlines. Mr. Reedy also had additional experience as a Residential Real Estate Broker and with the U. S. Air Force and he attended William Rainer Harper College. Mr. Reedy's responsibilities include all airport property and leases with airport tenants.

Employees. As of November 1, 2003, approximately 113 full-time employees, including maintenance personnel, police officers, firefighters, clerical and professional persons, were employed by the Authority. The Authority staff believes its relationship with the employees is satisfactory. Fourteen employees are members of

the Fraternal Order of Police, whose collective bargaining agreement with the Authority will expire on December 31, 2004.

HARRISBURG INTERNATIONAL AIRPORT

General

The Airport has served central Pennsylvania for over 100 years. In 1898, the Signal Corps of the U.S. Army was stationed at the Airport. The first airplanes landed at the Airport in 1918 at Olmsted Air Force Base. The base grew to 11,400 civilian employees in 1969, when it was decommissioned. The Airport then began to serve the public under the ownership of the Commonwealth. In 1998, the Commonwealth, acting through PennDOT, transferred ownership of the Airport, along with Capital City Airport, to the Authority.

The Airport is comprised of approximately 800 acres of land, located approximately twelve road miles southeast of downtown Harrisburg, the capital of the Commonwealth, and adjacent to the main Amtrak rail line in Pennsylvania, in the Township of Lower Swatara, and the Boroughs of Middletown and Highspire, in Dauphin County.

Facilities at the Airport include an airfield, including one air carrier runway, an FAA control tower, one passenger terminal, two separate public automobile parking areas, and other essential physical facilities. See below for a more detailed description of the current facilities at the Airport.

The Air Service Region

The Airport Consultant defines an Air Service Region for the Airport that encompasses 28 counties located in central Pennsylvania, and extends to Altoona to the west, University Park to the northwest, Wilkes-Barre/Scranton to the northeast, Lehigh Valley and Reading to the east, and the Pennsylvania-Maryland border to the south. The Airport Consultant also defines an immediate Air Service Region that is comprised of the seven counties immediately adjacent to the Airport, namely Adams, Cumberland, Dauphin, Lancaster, Lebanon, Perry, and York. In addition to the Air Service Region, a secondary Air Service Region includes areas that are considered by the Authority to have market development potential. See **Appendix A** – Report of the Airport Consultant.

According to the Report of the Airport Consultant, the economy of the Air Service Region is an important determinant of long-term passenger demand at the Airport. The population of the immediate Air Service Region has historically grown at faster rates than those of the Commonwealth and similar to growth rates for the nation as a whole. Nonagricultural employment in the immediate Air Service Region increased an average of 0.5% per year between 1990 and 2003, similar to the Commonwealth (0.6%), though less than the rate for the United States (1.6%). The average unemployment rate for the immediate Air Service Region has consistently been lower than that for the Commonwealth and the nation as a whole, but the rate increased in 2001 and 2002 consistent with general economic trends in the Commonwealth and the nation. Per capita income in the immediate Air Service Region increased an average of 2.4% per year between 1980 and 1990 and 1.9% per year between 1990 and 2003. The growth rate for the period between 1990 and 2002 (2.1%) compares to 2.5% for both the Commonwealth and the United States. See **Appendix A** – Report of the Airport Consultant, for a more detailed analysis of the economic and demographic trends of the Air Service Region.

Set forth below is a list of the largest employers in the immediate Air Service Region as of 2000, the most recent year for which data are available. Although the largest private sector employers in the immediate Air Service Region employ substantially fewer people than the largest public sector employers (*i.e.*, the Commonwealth government), the private sector accounts for 86% of total nonagricultural employment in the immediate Air Service Region. The list of major employers reflects the diversity of the companies and organizations in the immediate Air Service Region. See **Appendix A** – Report of the Airport Consultant for a more detailed description of employment sectors in the immediate Air Service Region.

LARGEST LOCAL EMPLOYERS
Immediate Airport Service Region (a)
2000

Employers	Industry	Number of local full-time employees
Commonwealth of Pennsylvania	State government	22,039
U.S. Government	Federal government	11,471
U.S. Postal Service	U.S. Postal Service	6,327
Hershey Foods Corp	Manufacturing	5,473
Pennsylvania Highmark	Health insurance	5,200
Naval Support Activity Center	U.S. military	4,774
WellSpan Health	Health care	3,842
Milton S. Hershey Medical Center	Health care	3,614
PinnacleHealth System	Health care	3,133
Harley-Davidson Motor Company	Manufacturing	3,100
Wal-Mart Stores Inc.	Retail	3,050
Lancaster General Hospital	Health care	2,416
High Industries Inc.	Diversified	2,310
Giant Foods Stores	Retail	2,295
York County	Government	2,195

(a) Data for Cumberland, Dauphin, Lancaster, Lebanon, and York counties only.

Source: Central Penn Business Journal, February 15, 2002.

Current Airport Facilities

Runway. The Airport maintains one air-transport-type runway of concrete and asphalt construction. The runway provides operational facilities to cover varying wind conditions and is connected by a system of taxiways and aprons. In addition, the runway approach direction is equipped with high-intensity runway lighting, centerline lighting, an instrument landing system, a localizer and glide slope indicator, a visual approach slope indicator, and runway end identifier lights, which permit continuous operation under almost all weather conditions. The runway is 9,501 feet long and 200 feet wide. The runway, in the opinion of the Authority engineers, has sufficient capacity and is of sufficient strength to permit the operation of the largest existing commercial aircraft. The boundaries of the Airport provide sufficient clear area for runway approaches to meet the requirements of the FAA. As part of the Capital Program, the Authority has constructed a new 10,000 foot long, 75 foot wide full-length taxiway parallel to the runway. The new parallel taxiway has been constructed in order to meet future growth in passenger and aircraft activity at the Airport and to enhance the Airport's airfield safety and efficiency. See "CAPITAL PROGRAM" for additional information concerning the Capital Program and the construction of the parallel taxiway at the Airport.

Passenger Terminal Building and Airport Access. The main passenger terminal building ("Main Terminal") was constructed in 1986 and has two public levels. A T-shaped, approximately 26,916 square foot, six-gate, lower level commuter wing ("Commuter Concourse") was added to the passenger terminal building in 1990. Currently the baggage screening at the security check-point is handled by the Transportation Security Administration ("TSA") in which TSA agents use trace detection machines, two InVision CTX2500 EDS machines, and open bag searches to detect explosives and screen all checked bags at the Airport. Access to the Airport is primarily through the Airport Connector, a four-lane divided highway that leads to a one-way, three-lane entrance roadway loop in front of the passenger terminal building. Another primary roadway at the Airport is Airport Drive, a two-lane east-west thoroughfare. Olmstead Drive, another two-lane road, splits off from Airport Drive and provides access to the air cargo facility and the Pennsylvania Air National Guard area ("PaANG").

Aircraft Parking Apron. Approximately 60,000 square yards of terminal apron pavement provide a maximum of nine parking positions for medium-sized narrow-body aircraft on the airside of the Main Terminal.

Approximately 56,000 square yards of terminal apron pavement provide eleven to twelve parking positions for commuter/regional jet aircraft on the airside of the Commuter Concourse.

Parking Facilities. Parking facilities at the Airport currently encompass 4,102 surface public parking spaces: 522 spaces in the contiguous short-term and daily lots directly adjacent to the existing terminal building, and 3,580 spaces in the long-term economy lot known as “SmartPark.” There are approximately 160 rental car ready/return spaces in the parking lot adjacent to the existing terminal building. Approximately 327 parking spaces for employees are provided in two surface lots. There are several other parking areas adjacent to corporate hangar, fixed base operator, government, commercial, and manufacturing facilities for tenants, their visitors, and employees.

Air Cargo Facilities. The Airport has two air cargo areas, one for passenger airlines and the other for all-cargo airlines. The passenger airline cargo facility is located immediately west of the Main Terminal aircraft parking apron. This location is convenient for passenger air carrier aircraft and ground transport vehicles. The passenger airline cargo facility has approximately 15,750 square feet of enclosed space. The all-cargo airline facility is located in the northeastern part of the Airport to the immediate west of the PaANG facilities. This 60,000-square-foot facility has through-door direct access to approximately 83,000 square yards of apron. The current configuration of the apron accommodates a minimum of eight narrow body cargo aircraft and five “feeder” aircraft. The number of aircraft parking positions on the air cargo apron may vary depending on the type of aircraft and parking configuration used.

General Aviation Facilities. The general aviation area is on the west side of the Airport and consists of four large corporate hangar facilities and the Allegheny Airlines aircraft maintenance base. Each corporate hangar facility and the maintenance base have frontage apron and direct access to Taxiway A. The other general aviation area is located near the former U.S. Air Force air depot facilities. The Fixed Based Operations (“FBO”) facility and aviation support businesses in this area provide a wide range of general aviation services, including aircraft fueling, airframe and engine repair, ramp parking and tie downs, ground handling, hangar storage, pilots’ lounge, and avionics repair.

Governmental Facilities. The PaANG installation located on the east end of the Airport has numerous facilities including its headquarters building, operations building, civil engineering facility, aircraft maintenance hangar, and engine shops. Other government facilities include TSA offices and FAA Airways Facility Sector offices.

Airport Support Facilities. The Airport support facilities include an FAA traffic control tower, fuel storage facilities, aircraft rescue and fire fighting station, and airport administration, operations, and maintenance facilities. The FAA traffic control tower is located diagonally northwest across the entrance loop from the passenger terminal building. The Airport’s FBO and corporate aviation tenants also operate several fuel storage facilities.

Airlines Serving the Airport

As of July 2004, four major/national U.S. airlines and seven regional/commuter airlines provided scheduled service to and from the Airport. In addition, as of July 2004, eight all-cargo carriers provided scheduled cargo service at the Airport.

AIRLINES SERVING THE AIRPORT
 Harrisburg International Airport
 (As of July 2004)

<u>Major/National</u>	<u>Regional/Commuter</u>	<u>All-cargo airlines</u>
Northwest Airlines Transmeridian Airlines United Airlines US Airways	Air Canada (a) American Eagle Comair(b) Continental Express (c) Northwest AirlinK (d) United Express (e) US Airways Express (f)	Active Aero Air Cargo Carriers Air Now DHL Worldwide Express Emery Worldwide FedEx UPS Air Cargo Wiggins Airways

(a) Operated by Air Canada, Jazz and Air Georgian.

(b) Operated as Delta Connection.

(c) Some flights operated by CommutAir.

(d) Operated by Pinnacle Airlines.

(e) Operated by Air Wisconsin, Atlantic Coast Airlines, and Trans States Airlines. Atlantic Coast Airlines has stated that it intends to cease its arrangement with United Airlines by August 4, 2004.

(f) Operated by Mesa Airlines, Pinnacle Airlines, and Trans States Airlines.

Sources: Official Airline Guides, Inc., online database, July 2004 and
 Susquehanna Area Regional Airport Authority records.

Aviation Activity

The following tables provide a summary of the historical aviation activity at the Airport. The Report of the Airport Consultant contains a more detailed analysis of the Authority's historical aviation activity, as well as forecasts of enplaned passengers and aircraft landed weight through 2009. See "THE REPORT OF THE AIRPORT CONSULTANT" herein. The Report of the Airport Consultant should be read in its entirety for an explanation of the assumptions and forecasts used therein.

Airport Operations. The following table sets forth information for scheduled average daily nonstop departures by airline at the Airport for July 2001, July 2002, July 2003, and July 2004.

SCHEDULED AVERAGE DAILY NONSTOP DEPARTURES BY AIRLINE

Harrisburg International Airport
July 2001, July 2002, July 2003, and July 2004

Airlines	Scheduled average daily nonstop departures			
	July 2001	July 2002	July 2003	July 2004
Major/national				
American Airlines (a)	2	2	--	--
Delta Air Lines (b)	3	--	--	--
Northwest Airlines	3 (2)	3	3	3
Transmeridian Airlines	--	--	--	(c)
United Airlines	4	4	2	2
US Airways	6	<u>6</u>	<u>5</u>	<u>4</u>
Subtotal	18 (17)	15	10	9
Regional/commuter				
Air Canada (d)	1 (4)	3	2	3 (2)
American Eagle (a)	2	2	5	5
CommutAir (e)	--	3	2	2
Continental Express	4	3	2	2
Delta Connection (f)	4	9	9	9
Northwest Airlink (g)	2	1 (2)	2	3
United Express (h)	6	4	7	6 (7)
US Airways Express (i)	17	<u>17</u>	<u>15</u>	15 (16)
Subtotal	36 (39)	42 (43)	44	45 (46)
Total	53 (56)	56 (57)	54	54 (55)

Notes: The Authority indicates that the Official Airline Guides data shown may be inaccurate. Data shown in parentheses are the number of aircraft departures estimated by the Authority. The totals and subtotals shown reflect Official Airline Guides data only and the columns may not add to totals shown as a result of rounding.

- (a) As of October 2002, American Eagle is providing service previously provided by American Airlines.
- (b) As of November 2001, Comair is providing service previously provided by Delta Air Lines.
- (c) Less than daily frequency.
- (d) Operated by Air Georgian, Air Ontario in 2001 only, and Air Canada Jazz in 2004 only.
- (e) Affiliated with Continental Express.
- (f) Operated by Atlantic Southeast Airlines (July 2002 only) and Comair.
- (g) Operated by Mesaba Airlines in July 2001, Mesaba Airlines and Pinnacle Airlines in July 2002, and Pinnacle Airlines in July 2003 and July 2004.
- (h) Operated by Atlantic Coast Airlines. United Express service will be provided by Air Wisconsin and Trans States Airlines as of August 4, 2004.
- (i) Operated by Allegheny Airlines except for July 2004, and Mesaba Airlines, Pinnacle Airlines, and Trans States Airlines in July 2004 only.

Source: Official Airline Guides, Inc., online database, July 2004, except as noted.

Passenger Enplanements. The following table sets forth historical enplanement information for the Airport since 1980. The number of enplaned passengers increased at an average rate of 0.7% per year between 1990 and 2000 from 621,511 to 664,202, and decreased 11.9% between 2000 and 2001 to 585,286. The number of enplaned passengers increased 14.5% between 2001 and 2003 to 670,269, representing an average annual increase of 0.6% between 1990 and 2003. The key factors that have affected historical numbers of enplaned passengers at the Airport over this period include: (1) the national and regional economic downturns which have caused reductions in enplaned passengers in certain years such as 1991 and 2001; (2) the development by certain airlines of low-fare service at the Airport and competing airports; (3) the effects of the events of September 11, 2001 on the aviation industry; and (4) the effects of airlines filing for bankruptcy protection and seeking reorganization. See **Appendix A** – Report of the Airport Consultant for a more detailed analysis of the enplanement trends at the Airport.

HISTORICAL ENPLANED PASSENGERS
Harrisburg International Airport

Calendar Year	Enplaned passengers	Average annual percent increase (decrease)
1980	382,061	--%
1985	418,698	1.8
1990	621,511	8.2
1991	595,074	(4.3)
1992	657,239	10.4
1993	673,100	2.4
1994	696,673	3.5
1995	622,615	(10.6)
1996	582,760	(6.4)
1997	743,153	27.5
1998	740,325	(0.4)
1999	714,658	(3.5)
2000	664,202	(7.1)
2001	585,286	(11.9)
2002	676,738	15.6
2003	670,269	(1.0)
Jan.-June 2003	325,264	--
Jan.-June 2004	347,115	6.7%
1980-2003		2.5%
1990-2000		0.7
1990-2003		0.6

Note: The Authority's Fiscal Year is the same as the calendar year.

Sources: 1980 and 1985: Pennsylvania DOT, Bureau of Aviation.
1990-June 2004: Susquehanna Area Regional Airport Authority records.

Enplanements by Airline. The following table sets forth enplanement information for the airlines operating at the Airport for the years 2000 through 2003. As the table shows, US Airways continues to enplane the largest share of passengers. Since the events of September 11, 2001, there has been a significant shift of service at the Airport from mainline carriers to their regional/commuter partners. In 2003, the regional/commuter airlines accounted for approximately 62% of enplaned passengers at the Airport compared to approximately 34% in both 2000 and 2001 and 48% in 2002. See **Appendix A** – Report of Airport Consultant for a more detailed analysis of the airline market shares of enplaned passengers.

AIRLINE MARKET SHARES OF ENPLANED PASSENGERS
Harrisburg International Airport
2000-2003

Passenger airlines	2000		2001		2002		2003	
	Number	Percent of total						
Major/national and charter								
US Airways	183,372	27.6%	167,611	28.7%	173,978	25.7%	139,718	20.8%
United Airlines	74,267	11.2	75,349	12.9	85,364	12.6	57,561	8.6
Delta Air lines (a)	68,512	10.3	53,849	9.2	--	--	--	--
American Airlines (b)	59,219	8.9	44,085	7.5	34,645	5.1	--	--
Northwest Airlines	52,243	7.9	46,229	7.9	55,868	8.3	56,572	8.4
TWA (c)	2,050	0.3	--	--	--	--	--	--
Charter	<u>2,603</u>	<u>0.4</u>	<u>865</u>	<u>0.1</u>	<u>3,756</u>	<u>0.6</u>	<u>2,636</u>	<u>0.4</u>
	442,266	66.6%	387,988	66.3%	353,611	52.3%	256,487	38.2%
Regional/commuter								
US Airways Express (d)	107,116	16.1%	88,783	15.2%	112,639	16.6%	106,685	15.9%
Comair	51,352	7.7	35,552	6.1	108,197	16.0	116,973	17.5
Delta Connection (e)	--	--	--	--	3,765	0.6	1,483	0.2
American Eagle	--	--	11,396	1.9	24,310	3.6	54,411	8.1
United Express (f)	28,931	4.4	27,020	4.6	26,123	3.9	75,778	11.3
Continental Express	17,117	2.6	16,401	2.8	22,098	3.3	24,116	3.6
CommutAir (g)	--	--	937	0.2	5,074	0.7	3,691	0.6
Air Canada (h)	8,689	1.3	7,463	1.3	8,440	1.2	6,597	1.0
Shuttle America (i)	--	--	--	--	258	--	--	--
Northwest Airlink (j)	<u>8,731</u>	<u>1.3</u>	<u>9,746</u>	<u>1.6</u>	<u>12,223</u>	<u>1.8</u>	<u>24,048</u>	<u>3.6</u>
	<u>221,936</u>	<u>33.4%</u>	<u>197,298</u>	<u>33.7%</u>	<u>323,127</u>	<u>47.7%</u>	<u>413,782</u>	<u>61.8%</u>
Total	664,202	100.0%	585,286	100.0%	676,738	100.0%	670,269	100.0%
Airline Groups (k)								
US Airways	290,488	43.7%	256,394	43.8%	286,617	42.4%	246,403	36.8%
Delta	119,864	18.0	89,401	15.3	111,962	16.5	118,456	17.7
United	103,198	15.5	102,369	17.5	111,487	16.5	133,339	19.9
Northwest	60,974	9.2	55,975	9.5	68,091	10.1	80,620	12.0
American (l)	61,269	9.3	55,481	9.5	58,955	8.7	54,411	8.1
Continental	17,117	2.6	17,338	3.0	27,172	4.0	27,807	4.1
Other	<u>11,292</u>	<u>1.7</u>	<u>8,328</u>	<u>1.4</u>	<u>12,454</u>	<u>1.8</u>	<u>9,233</u>	<u>1.4</u>
Total	<u>664,202</u>	<u>100.0%</u>	<u>585,286</u>	<u>100.0%</u>	<u>676,738</u>	<u>100.0%</u>	<u>670,269</u>	<u>100.0%</u>

Note: The Authority's Fiscal Year is the calendar year

- (a) Delta Air Lines discontinued air carrier service at the Airport in November 2001.
- (b) American Airlines discontinued air carrier service at the Airport in October 2002.
- (c) Acquired by American Airlines in April 2001.
- (d) Operated by Allegheny Airlines and Trans States Airlines (since September 2003).
- (e) Operated by Atlantic Southeast Airlines, which operated at the Airport between March 2002 and May 2003.
- (f) Operated by Atlantic Coast Airlines. United Express service will be provided by Air Wisconsin and Trans State Airlines as of August 4, 2004.
- (g) Initiated service in August 2001.
- (h) Operated by Air Georgian and Jazz.
- (i) Discontinued service at the Airport in 2002.
- (j) Operated by Mesaba Airlines (until October 2002), Pinnacle Airlines, and Express Airlines (in 2001 only).
- (k) Includes major/national and regional/commuter airlines.

Source: Susquehanna Area Regional Airport Authority records.

Enplaned Cargo. The following table sets forth the historical air cargo activity at the Airport for the years 1990 through 2003. As indicated in the table, the total amount of cargo enplaned and deplaned at the Airport increased an average of 1.9% per year between 1990 and 2003. During 2001, total cargo activity decreased by 15.0%, primarily due to the events of September 11, 2001 and the recent economic downturn. In 2003, total air cargo increased 1.9% compared to 2002. See **Appendix A – Report of Airport Consultant** for a more detailed analysis of the air cargo trends at the Airport.

HISTORICAL AIR CARGO (FREIGHT PLUS MAIL)

Harrisburg International Airport

Calendar Year	Enplaned and deplaned cargo (tons)	Percent increase (decrease)
1990	37,393	--%
1991	33,602	(10.1)
1992	36,932	9.9
1993	38,397	4.0
1994	44,173	15.0
1995	45,989	4.1
1996	52,177	13.5
1997	62,064	18.9
1998	58,600	(5.6)
1999	61,473	4.9
2000	54,756	(10.9)
2001	46,523	(15.0)
2002	47,069	1.2
2003	47,969	1.9
Jan. – June 2003	24,111	--
2004	23,954	(0.7)
1990-2003 (a)		Average annual increase 1.9%

(a) Average annual increase.

Source: Susquehanna Area Regional Airport Authority records.

Enplaned Cargo by Airline. The following table sets forth the total enplaned cargo activity for the airlines operating at the Airport for the years 2000 through 2003. As shown in the table below, the all-cargo airlines serving the Airport consistently account for more than 98% of the total freight enplaned at the Airport in 2000 through 2003. The passenger airlines accounted for the remaining 1% to 2% of total enplaned freight. See **Appendix A – Report of the Airport Consultant** for a more detailed analysis of enplaned cargo activity at the Airport.

AIRLINE MARKET SHARES OF ENPLANED FREIGHT
Harrisburg International Airport

Airline	2000		2001		2002		2003	
	Tons	Market share						
All-cargo airlines								
FedEx	11,981	44.3%	11,618	49.5%	12,099	48.8%	10,955	46.0%
UPS Air Cargo	5,693	21.0	5,589	23.8	5,840	23.6	6,437	27.0
Emery Worldwide	3,502	13.0	2,106	9.0	2,415	9.7	2,117	8.9
Airborne Express	3,065	11.3	2,845	12.1	2,957	11.9	3,218	13.5
BAX Global	1,117	4.3	--	0.0	--	0.0	--	--
Air Cargo Carriers	635	2.3	582	2.5	648	2.6	330	1.4
Other (a)	626	2.3	449	1.9	611	2.6	556	2.4
Subtotal	26,619	98.5%	23,189	98.8%	24,570	99.2%	23,613	99.2%
Passenger airlines								
	423	1.5%	266	1.1%	204	0.8%	197	0.8%
Total	27,042	100.0%	23,454	100.0%	24,774	100.0%	23,810	100.0%

Note: Mail is not included.

(a) Includes Active Aero, Air Now, Martinaire, Mid-Atlantic Freight, Mountain Air Cargo, Superior Aviation, Wiggins Airways, and miscellaneous international freight carriers.

Source: Susquehanna Area Regional Airport Authority records.

Landed Weight. The following table sets forth historical aircraft landed weight at the Airport for the years 1990 through 2003. As the table shows, from 1990 to 2003, total aircraft landed weight decreased an average of 1.1% per year. Passenger airline landed weight decreased an average of 2.1% per year. Landed weight for the all-cargo airlines increased an average of 3.2% per year between 1990 and 2003, compared to 1.9% average annual growth in total air cargo for the same period. See **Appendix A – Report of Airport Consultant** for a more detailed discussion regarding the landed weight trends at the Airport.

HISTORICAL AIRCRAFT LANDED WEIGHT
Harrisburg International Airport

Calendar Year	1,000-pound units			Average annual percent increase (decrease)
	Passenger airlines	All-cargo Airlines	Total	
1990	1,306,400	209,400	1,515,800	--%
1991	1,299,102	218,231	1,517,333	0.1
1992	1,374,863	207,381	1,582,244	4.3
1993	1,328,149	190,319	1,518,468	(4.0)
1994	1,296,041	232,539	1,528,580	0.7
1995	1,282,119	220,586	1,502,705	(1.7)
1996	1,224,730	259,139	1,483,869	(1.3)
1997	1,198,048	328,965	1,527,013	2.9
1998	1,228,116	355,855	1,583,971	3.7
1999	1,207,985	401,653	1,609,638	1.6
2000	1,158,939	376,282	1,535,221	(4.9)
2001	1,076,089	317,683	1,393,772	(9.2)
2002	1,050,336	318,434	1,368,770	(1.8)
2003	992,574	315,193	1,307,767	(4.5)
Jan. – June				
2003	498,767	154,465	653,232	--
2004	512,579	158,924	671,501	2.8
<u>Average Annual Percent Increase (decrease)</u>				
1990-2003	(2.1%)	3.2%	(1.1%)	

Source: Susquehanna Area Regional Airport Authority records.

Landed Weight by Airlines. The following table sets forth the relative shares of aircraft landed weight for the passenger and all-cargo airlines at the Airport from 2000 through 2003.

AIRCRAFT LANDED WEIGHT BY AIRLINE
Harrisburg International Airport
1,000-pound units

	2000	2001	2002	2003
Passenger airlines				
US Airways	249,682	252,277	245,993	206,548
Delta Air Lines	164,625	116,481	--	--
United Airlines	157,041	149,000	155,888	87,330
Northwest Airlines	91,207	101,477	96,227	96,280
American Airlines	91,206	71,074	52,390	--
	<u>405,178</u>	<u>385,780</u>	<u>552,228</u>	<u>602,416</u>
Subtotal	1,158,939	1,076,089	1,050,336	992,574
Percent of total	75%	77%	77%	76%
All-cargo airlines	<u>376,282</u>	<u>317,683</u>	<u>318,434</u>	<u>315,193</u>
Percent of total	25%	23%	23%	24%
Total	1,535,221	1,393,772	1,368,770	1,307,767

Susquehanna Area Regional Airport Authority records.

AIRLINE INDUSTRY INFORMATION

Availability of Information Concerning Individual Airlines

Certain of the airlines (or their respective parent corporations) are subject to the information reporting requirements of the Exchange Act, and, in accordance therewith, file reports and other information with the SEC. Certain information, including financial information, concerning such airlines (or their respective parent corporations) is disclosed in reports and statements filed with the SEC.

Such reports and statements can be inspected and copies obtained at prescribed rates at the SEC's principal offices at 450 Fifth Street, NW, Washington, D.C., 20549, and should be available for inspection and copying at the SEC's regional offices located at 233 Broadway, New York, New York 10279, and 500 W. Madison Street, Suite 1400, Chicago, IL 60661. The SEC maintains a website at www.sec.gov containing reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. In addition, each domestic airline is required to file periodic reports of financial and operating statistics with the U.S. Department of Transportation. Such reports can be inspected at the Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs Administration, Department of Transportation, 400 7th Street, SW, Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. Department of Transportation at prescribed rates.

Neither the Authority nor the Underwriter undertake any responsibility for or make any representation as to the accuracy or completeness of (i) any reports and statements filed with the SEC or the U.S. Department of Transportation, or (ii) any material contained on the SEC's website

as described in the preceding paragraph, including, but not limited to, updates of information on the SEC's website or links to other Internet sites accessed through the SEC's website.

Airlines owned by foreign governments or foreign corporations operating airlines (unless such foreign airlines have American Depository Receipts registered on a national exchange) are not required to file information with the SEC. Airlines owned by foreign governments or foreign corporations file limited information only with the U.S. Department of Transportation.

THE CAPITAL PROGRAM

The Authority has developed a Capital Program for the period 2002 to 2007 to provide needed improvements at the Airport and Capital City Airport thorough 2007, to accommodate future passenger and aircraft activity levels, and to comply with expanded federal security requirements. The Capital Program encompasses: (1) the 2003 Project (including construction of a new terminal building and airside and landside improvements at the Airport); (2) other projects at the Airport (including demolition and environmental remediation of Crawford Station and construction of a new sewage treatment plant); (3) miscellaneous projects at Capital City Airport; and (4) the acquisition of Franklin County Regional Airport and miscellaneous improvements thereon. The estimated cost of the Capital Program is \$252.4 million, not including costs of issuance, bond reserves and capitalized interest. Of this total, the 2003 Project represents estimated expenditures of \$232.7 million (or 92% of the total expenditures). The following table sets forth the estimated costs of the Capital Program and its individual components.

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PLANNED CAPITAL IMPROVEMENTS: 2002 TO 2007

	<u>Estimated Project Cost</u>
HARRISBURG INTERNATIONAL AIRPORT	
2003 Project (a)	
Construct New Terminal and Related Work	\$105,036,000
Construct Terminal Loop Roadway	7,805,000
Construct Aircraft Parking Apron	32,535,000
Install Nav aids and Runway Lighting	15,059,000
Construct Parallel Taxiway and Related Work	18,679,000
Construct Multimodal Transportation Center	51,763,000
Construct Amtrak Station (b)	<u>1,818,000</u>
	\$232,695,000
Other Projects	
Demolish and Remediate Crawford Station	\$4,000,000
Construct Sewage Treatment Plant	3,000,000
Other Miscellaneous Projects	<u>6,906,000</u>
	\$13,906,000
Subtotal—Harrisburg International Airport	<u>\$246,601,000</u>
CAPITAL CITY AIRPORT	
Improve runway safety areas and install Lighting System	\$1,050,000
Rehabilitate Runway 8-26 (Overlay)	712,000
Other Miscellaneous Projects	<u>2,906,000</u>
Subtotal—Capital City Airport	<u>\$4,668,000</u>
FRANKLIN COUNTY REGIONAL AIRPORT	
Acquire Airport	\$790,000
Miscellaneous projects	318,000
Subtotal—Franklin County Regional Airport	<u>\$1,108,000</u>
TOTAL	\$252,377,000

Note: Excluding costs of bond issuance, bond reserves, and capitalized interest.

(a) Reflects the full estimated cost of the 2003 Project, including amounts already incurred. These costs do not include potential future change orders for elements of the 2003 Project that the Authority may approve. These change orders, if approved, could increase the cost of the 2003 Project.

(b) Amounts shown reflect planning and design costs only. Construction of this project will be undertaken in the future subject to grant funding availability.

Source: Authority records.

Upon DBO of the new terminal, the existing passenger terminal will no longer be used for passenger processing, and will be redeveloped for commercial uses. A portion of the building will also be used as a federal inspection services (FIS) facility. Also, apart from a small section of the building to be used for FIS, most of the Commuter Concourse will no longer be used for processing passengers, and will be demolished.

The Authority is currently also in the process of seeking third-party developers to:

- Redevelop the existing terminal building for commercial uses after DBO of the new terminal building.
- Develop a hotel with a four-star or better rating (on the standard industry rating schedule) on a site adjacent to the Multimodal Transportation Center.
- Develop a hotel with a two-star or better rating on an Authority-owned site approximately one mile from the new terminal building.

According to Authority management these projects are to be developed by third-party developers with minimal investment by the Authority. The Authority received proposals from developers for the existing terminal redevelopment project in June 2004, and expects to receive proposals from hotel developers in October 2004. The Authority expects to let contracts for these development projects before the end of 2004.

Details of 2003 Project

The 2003 Project elements are described below:

Construct New Terminal and Related Work. This project consists of design and construction of a new 380,000-square foot terminal building. The new terminal will encompass 48 ticket counter positions, twelve multi-use jet aircraft gates with 15 aircraft parking positions, and four baggage claim devices. The new terminal provides for 100% in-line baggage screening, using explosive detection system (“EDS”) machines in an approximately 60,000 square foot basement area.

Status of Project. The entire project is scheduled to be substantially completed by August 29, 2004.

Construct Terminal Loop Roadway. This project consists of design and construction of 3,400 linear feet of roadway, starting at a point east of the existing loop road at the end of the existing terminal curbside, terminating at the Airport connector roadway, and merging into the existing terminal return access road and the ramp to the new Multimodal Transportation Center. The new loop roadway will provide two drop-off lanes and three through lanes in front of the new terminal building. This roadway will serve as the major connection between the Airport, Airport Drive, and State Highway 283.

Status of Project. Construction began in June 2003, and is expected to be concluded by November 2004.

Construct Aircraft Parking Apron. This project provides an aircraft parking apron and taxiway which will surround the new terminal. The aircraft parking apron will consist of approximately 103,000 square yards of concrete, and the taxiway will consist of approximately 108,500 square yards of asphalt. The project will also include 44,000 square yards of graded, seeded, and mulched area. The new aircraft parking apron will provide five new spaces for aircraft remaining overnight (which is an increase from the five aircraft remaining overnight spaces at the existing terminal building). The new aircraft parking apron is needed because of the relocation of the terminal building, and is critical to the efficient operation of the new terminal building. Also included in this project is the development and preparation of a site for the future expansion of the aircraft parking apron adjacent to the air cargo facilities, the demolition of several buildings, and the leveling and grading of the site to the existing surrounding ground level.

Status of Project. Construction began in April 2003 and is expected to conclude by October 2004.

Install Nav aids and Runway Lighting. The Airport is upgrading the current Category I instrument landing system at the western end of Runway 13-31 to a Category III system, allowing the accommodation of aircraft during periods of limited visibility due to adverse weather conditions. The project also includes lighting vault construction, regulators, other associated electrical equipment, direct buried cable to provide electrical power to all airfield lighting systems related to this project, and a Surface Movement Guidance and Control System.

Status of Project. Construction and installation began in March 2003 and are expected to conclude in August 2004.

Construct Parallel Taxiway and Related Work. This project involves the development of a 10,000 foot long, 75-foot wide taxiway parallel to Runway 13-31 which will extend the parallel taxiway to the end of the full-strength pavement at both runway ends, providing (1) two filleted high speed exit taxiways, (2) modification, replacement, or elimination of existing connector Taxiways B, C, D, and E, and (3) connectors to the new terminal apron.

Status of Project. This project was completed and placed in-service in April 2004.

Construct Multimodal Transportation Center. The Multimodal Transportation Center is to be a four level structure with one double threaded helix, vertical circulation, and pedestrian bridges (including moving sidewalks) to the new terminal building. Each floor is to consist of approximately 288,000 square feet. The Multimodal Transportation Center will have a total parking capacity of 3,400 spaces — 2,700 spaces for public use and 700 spaces for the rental car companies serving the Airport.

Status of Project. This project is scheduled to be placed in-service on August 29, 2004.

An additional element of the 2003 Project is the construction of an Amtrak Station adjacent to the Airport, however this project has been deferred by the Authority until grant funding from the Commonwealth becomes available.

Permit Status

As of the date of this Official Statement, all necessary land development and environmental permits and approvals have been issued for the design, development, and construction of the various projects mentioned above.

PLAN OF FINANCING

The 2003 Project will be funded from various sources, including PFCs, LOI Receipts, federal and state grants, Authority funds, and prior Bond and Subordinate Bond proceeds. As of the date of this Official Statement, the prior Bond and Subordinate Bond proceeds have provided funding for the cost of issuance for such Bonds and Subordinate Bonds, for funding the debt service reserve accounts for the Bonds and Subordinate Bonds, payment for capitalized interest on a portion of the prior Bonds and Subordinate Bonds. In addition, the Series 2004 Bond proceeds will be used to fund a portion of the 2003 Project. See **Appendix A — Report of the Airport Consultant** for a detailed summary of the plan of financing. The Report of the Airport Consultant should be read in its entirety for an explanation of the assumptions and forecasts used therein.

Series 2004 Bond Proceeds

Proceeds of the Series 2004 Bonds are expected to be used for the purposes of (i) paying a portion of the cost of the 2003 Project, (ii) paying interest on the Series 2004 Bonds through April 1, 2005, (iii) funding a deposit to the Debt Service Reserve Fund with respect to the Series 2004 Bonds, and (iv) paying the costs of issuance of the Series 2004 Bonds.

Passenger Facility Charges

The Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508) (the “**1990 Act**”) allows public agencies controlling certain commercial service airports (those with regularly scheduled service and enplaning 2,500 or more passengers annually) to charge each qualifying enplaning passenger using the airport a \$1.00, \$2.00 or \$3.00 Passenger Facility Charge, referred to as a PFC. The Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) (“**AIR 21**” and with the 1990 Act, the “**Federal Act**”) increased the maximum PFC allowed to be charged by qualifying airports from \$3.00 to \$4.50. Public agencies wishing to impose and use these PFCs must apply to the FAA for such authority and meet certain requirements indicated in the legislation and regulations issued by the FAA. Regardless of the number of PFC applications which have been approved by the FAA, an airport can only collect a maximum of \$4.50 on each qualifying enplaning passenger.

The purpose of the PFC is to develop additional capital funding sources to provide for the expansion and improvement of the national airport system. The proceeds from PFCs must be used to finance eligible airport-related projects that serve 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.

On November 19, 1996, the Airport received FAA approval to begin collecting PFCs. In this first PFC application, the Airport received approval for a \$3.00 PFC on each qualifying enplaning passenger totaling \$4,088,000 to finance PFC-approved projects at the Airport. In conjunction with the submittal of amendments to the first PFC application, the Airport received approval to collect an additional \$677,166 under the first PFC

application. PFC revenues collected pursuant to the first PFC application were used to finance the runway overlay project at the Airport. All PFC revenues associated with the first PFC application were collected by April 1998.

On April 16, 1999, the Authority received approval to collect a \$3.00 PFC on each qualifying enplaning passenger totaling \$2,076,083 pursuant to a second PFC application to finance certain PFC-approved projects at the Airport. All PFC revenues associated with the second PFC application were collected by June 2000.

On March 21, 2000, the Authority received approval to collect a \$3.00 PFC on each qualifying enplaning passenger totaling \$63,365 pursuant to a third PFC application to finance certain PFC-approved projects at the Airport. The Authority utilized the PFC revenues collected pursuant to its third PFC application to, among other projects, finance a loading bridge replacement project at the Airport. The third PFC application also authorized the Authority to collect PFC revenues on an “impose only” basis totaling \$3,651,884 to finance the relocation of the terminal loop road and expansion of an enplaned/deplaned drive.

On October 31, 2002, the Authority received approval to collect a \$4.50 PFC on each qualifying enplaning passenger totaling \$70,101,624 pursuant to a fourth PFC application to finance certain PFC-approved projects at the Airport. The FAA’s approval (“**Final Agency Decision**” or “**FAD**”) contemplates leveraging the Authority’s PFCs and authorizes PFC revenues to be applied to bond financing with respect to PFC-approved projects. Specifically, the Final Agency Decision allows the Authority to impose and use PFCs for the payment of (1) debt service on bonds used to fund PFC-approved projects (\$57,598,000), and (2) PFC-approved project costs on a pay-as-you-go basis (\$12,503,624). PFCs authorized by this fourth application are currently expected to be collected by August 1, 2020. No assurance can be given that the PFC revenues and the schedule for their receipt which are assumed in the Authority’s plan of financing will be attained.

The Authority expects to file an amendment to its third PFC application in which the Authority will request approval to delete the “impose only” enplaned/deplaned drive expansion project authorized pursuant to the third PFC application. This project is being deleted because it is no longer needed under the Authority’s current Capital Program. The Authority also expects to file the necessary amendments to its fourth PFC application to allow for (i) the addition of four jet gates for the new terminal building, (ii) increasing the amount of PFC-related bond-funded project costs allocated to PFC-eligible elements of the 2003 Project, such that all PFCs collected after January 1, 2005 (plus associated interest earnings) would be used to pay debt service on the Authority’s Bonds, and (iii) modifying the application of PFC-eligible projects to reflect the actual disposition of these moneys during the course of construction of the 2003 Project. These proposed changes would, if approved by the FAA, result in a revised total PFC collection amount of approximately \$120 million. The Authority expects to file the PFC application amendment with the FAA by August 31, 2004, and receive a Final Agency Decision from the FAA regarding its proposed amendment by December 31, 2004. The Authority does not anticipate any factors that will adversely impact approval of its proposed amendments to its third and fourth PFC applications.

The actual amount of PFC revenues received each Fiscal Year will vary depending on the number of qualifying passenger enplanements at the Airport. In addition, the FAA may terminate the Authority’s ability to impose PFCs, subject to informal and formal procedural safeguards, if the Authority’s PFC revenues are not being used for approved projects, if project implementation does not commence within the time periods specified in the FAA’s regulations or if the Authority otherwise violates such regulations. The authority to impose a PFC may also be terminated if the Authority violates certain provisions of the Airport Noise and Capacity Act of 1990. With respect to an airline operating at the Airport which is involved in bankruptcy proceedings, it is unclear whether the Authority would be afforded the status of a secured creditor with regard to PFCs collected or accrued with respect to that airline.

Irrevocable Commitment of Certain PFCs. As stated in its FAD, the FAA approved the imposition and use of \$70,101,624 in PFC revenues for the following PFC-approved elements of the 2003 Project: (1) construction of the new terminal building and related work, (2) construction of the terminal loop roadway, (3) installation of the nav aids and runway lighting, and (4) construction of the parallel taxiway, taxilanes, lighting and related work, in addition to applying a certain amount of PFC revenues for the payment of consulting fees associated with the preparation of the fourth PFC application.

The definition of Revenues in the Master Indenture excludes PFCs, except to the extent included as Revenues by the terms of a Supplemental Indenture, which has not occurred to date. See **Appendix C** –

Definitions. The Authority intends to use PFCs collected under its fourth PFC application to pay the costs of PFC-approved elements of the 2003 Project on a pay-as-you-go basis through the end of Fiscal Year 2004. Pursuant to the First Supplemental Trust Indenture and the Second Supplemental Trust Indenture, from Fiscal Year 2005 through 2008, the Authority has irrevocably committed to annually transfer an amount up to \$2.1 million of PFC revenues from the PFC Fund to pay a portion of the debt service on the Series 2003 Bonds, and transfer the remaining PFC revenues from the PFC Fund to pay a portion of the debt service on the Series 2004 Bonds.

In connection with the irrevocable commitment to transfer the PFC revenues to pay a portion of the debt service on the Bonds, including the Series 2004 Bonds, the Master Indenture provides that the principal and interest to be paid from the PFC revenues so committed shall not be included in calculating Annual Debt Service for purposes of determining compliance with the Rate Covenant and with the requirements for the issuance of additional Bonds (thus reducing the Revenue collection requirement of the Rate Covenant). In the Report of the Airport Consultant, the commitment to use PFC revenues from Fiscal Year 2005 through 2008 to pay a portion of the debt service on the Bonds, including the Series 2004 Bonds, is reflected as a reduction in the Annual Debt Service on the Bonds. The Report of the Airport Consultant assumes the same application of the PFC revenues in Fiscal Year 2009. See **Appendix A** – Report of the Airport Consultant. The Report of the Airport Consultant should be read in its entirety for an explanation of the assumptions and forecasts used therein.

Pursuant to the Indenture, the irrevocable commitment to pay a portion of the debt service on the Bonds with the collected PFCs applies only to the current \$4.50 PFC approval, and not to any PFCs that might be imposed pursuant to future PFC applications. Additionally, this commitment is only for the payment of Annual Debt Service on the Series 2004 Bonds and outstanding Bonds through January 1, 2009. While the Authority expects to extend such commitment beyond January 1, 2009, in the event such commitment is not extended beyond January 1, 2009, airline rates and charges may need to be increased to pay debt service on the Bonds, including the Series 2004 Bonds, and to comply with the Rate Covenant.

Federal Grants

The Airport and Airway Improvement Act of 1982 created a grant program, the Airport Improvement Program (“AIP”) administered by the FAA and funded by the Airport and Airway Trust Fund, which is supported by aviation user taxes. Grants are available to airport operators in the form of entitlement funds and discretionary funds. Entitlement funds are apportioned annually based upon the number of enplaned passengers at individual airports; discretionary funds are available at the discretion of the FAA based upon a national priority system. There can be no assurances as to the amount of such funding the Authority will receive in future years. See **Appendix A** – Report of the Airport Consultant for a detailed summary of AIP grants already received, to be applied for, and expected to be received by the Authority.

On April 15, 2003, the Authority received an LOI from the FAA for costs related to the airfield elements of the 2003 Project. The LOI is for a total of \$44,280,000 in discretionary AIP funding to be received by the Authority over a period of six years, as shown below:

Schedule of LOI Receipts

Federal Fiscal Year	Amount
2004	\$6,680,000
2005	6,660,000
2006	8,340,000
2007	9,130,000
2008	11,300,000
2009	2,170,000
TOTAL	<u>\$44,280,000</u>

A portion of the LOI Receipts is to be applied towards the payment of debt service on the Authority’s Series 2003C Subordinate Bonds (the “**LOI Receipts for the Series C Project**”), and towards the costs of the

LOI approved portions of the 2003 Project on a pay-as-you-go basis. Under the terms of the LOI, the stated intention of the FAA to fund is not an obligation of the United States government, and the LOI is not deemed to be an administrative commitment for funding, except as funds are provided in appropriation acts of Congress. The payment schedule of the LOI also may be changed from time to time by the FAA when occasioned by changes in (a) the actual allowable costs for a project, (b) the time required to complete a project, or (c) the actual or estimated future obligating authority of the United States government, if deemed to be in the best interests of the United States. Furthermore, the Authority must comply with all statutory and administrative requirements applicable to a project, and if it does not comply, the LOI may be revoked.

The Authority's plan of financing assumes that the AIP entitlement and discretionary grants (including the LOI Receipts for the Series C Project) and TSA grant funds will be available to fund certain portions of the 2003 Project. In the event LOI Receipts for the Series C Project to the Airport are lower than those expected, the Authority may need to increase airline rates and charges to pay debt service on the Series 2003C Subordinate Bonds and to comply with the Subordinate Rate Covenant. Additionally, in the event TSA grants to the Airport are lower than those expected, the Authority would seek alternative sources of funding, including the possible issuance of additional debt. See "CERTAIN INVESTMENT CONSIDERATIONS – Dependence Upon Government Grants."

Irrevocable Commitment of Certain LOI Receipts for the Series C Project; Subordinate Bonds.

As stated in its LOI, the FAA approved LOI Receipts to be used to pay for LOI approved portions of the 2003 Project, including the payment of debt service on bonds issued to pay for LOI approved projects. Except for LOI Receipts received in Federal Fiscal Year 2004, the Authority has pledged to use all LOI Receipts for the Series C Project to pay debt service on the Series 2003C Subordinate Bonds.

The definition of Subordinate Net Revenues in the Master Subordinate Indenture excludes LOI Receipts, except to the extent included as Subordinate Net Revenues by the terms of a Supplemental Subordinate Indenture, which has not occurred to date. See **Appendix C – Definitions**. The Second Supplemental Subordinate Trust Indenture requires that beginning in Federal Fiscal Year 2005, the Authority transfer its LOI Receipts for the Series C Project, upon receipt, from the LOI Fund to the Series C LOI Receipts Account in the Subordinate Debt Service Fund. Without further direction from the Authority, the Subordinate Trustee will transfer moneys from the Series C LOI Receipts Account pro rata to the respective Series 2003C Subordinate Debt Service Accounts for the payment of principal of and interest on the Series 2003C Subordinate Bonds.

In connection with the Authority's pledge to use LOI Receipts for the Series C Project to pay debt service on the Series 2003C Subordinate Bonds, the Master Subordinate Indenture provides that the principal and interest to be paid from the LOI Receipts for the Series C Project so pledged shall not be included in calculating Annual Debt Service for purposes of determining compliance with the Rate Covenant under the Master Subordinate Indenture and with the requirements for the issuance of additional Subordinate Bonds (thus reducing the Revenue collection requirements of the Rate Covenant under the Master Subordinate Indenture). In addition, in the Report of the Airport Consultant the pledge to use LOI Receipts for the Series C Project for the payment of debt service on the Series 2003C Subordinate Bonds is reflected as a reduction in the Annual Debt Service on the Subordinate Bonds.

The pledge to pay debt service on the Series 2003C Subordinate Bonds with LOI Receipts for the Series C Project applies only to the current LOI and not to any future LOIs received by the Authority. Additionally, this commitment is only for the payment of Annual Debt Service on the Series 2003C Subordinate Bonds. While the Authority believes that such LOI Receipts for the Series C Project will be received, there can be no assurance that LOI Receipts for the Series C Project will be provided in a timely manner and in the amounts currently contemplated under the LOI. In the event such LOI Receipts for the Series C Project are not received in a timely manner and in the amounts currently contemplated, airline rates and charges may need to be increased to pay debt service on the Series 2003C Subordinate Bonds and to comply with the Rate Covenant under the Master Subordinate Indenture. See also "CERTAIN INVESTMENT CONSIDERATIONS – Dependence Upon Government Grants."

TSA and Commonwealth of Pennsylvania Grants

TSA Grants. In July 2004, the Authority was awarded a TSA grant for \$4 million, to be applied to the cost of security-related elements of the new terminal building. Based on discussions with TSA representatives,

Authority management considers it probable that it will receive additional grants from the TSA for up to \$8.5 million to be applied to the same project element. As of the date of this Official Statement, however, the TSA has made no formal written commitment to provide any additional grant funding to the Authority.

Commonwealth Grants. The Authority is eligible for, and receives, several forms of grant funding from the Commonwealth of Pennsylvania. On May 20, 2003, the Authority received a grant for \$1,341,000 from the Pennsylvania Department of Transportation, Bureau of Aviation, to fund costs associated with airfield elements of the 2003 Project. This grant was applied to the costs of the Nav aids and Runway Lighting and Parallel Taxiway projects. On April 20, 2004, the Authority received an additional grant for \$1,425,000 from the same source for construction of the new terminal building. In June 2003, the Authority filed an application with the Bureau of Aviation for an additional grant of \$1,321,000 for work associated with the construction of the Aircraft Parking Apron project. This grant application has not yet been approved by the Bureau of Aviation.

Moreover, each fiscal year the Commonwealth enacts a capital budget act to provide funds for public improvement projects, transportation assistance projects, and redevelopment projects, in addition to various other projects, within the Commonwealth. Subsequently, a second legislation is enacted which itemizes the projects eligible for funding (the “**Commonwealth Capital Budget Act**”). To qualify for the funds, a construction contract for the eligible project must be executed within four years of the effective date of the Commonwealth Capital Budget Act. Under the Commonwealth Capital Budget Acts for fiscal years 2001-2002, a combined total of \$23 million was approved for elements of the 2003 Project, other capital improvements at the Airport, and capital improvements at Capital City Airport. While approved and itemized under the Commonwealth Capital Budget Acts, these grant amounts are not binding upon the Commonwealth and are subject to disbursement by the Governor of the Commonwealth.

On April 20, 2004, the Authority received a grant from the Commonwealth under this legislation for \$2,720,000 to be applied towards the costs of construction of the new terminal building. As of the date of this Official Statement, the Authority has not yet applied for the additional \$10 million in grant funding. While Authority management believes that such funds will be received, no assurance can be given that such grant funding will be available to the Authority. See “CERTAIN INVESTMENT CONSIDERATIONS – Dependence Upon Government Grants.”

AIRPORT AGREEMENTS

The Authority has entered into, and receives payments under, agreements with airlines and other parties, including lease and use agreements relating to landing fees and the leasing of space in the terminal building at the Airport, other building and miscellaneous leases relating to the leasing of cargo and hangar facilities at the Airport, concession agreements relating to the sale of goods and services at the Airport, and parking and car rental agreements.

Airline Agreement

The Authority has entered into a substantially similar Airline Agreement (which relates to the terminal lease and airline operations) with the following passenger airlines serving the Airport: Allegheny Airlines, American Airlines, American Eagle, Atlantic Coast Airlines, Comair, Continental Express, Mesaba Airlines, Northwest Airlines, United Airlines, and US Airways; and has entered into a substantially similar Airline Agreement (which relates to only airline operations) with the following all-cargo airlines serving the Airport: Airborne/DHL, Emery Worldwide, FedEx, and UPS Air Cargo (the passenger and all-cargo airlines collectively, the Signatory Airlines). The term of the Airline Agreement extends through December 31, 2004. Subsequent to that date, the Airline Agreement may be held over on a month-to-month basis until terminated by the Authority on 30-days written notice. The Signatory Airlines account for approximately 98% of the airline activity at the Airport.

The current Airline Agreement provides for a compensatory rate-making methodology to calculate Main Terminal and Commuter Concourse rental rates. The Signatory Airlines pay Main Terminal and Commuter Concourse rentals calculated to recover the average cost of each square foot of space the Signatory Airlines occupy and use. Under the compensatory rate-making methodology, no revenues accrue to the Airport for unoccupied rentable space.

A cost center residual ratemaking methodology is used to calculate landing fee rates. Landing fees are paid on the basis of aircraft landed weight (in 1,000 pound units), and are calculated to recover the fully allocated operating and capital costs of the airfield, after allowing credits for other airfield revenues received (including ramp fees and fuel flowage fees). Such net costs are allocated among the Signatory Airlines on the basis of landed weight.

As of January 1, 2002, the Authority, after informal consultation with the Signatory Airlines, modified and streamlined the airline rates and charges schedule of the Airline Agreement. The new schedule of fees and charges reduces the number of individual fees levied on the Signatory Airlines at the Airport from eleven to four, and includes the addition of a ramp fee per square foot of terminal and cargo apron area occupied by the Signatory Airlines. The modifications made by the Authority did not change the methodology used to calculate the landing fee or the Main Terminal and Commuter Concourse rental rates. All Signatory Airlines have been paying rentals, fees, and charges under the new structure since January 1, 2002, and all (except for United Airlines as it relates to the airline's pre-bankruptcy petition amounts) are current in their payment. Under the Airline Agreement, the Authority has the obligation to notify the Signatory Airlines of proposed capital improvements at the Airport. The Authority may consider the comments of the Signatory Airlines, but implementation of capital improvements at the Airport is not contingent upon receiving any type of approval from the Signatory Airlines. Also, the existing Airline Agreement does not, and the proposed new Airline Agreement (as discussed below) will not, contain a majority-in-interest approval provision for implementation of capital improvements at the Airport.

Authority Cost Centers. In the current Airline Agreement, the Authority has established six cost centers to track revenues and expenses related to the Airport System, as follows:

- **Airfield Area.** The Airfield Area cost center is composed of all runways, taxiways, approach and runway protection zones, safety areas, infield areas, all noise mitigation facilities or costs, landing and navigational aids, and aviation easements; aircraft parking aprons for both cargo and passenger aircraft; fixed base operator facilities, airfield maintenance facilities, and aircraft maintenance facilities. Cargo buildings, hangars and remain overnight aircraft parking facilities are also included in this cost center.
- **Terminal Building Area.** The Terminal Building Area cost center includes the passenger terminal building and associated frontage road, landscaped areas, and curbside entrance areas. This cost center currently consists of two sub-cost centers—the Main Terminal and the Commuter Concourse. Upon completion of the new terminal building, the use of a separate Commuter Concourse will be discontinued, and all passenger aircraft operations will be processed in the new main terminal building as an international passenger arrivals processing center (the International Arrivals Building).
- **Landside Area.** The Landside Area cost center includes access and egress roads to and from the Airport, other circulation roads on Airport property, public and employee parking facilities, the SmartPark lots, rental car parking and service facilities, rental car ready/return areas and storage facilities, and taxicab service areas. The new Multimodal Transportation Center and the Amtrak Station will both be part of the Landside Area cost center.
- **Industrial Park.** The Industrial Park cost center at the Airport is composed of a series of industrial and commercial buildings northwest of the current terminal building. Because several of these buildings were demolished to make way for the new terminal building, the Authority intends to eliminate the Industrial Park as a separate cost center, and include any remaining facilities in the Landside Area cost center upon expiration of the existing Airline Agreement.
- **Utilities Services.** The Utilities Services cost center encompasses the facilities used to provide water and sewer services at the Airport.
- **Capital City Airport.** All Revenues, Maintenance and Operation Expenses, and capital improvements associated with Capital City Airport are included in this cost center. Under the existing Airline Agreement, revenues and costs associated with Capital City Airport are excluded from the calculation of Signatory Airline rentals, fees, and charges. Under the proposed new Airline Agreement (as discussed below) this would continue to be the case, although operating deficits (if any) at Capital City Airport would cause the amount annually deposited in the Revenue Credit Account to be reduced.

- The Authority has established a cost center for Franklin County Regional Airport similar to the cost center for Capital City Airport.

Proposed New Airline Agreement. The Authority is currently in discussions with the Signatory Airlines regarding a new Airline Agreement. The Authority proposes to adopt an airline rate-making methodology substantially similar to that currently in place at the Airport, except for the following factors:

- The terminal building rental rate would be calculated on a commercial compensatory basis, rather than a pure compensatory basis, as is currently the case. Under a commercial compensatory formula, total costs for the terminal building area are divided by the amount of rentable space in the terminal (both airline and other tenant rentable space) to obtain the rental rate per square foot. Under a pure compensatory rate-making methodology, usable space in the terminal is the divisor to obtain the rental rate.
- Because the Commuter Concourse is being eliminated, there would be no Commuter Concourse subcost center or rental rate.
- Certain threshold amounts would be deposited annually into the Coverage Account, Capital Improvement Account, and Revenue Credit Account. Any amounts remaining after deposits to the Revenue Credit Account have reached \$500,000 are to be divided as follows: (a) 50% to the Capital Improvement Account for use by the Authority for any lawful purpose, and (b) 50% to the Revenue Credit Account. Revenue Credit Account balances would then be applied to reduce landing fees and terminal rentals for the following Fiscal Year.

The Authority intends to implement the new Airline Agreement as soon as possible after DBO of the new terminal building (estimated to be August 29, 2004 to be applied retroactively to DBO). However, such implementation of the new Airline Agreement may be unsuccessful if the Signatory Airlines challenge the actions of the Authority to revise the current Airline Agreement before its expiration. If the new Airline Agreement does not take effect after DBO of the new terminal building, the Authority intends to implement the new Airline Agreement as of January 1, 2005. The Authority intends to implement the revised rental rate calculation methodology for the new terminal building (as described above) as well as the new gate use fees and aircraft parking charges as of DBO of the new terminal building on the basis of a rate resolution to be adopted by the Authority. In the event that the Authority and the Signatory Airlines cannot reach agreement on implementation of the new Airline Agreement, the full revised airline rate-making methodology would be implemented on January 1, 2005, also on the basis of a rate resolution to be adopted by the Authority. While Authority management has already discussed its proposed rate implementation strategy with the Signatory Airlines, in the event that the Authority and the Signatory Airlines cannot reach a formal agreement on a new airline rate-making methodology or the timing of its introduction, the Signatory Airlines could, potentially, challenge the reasonableness of the Authority's revised airline rate-making methodology under the U.S. Department of Transportation's rates and charges review process.

Non-Airline Agreements

Major sources of nonairline revenues include terminal building concessions, TSA rentals, public automobile parking, automobile rentals, company privilege fees and space rentals, building and ground rentals, and revenues generated from Capital City Airport. Additionally, on January 1, 2004, the Authority instituted a Customer Facility Charge (“CFC”) for automobile rentals at the Airport. The Authority also expects to collect rental revenues from the TSA for certain categories of space that the TSA will occupy in the new terminal building. See **Appendix A** – Report of Airport Consultant for a more detailed discussion of the Authority's proposed rental arrangement with TSA.

Terminal Building Concession Agreements. The most significant sources of terminal building concession revenues are food and beverage and news and gift. As part of the development of the new terminal building, the Authority is significantly upgrading and enhancing terminal building concession services. The new terminal building will encompass approximately 14,000 square feet of concession space. In January 2002, the Authority entered into separate agreements with Hudson Group and Air Terminal Services, Inc. (doing business as “CAOne”) for the provision of concession services in the terminal building. Hudson Group operates and manages the news and gift concession under a 15-year agreement that expires on January 6, 2017. Hudson Group pays the Authority 10% of the first \$1.5 million in gross sales, with higher percentages (up to 15%) on a

sliding scale on amounts above that level. Hudson Groups will also operate a Hershey's Chocolate World store in the new terminal. CAOne's contract to manage and operate food and beverage services in the terminal was for a term of 27 months through March 1, 2004, which was subsequently amended to extend through June 27, 2004. The agreement called for CAOne to remit to the Authority an amount equivalent to the net income from operation of the food and beverage concession, less a service fee equivalent to 10% of gross sales for managing the concession. The Authority was responsible for any losses in the food and beverage concession operations. The food and beverage concession operations operated at a loss in 2003. According to an agreement expected to be executed by the Authority, on June 27, 2004 Anton Airfoods, Inc. ("**Anton Airfoods**") took over the operation of the food and beverage facilities in the existing terminal for a two-month period; and, upon DBO of the new terminal building (expected date to be August 29, 2004) Anton Airfoods will operate certain food and beverage concessions in the new terminal building, including two full service restaurants. The Authority also expects to contract with McDonald's Corporation for the operation of a McDonald's restaurant as well as a Hershey Ice Cream outlet and a Bucks County Coffee outlet; and with a local company for the operation of a Pennsylvania Perfect store (involving the sale of Pennsylvania-themed gifts and wines).

Public Parking Agreements. Parking facilities at the Airport currently encompass 4,102 surface public parking spaces: 522 spaces in the contiguous short-term and daily lots directly adjacent to the existing terminal building, and 3,580 spaces in the long-term economy lot known as "SmartPark." As of September 15, 2002, the Authority reduced the number of parking spaces in the lot adjacent to the existing terminal building by 333 spaces (to 522 spaces) to make way for the initiation of construction activity on the new terminal building and Multimodal Transportation Center. Also as of that date, the daily parking rate in the SmartPark lot was increased from \$3 to \$5. The daily rates were increased from \$12 to \$48 in the short-term lot, and from \$12 to \$17 in the daily lot. A significant element of the Capital Program is the Construction of the four level Multimodal Transportation Center, encompassing 2,700 public parking spaces. Upon completion of this project, there will be 6,780 public parking spaces at the Airport. The Authority currently intends to set daily rates of \$15 in the new parking structure, \$8 in the adjacent surface lot, and to maintain the SmartPark rate at \$5 daily.

On November 26, 2003, the Authority approved the imposition of a privilege fee (equal to 10% of gross revenues) on the operator of an off-Airport parking facility, Cramer Auto Parking, Inc. ("**Cramer Auto Parking**"), located adjacent to the Airport, approximately one mile from the new terminal building. All revenues generated from vehicle parking facilities at the Airport, including the off-Airport parking facility managed and operated by Cramer Auto Parking, are included in the definition of Revenues in accordance with the Master Indenture.

Rental Car Agreements. The Authority had agreements — which expired on December 31, 2002 — with seven rental car companies. The Authority has entered into letter agreements with the seven companies to extend those agreements through DBO of the Multimodal Transportation Center. Avis, Hertz, National and Thrifty currently operate on-Airport facilities and pay a privilege fee of 10% of gross revenues. Alamo, Budget, and Enterprise currently operate from off-Airport facilities, and also pay a privilege fee of 10% of gross revenues. On May 27, 2004, the Authority approved agreements with six rental car companies (Avis, Budget, Hertz, Enterprise, National, and Thrifty) to operate on-Airport and rent space on the ground floor of the Multimodal Transportation Center, subsequent to its DBO (currently expected to be August 29, 2004). Rental car company operations at the Airport (encompassing ready/return spaces, customer service counters, and office space) are accommodated on the ground floor of the new facility. In all, the six rental car companies operating on-Airport are expected to rent approximately 164,000 square feet of ready/return space at an annual rental rate of \$1.20 per square foot, plus approximately 1,477 square feet of office space at an annual rental rate of \$60 per square foot. These six companies (as well as Dollar and Alamo, which will operate from off-Airport locations) will continue to pay a privilege fee of 10% of gross revenues to the Authority. The Authority instituted a CFC of \$2.00 per rental contract day on January 1, 2004. See **Appendix A** – Report of Airport Consultant for a more detailed discussion of the Authority's proposed rental car business arrangements.

Miscellaneous Agreements. The Authority collects building and ground rentals from various Airport properties, which are rented to third parties (including properties for hangars, cargo facilities, and industrial and commercial purposes). Revenues from Capital City Airport primarily encompass ground rentals and commissions (including FBO commissions).

FINANCIAL INFORMATION

General

The Authority maintains its financial records on a calendar year basis, using the accrual method of accounting. Financial statements are audited annually by a firm of independent certified public accountants. Financial statements for the years ended December 31, 2003 and 2002 are included in this Official Statement as **Appendix B**.

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Summary of Operations

Set forth below is a summary of operations and changes in retained earnings of the Authority for the most recent five years ended December 31, 2003.

Susquehanna Area Regional Airport Authority					
Summary of Operations					
Year Ended December 31,					
	1999	2000	2001	2002 ⁽¹⁾	2003
Operating Revenues:					
Landing Fees	\$2,605,470	\$ 2,630,105	\$2,127,422	\$ 2,031,809	\$2,151,314
Concession Fees	372,934	364,925	333,068	38,578	31,477
Parking Fees	3,900,996	3,884,856	3,369,383	4,054,319	4,591,329
Car Rental Fees	1,577,484	1,429,099	1,470,590	1,475,936	1,430,120
Facilities Rental	4,041,274	4,132,945	4,631,647	4,027,443	3,837,458
Other Income	<u>2,001,627</u>	<u>2,209,106</u>	<u>2,137,675</u>	<u>2,258,068</u>	<u>2,051,171</u>
Total Operating Revenues	<u>14,499,785</u>	<u>14,651,036</u>	<u>14,069,785</u>	<u>13,886,153</u>	<u>14,092,869</u>
Operating Expenses:					
Salaries, Wages, Taxes & Employee Benefits	5,763,229	6,039,510	6,373,578	6,739,007	6,951,884
Professional/Consulting Fees	1,161,028	439,690	599,261	321,481	379,826
Marketing	—	402,763	556,905	1,166,234	1,125,972
Insurance	266,066	274,625	385,827	469,732	566,537
Utilities	778,507	829,596	869,536	853,532	973,998
Repairs and maintenance	722,897	708,035	817,524	583,469	756,513
Supplies, parts and other	1,248,109	1,475,303	1,484,962	1,609,146	2,075,726
Management Fees	568,606	581,716	329,728	60,000	79,068
Contract termination	—	—	1,095,748	—	—
Depreciation	<u>4,181,234</u>	<u>4,664,987</u>	<u>4,911,772</u>	<u>6,213,296</u>	<u>4,664,919</u>
Total Operating Expenses	<u>14,689,676</u>	<u>15,416,225</u>	<u>17,424,841</u>	<u>18,015,897</u>	<u>17,574,443</u>
Operating Loss	<u>(189,891)</u>	<u>(765,189)</u>	<u>(3,355,056)</u>	<u>(4,129,744)</u>	<u>(3,481,574)</u>
Non-operating revenues (expenses):					
Investment income	132,952	136,990	75,455	29,850	19,515
Restricted investment income	580,423	876,395	570,972	89,587	11,336
Miscellaneous bond expense	—	—	(3,424)	—	—
Interest Expense	(1,502,192)	(1,504,877)	(1,102,965)	(623,165)	(1,183,206)
Refund to airlines	—	—	—	—	—
Passenger facility charges collected, including interest	—	—	1,644,580	1,967,140	2,694,238
Airport Improvement Grants	—	—	2,851,310	11,811,361	22,677,244
Gain (Loss) on disposal of equipment	—	—	—	(11,346)	1,652
Net non-operating expenses	<u>(788,817)</u>	<u>(491,492)</u>	<u>4,035,928</u>	<u>13,263,427</u>	<u>24,220,779</u>
Decrease in Retained Earnings	(978,708)	(1,256,681)	—	—	—
Increase in Retained Earnings	—	—	—	—	—
(Increase in net assets for 2003)	—	—	680,872	9,133,683	20,739,205 ⁽²⁾
Amortization of contributed capital	<u>2,904,520</u>	<u>3,025,570</u>	<u>2,844,642</u>	<u>3,363,010</u>	— ⁽²⁾
Increase in retained earnings	—	—	—	—	—
(Increase in net assets for 2003)	1,925,812	1,768,889	3,525,514	12,496,693	20,739,205 ⁽²⁾
Retained earnings, beginning of year	—	—	—	—	—
(Net Assets-beginning of year for 2003)	<u>33,155</u>	<u>1,958,967</u>	<u>3,727,856</u>	<u>7,253,370</u>	<u>56,638,574⁽²⁾</u>
Retained earnings, end of year	<u>\$1,958,967</u>	<u>\$3,727,856</u>	<u>\$7,253,370</u>	<u>\$19,750,063</u>	<u>\$77,377,779⁽²⁾</u>
(Net Assets-end of year for 2003)	—	—	—	—	—

(1) The 2002 Summary of Operations agrees with the Authority's Financial Statements for that year. These statements were before the implementation of Government Accounting Standards Board Statement Number 34. The statement is available on the Authority's website, www.flyhia.com, or upon request to the Authority.

(2) The Authority implemented Government Accounting Standards Board Statement Number 34 in 2003. The statement this was summarized from is entitled "Statement of Revenues, Expenses, and Changes in Fund Net Assets". In prior years the statement was entitled "Statement of Revenues, Expenses, and Changes in Retained Earnings". Amortization of contributed capital is no longer recognized in 2003. See **Appendix B** for a complete set of audited financial statements.

Source: Audited financial statements of the Authority. See also **Appendix B** for a complete set of audited financial statements.

Management Discussion of Airport Finances

Fiscal Year 1999. Operations of the Airport System in 1999 saw a total operating revenue increase by \$1,329,709 over 1998 including revenue growth in concession fees of 6.7%, parking fees of 7.7%, car rental fees of 8.0%, and facility rentals of 7.4%. Revenue grew even as enplanements dropped by 3.5%. Total operating expenses increased due to an approximately \$1,000,000 increase in personnel costs because of the addition of police and fire officers and the generally low level of Airport staffing in 1998. Retained earnings of the Authority increased by \$1,925,812 for 1999.

In 1999, the Authority purchased two parcels of land immediately adjacent to the Airport for Airport use. The Crawford Station site of 64 acres was purchased for a nominal amount and includes several industrial structures. The Bethlehem Steel site of 48 acres was purchased for \$1,973,000. Prior environmental studies have shown that Crawford Station may contain asbestos which must be remediated prior to the building's demolition or use, at an estimated cost of \$2,000,000. This estimated remediation cost was accounted for as part of the acquisition cost of the site and was reported as a liability on the Authority's balance sheet. Both the Crawford Station and Bethlehem Steel sites were purchased to expand the developable Airport land area. The Authority determined that approximately 16 acres of land was not required for Airport operations and subsequently booked \$507,500 as land for resale.

Fiscal Year 2000. In 2000, total operating revenues grew \$151,251, a 1% increase even as enplanements dropped by 7%. Retained earnings increased by \$1,768,889 for 2000, of which \$1,013,385 was attributable to investment income.

Prior to 2000 all marketing and public relations expenses were accounted for in professional and consulting fees. In 2000 the Authority increased the marketing efforts of the Airport in an attempt to off set the continuing loss of enplaned passengers. The marketing expenses became material and were reported separately on the Authority financial statements.

The purchase of three fire fighting vehicles, rehabilitation of the Airport cargo apron, purchase of snow removal equipment, and rehabilitation of the Capital City Airport apron are examples of investments made during 2000. The Authority also purchased a 60,000 square foot hanger previously owned by Tyco Electronics for \$1,500,000 and leased it to a new FBO. Because of further environmental assessments of existing buildings at the Airport, the accrual for environmental remediation obligations for Crawford Station and other industrial buildings on the Airport was increased to \$2,370,000.

Fiscal Year 2001. In 2001, total operating revenues dropped \$581,251 due to declines in landing fees, parking fees and other income. This loss of revenues was primarily as a result of the decline in air travel following the terrorist attacks of September 11, 2001 and the declining national economy. These revenue losses were offset by facility revenue increases of \$498,702, which is attributable to increased terminal rentals. Both investment income and restricted investment income decreased due to significantly lower interests rates and the use of Airport investments to fund the Capital Program.

Operating expenses for 2001 were primarily impacted by the termination of the BAAH Management Contract. The Authority incurred extraordinary contract termination expenses totaling \$1,095,748, including \$536,999 in management fees paid to BAAH and \$558,749 in associated legal fees. Employee and repair and maintenance expenses increased because of the impacts of increased security measures at the Airport due to the events of September 11, 2001. Marketing expenses also increased due to the initiation of a media campaign to off set the enplanement losses caused by the events of September 11, 2001.

In 2001, the Authority adopted the provisions of the Government Accounting Standards Board ("GASB") Statement 33, which requires the Authority to recognize capital contributions as non-operating revenues, not contributed capital. Contributed capital, and the related amortization, arising from periods prior to implementation of GASB Statement 33 continue to be recognized as originally presented and the balance sheet and statement of revenues, expenses and changes in retained earnings have not been restated as of and for year ended December 31, 2000 in accordance with the implementation provisions of GASB Statement 33. The impact of this change is that PFCs and government grants are reported on the Authority financials as non-operating revenues for 2002 and 2003.

Fiscal Year 2002. Operating revenues decreased \$183,632 for 2002 in comparison to 2001. This decline in operating revenues is due to: lower landing fees of \$95,613 caused by the reduction in aircraft size at the Airport; concession fees decreasing \$294,490 because of a change in the food concession contract from a minimum concession fee to a fee for management services agreement; and, facilities rentals decreasing \$604,204 due to lower terminal rentals and the loss of Industrial Park tenants because of the demolition of buildings in preparation for the construction of portions of the Capital Program. These decreases were partially offset by increases in parking fees, rental car fees and other income.

The 2002 operating expenses increased \$591,056 in comparison to the same period in 2001. The increase in operating expenses was due to an increase in depreciation expenses of \$1,301,524 and a \$609,329 increase in marketing expenses. The 2002 marketing program included a consistent, theme-oriented media campaign, both in print and on radio, and marketing to airlines for new service and lower fares at the Airport. Authority operating expenses for 2001 include the BAAH Management Contract termination expense as described above.

As part of the Capital Program, various fixed assets have been demolished, impaired or discontinued in use. Authority management has shortened the useful lives of these assets to correspond to the construction schedule. The major assets affected are Concourse B, general aviation taxiways and the flight information display system. The effect of these impairments is a reduction of retained earnings of \$455,945 during the year ended December 31, 2002, which is comprised of additional depreciation expense of \$1,059,587 net of the corresponding grant and PFC amortization of \$603,642.

Fiscal Year 2003. Operating revenues increased 1.5% due to higher landing fee rates for 2003 and increased parking revenues. In September 2002 parking rates were raised and 2003 was the first complete year of increased parking rates. Expenses decreased by 2.5%. Depreciation decreased 24.9% mostly due to the 2003 adoption of an optional infrastructure asset reporting system used for the airfield pavement at the Airport. With the new system no depreciation is recorded for the class of assets using this modified approach. The new baggage handling service provided by EDS machines cost the Authority an additional \$454,000 in 2003. On May 8, 2003, the Authority issued Bonds and Subordinate Bonds in the amount of \$179,030,000 to (i) partially fund the 2003 Project, (ii) refund the Authority's existing revenue notes, (iii) defease and redeem the Dauphin County General Authority's Revenue Bonds, (iv) pay debt service on the Bonds and Subordinate Bonds, (v) fund deposits to the Debt Service Reserve Fund with respect to the Bonds and Subordinate Bonds, and (vi) pay cost of issuance associated with the Bonds and Subordinate Bonds. As of January 1, 2003, the Authority began collecting \$4.50 PFCs from eligible passengers. This PFC increase, along with increased federal and state grants received for the Capital Program, accounted for increases in non-operating revenues. For a more complete management's discussion and analysis for Fiscal Year 2003, see the audited financial statements of the Authority in **Appendix B** hereto.

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Operating Revenue Diversity

The following table sets forth the top ten operating revenue providers for the Authority for Fiscal Year 2003.

**Susquehanna Area Regional
Airport Authority
Top Ten Operating Revenue Providers
(for the year ended December 31, 2003)**

1. Auto Parking Facilities – All Sources
2. US Airways/Allegheny Airlines
3. Delta Airlines/Comair
4. Hertz Corporation
5. Aero Services International
6. United Airlines
7. Northwest Airlines/Pinnacle Airlines/Mesaba Airlines
8. Barbush Rentals dba Avis Car Rental
9. American Airlines
10. Federal Express

Source: Susquehanna Area Regional Airport Authority

Operating Leases

The Authority leases space at the Airport and Capital City Airport on a fixed fee as well as contingent rental basis. Minimum future rentals on noncancelable leases to be received in each of the next five years and thereafter, as of December 31, 2003, are as follows:

Year	Airline Agreements	Other Leases	Total
2004	\$2,998,342	\$ 1,301,778	\$ 4,300,120
2005	—	1,099,134	1,099,134
2006	—	1,043,589	1,043,589
2007	—	824,478	824,478
2008	—	539,913	539,913
2009-20013	—	2,743,736	2,743,736
2014-2018	—	2,163,926	2,163,926
2019-2023	—	1,464,198	1,464,198
2024-2028	—	1,106,661	1,106,661
2029-2033	—	817,330	817,330
2034-2038	—	76,150	76,150
Total	<u>\$2,998,342</u>	<u>\$ 13,180,893</u>	<u>\$ 16,179,235</u>

Pension and Retirement Plans

The Authority established a 401(a) retirement plan (the “**Plan**”) for its employees. All full time employees are eligible to participate. The Plan is entirely funded through Authority contributions amounting to eight percent of full-time employee salary and wages for employees hired prior to May 1, 2003. Full-time employees hired after May 1, 2003 only receive Authority contributions amounting up to four percent of employee salary and wages if it is matched by the employee’s contributions to the Contribution Plan (as defined herein) The Authority’s contributions to the Plan amounted to \$323,873 in 2002 and \$352,922 in 2003. The Authority also established a 457(b) defined contribution plan (the “**Contribution Plan**”) for the benefit of all of its employees. This Contribution Plan allows for employees to elect to make contributions either in a dollar

amount or percentage not exceeding fifteen percent of the employee's total salary or wages. The Authority does not make any employer contributions to this Contribution Plan.

Property and Casualty Insurance

The Authority maintains property and casualty insurance, including Airport System liability insurance to protect its operations. The Airport System's real and personal property are insured based on a total loss limit of \$25,000,000 per occurrence (including earthquakes and floods). The Airport System's motor vehicles are insured based on a total loss limit of \$1,000,000 per occurrence for bodily injury and property damage. The Authority maintains reasonable and customary liability insurance for its directors and officers and police professionals. The Authority maintains liability insurance to cover liabilities arising out of the Airport System's operations. A \$100,000,000 per occurrence liability limit is currently provided with various aviation specific sub-limits. The Authority no longer has insurance for war casualty or terrorist acts. The Authority was insured on September 11, 2001, but that coverage was terminated as a result of the events of September 11, 2001 and has not yet been replaced because, as of the date of this Official Statement, such insurance is not available at reasonable costs and in meaningful amounts. See also "CERTAIN INVESTMENT CONSIDERATIONS – Unavailability of Certain Insurance Coverage."

Investment Policy

The Master Indenture permits the Authority to invest Airport System funds in Permitted Investments as defined therein. See **Appendix C** – Definitions. In addition to the Master Indenture, Pennsylvania statutes require that all Authority funds be deposited in government-insured accounts in banks or thrifts, and state that such funds may not be deposited in financial institutions located in states other than the Commonwealth. Permissible investments include obligations of the U.S. Treasury and its agencies, domestic certificates of deposit, commercial paper with prescribed ratings, and repurchase agreements. The term of investment and the financial institutions used for investment purposes are determined based upon operating and other needs of the Authority. See also "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004 BONDS— Permitted Investments."

AIRPORT SYSTEM ENVIRONMENTAL MATTERS

Portions of the Capital Program require approval by the FAA to use federal grant funds and are subject to environmental review and approval as required by the National Environmental Policy Act ("NEPA"). The nature of the review depends on the potential for a project or a group of interrelated projects to produce a significant impact on the natural or human environment. The three levels of NEPA review are categorical exclusions, environmental assessments, and environmental impact statements ("EIS").

The categorical exclusion is a determination by the FAA that the action or project falls into one or more categories of action that the FAA has identified, based on its experience, as having minimal likelihood of causing a significant impact. Examples include replacement of airfield paving and extension of a taxiway. The environmental consideration for a project that is within a category that is normally excluded from review includes a determination of whether there are any extraordinary circumstances that would cause the project to be reviewed. An example of an extraordinary circumstance might be when an action is highly controversial on environmental grounds, and there is no agreement on the effect on the environment.

An environmental assessment is a formal detailed evaluation of environmental impacts to determine whether a proposed action is likely to have a significant impact. It involves a consideration of alternative actions and the process includes an opportunity for public review and comment. The outcome of an environmental assessment is either a "Finding of No Significant Impact" or a decision that an EIS is required.

An EIS is prepared by the FAA when there is a federal action with a potentially significant impact on the quality of the natural or human environment. Public involvement is required to determine the scope of the environmental review and the issues and alternatives to be addressed. A draft EIS is published for public review and comment, including a public hearing. The FAA then prepares a final EIS and eventually makes a decision on the project.

Portions of the Capital Program are categorically excluded from further environmental review. An environmental assessment was prepared for certain projects at the Airport including the new terminal building, the parallel taxiway, and localizer relocation. The environmental assessment resulted in a "Finding of No Significant Impact" by the FAA on December 31, 2001, which was confirmed by the FAA on September 27, 2002. Therefore an EIS is not required for any current projects at the Airport.

On April 16, 1997 PennDOT, the Pennsylvania Department of Environmental Protection ("DEP"), and the U.S. Department of Environmental Protection entered into a Memorandum of Understanding ("MOU") that required PennDOT to operate a water treatment facility and comply with other institutional controls. As a result of the Authority's taking over the ownership and operation of the Airport, the Authority must operate a water plant and pump a minimum volume of ground water from several wells on the Airport property to control a plume of ground water contamination that exists on the Airport property. Well water that is pumped is treated, and subsequently sold to Airport and off-Airport tenants as potable water. As provided in the MOU, in the event that the Authority reduces the production of the amount of well water pumped by 25%, the Authority must notify DEP, and DEP may require the implementation of a groundwater monitoring program, including, but not limited to, sampling and analysis of the Airport's wells. The Authority believes it has operated the water plant and pump in accordance with the MOU.

In 1999, the Authority purchased two parcels of land immediately adjacent to the Airport: the Crawford Station site of 64 acres (including several industrial structures) and the Bethlehem Steel site of 48 acres. Prior environmental studies have shown that Crawford Station contains asbestos which requires remediation prior to the building's demolition or use. This remediation and demolition of Crawford Station is included in the Capital Program, and the Authority expects to begin such remediation and/or demolition in the near future. The estimated remediation cost was accounted for as part of the acquisition cost of the Crawford Station site and is reported as a liability on the Authority's balance sheet.

A new sewage treatment plant for the Airport, which will replace the current sewage treatment plant (originally built in 1941), is in the design phase (60% complete) and the Authority expects to begin construction in Fiscal Year 2005. The new sewage treatment plant is designed to handle a flow of 350,000 gallons per day.

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Series 2004 Bonds may involve investment risk. Prospective purchasers of the Series 2004 Bonds should read this Official Statement in its entirety. The factors set forth below, among others, may affect the security for the Series 2004 Bonds.

Levels of Airline Traffic and Financial Condition of the Airlines

Even before the events of September 11, 2001, a number of airlines were experiencing financial difficulties and, since the events of September 11, 2001, most airlines have been downgraded by the rating agencies, numerous airlines have filed for bankruptcy protection (as discussed in "—Effect of Airline Bankruptcies" below) and most airlines that have not filed for bankruptcy protection have reported continuing financial difficulties. In response to the events of September 11, 2001, the economic slowdown, the ongoing hostilities in Iraq and elsewhere in the Middle East and the SARS outbreak in 2003 and in an effort to stem mounting financial losses, most major airlines reduced flight schedules and instituted significant employee layoffs. Most airlines, including US Airways, have also retired old, less efficient aircraft and replaced larger aircraft with small, regional jet aircraft on selected routes, resulting in an additional reduction in scheduled seat capacity. Additionally, recent international flight cancellations due to security concerns and heightened threat levels declared by the Department of Homeland Security have reduced airline traffic. Although passenger traffic at the Airport declined by 1% in 2003 as compared to 2002, passenger traffic for the U.S. overall declined - 2.7% in 2003 as compared to 2002. The Authority cannot predict with any certainty what the impact is likely to be on any of the airlines operating at the Airport, or the potential that these incidents or the reduction in activity may cause airlines to file for bankruptcy protection or cease operations. Further, the Authority cannot predict the likelihood of future incidents similar to the events of September 11, 2001, the likelihood of future air transportation disruptions or the impact on the Authority or the airlines operating at the Airport from such incidents or disruptions. See "—Effect of Airline Bankruptcies" below.

Key factors that affect airline traffic at the Airport and the financial condition of the airlines, and, therefore, the amount of Net Revenues available for payment of the Series 2004 Bonds, include: local, regional, national and international economic and political conditions; international hostilities; world health concerns; aviation security concerns; airline service and routes; airline airfares and competition; airline industry economics, including labor relations; availability and price of aviation fuel; capacity of the national air traffic control and airport systems; capacity of the Airport and competition from other airports; and business travel substitutes, including teleconferencing, videoconferencing and web-casting. Many of these factors, most of which are outside the Authority's control, are discussed in further detail in the Report of the Airport Consultant. If aviation activity and enplaned passenger traffic at the Airport do not meet forecast levels, a corresponding reduction could occur in forecasted Net Revenues. See "REPORT OF THE AIRPORT CONSULTANT" herein and "**Appendix A** – Report of the Airport Consultant. The Report of the Airport Consultant should be read in its entirety for an explanation of the assumptions and forecasts used therein.

Effect of Airline Bankruptcies

General. The profitability of the airline industry has deteriorated since 2000, with many airlines reporting substantial financial losses and several airlines filing for bankruptcy protection, due not only to the events of September 11, 2001, but also to a general economic slowdown, which commenced prior to the events of September 11, 2001, increased aviation fuel costs, weather conditions, labor disruptions and other factors. Since December 2000, some airlines filing for bankruptcy protection include, National Airlines (which did not operate at the Airport and eventually ceased operations); Trans World Airlines ("TWA") (which was integrated into American after substantially all of TWA's assets and certain liabilities were purchased by American); Midway Airlines (which did not operate at the Airport and eventually ceased operations); US Airways (which emerged from bankruptcy protection on March 31, 2003); United (which continues to operate from the Airport while it reorganizes under bankruptcy protection); and Air Canada (which continues to operate from the Airport while it reorganizes under bankruptcy protection). As a result of US Airways emerging from bankruptcy on March 31, 2003, the US Airways' pre-reorganization and post-reorganization financial statements are not comparable and the airline is required to report its results for the first three months and the last nine months of 2003 separately. US Airways reported a net operating loss of \$207 million for the three months ended March 31, 2003, and a net loss of \$174 million for the nine months ended December 31, 2003. The results for the three months ended March 31, 2003, include a number of reorganization items, such as a discharge of liabilities. US Airways continues to experience recurring losses, which have prompted its auditor to indicate it has "substantial doubt[s] about [US Airways] ability to continue as a going concern." On July 27, 2004, US Airways reported a net income of \$34 million for the second quarter of 2004; however US Airways continues to sustain a year-to-date loss of \$143 million. US Airways is attempting to further reduce costs to compete with low-cost carriers and meet certain financial covenants relating to its \$900 million loan guaranteed by the ATSB, by seeking further concessions from its employees and considering the sale of some of its assets. On June 17, 2004 the ATSB rejected United's application for a \$1.6 billion loan guaranty. United resubmitted a loan application to ATSB on June 22, 2004, seeking a \$1.1 billion loan guaranty, but was again rejected by the ATSB in a final determination issued on June 28, 2004. United has stated that it is already moving forward with securing financing through its lenders in order to enable United to exit from bankruptcy protection. The Authority is unable to predict how long any airline in bankruptcy protection will continue operating at the Airport or whether any of these airlines will liquidate in the future. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. It is not possible to predict the impact on the Airport of the bankruptcies of United and Air Canada or of any future bankruptcies, liquidations or major restructurings of other airlines. See "—Levels of Airline Traffic and Financial Condition of the Airlines" above.

Assumption or Rejection of Airline Agreements. In the event an airline that has executed an Airline Agreement or other agreement with the Authority seeks protection under the bankruptcy laws, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the Authority (a) within 60 days (or later if ordered by the court) with respect to its Airline Agreement or leases of non-residential real property, or (b) prior to the confirmation of a plan of reorganization with respect to any other agreement. However, bankruptcy courts are courts of equity and can, and often do, grant exceptions to these statutory limitations. In the event of assumption and/or assignment of any agreement to a third party, the airline would be required to cure any pre- and post-petition monetary defaults and provide adequate assurance of future performance under the applicable Airline Agreement or other agreements.

Rejection of an Airline Agreement or other agreement or executory contract will give rise to an unsecured claim of the Authority for damages, the amount of which in the case of an Airline Agreement or other

agreement is limited by the U.S. Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (i) one year of rent or (ii) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of an Airline Agreement or other agreement could be considerably less than the maximum amounts allowed under the U.S. Bankruptcy Code.

US Airways, United and Air Canada were each operating at the Airport under an Airline Agreement at the time of their respective filings for bankruptcy protection. US Airways, which emerged from bankruptcy protection on March 31, 2003, has assumed its Airline Agreement. US Airways also entered into a letter agreement with the Authority to repay 70% of its pre-petition obligations to the Authority over a 12-month period. Neither United nor Air Canada has assumed or rejected their respective Airline Agreements as of the date of this Official Statement.

With respect to an airline in bankruptcy proceedings in a foreign country, the Authority 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.

Pre-Petition Obligations. During the pendency of a bankruptcy proceeding, a debtor airline may not, absent a court order, make any payments to the Authority on account of goods and services provided prior to the bankruptcy. Thus, the Authority'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. All of the pre-petition obligations of US Airways, United and Air Canada have been paid or arranged to be paid.

PFCs. Pursuant to the Federal Act, the FAA has approved the Authority's applications to require the airlines to collect and remit to the Authority a \$4.50 PFC on each enplaning revenue passenger at the Airport. The Federal Act provides that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the Authority) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds in their respective financial statements. However, the airlines, provided they are not under bankruptcy protection, are permitted to commingle PFC collections with other revenues. The bankruptcy courts have not fully addressed such trust arrangements. Therefore, the Authority 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. The Federal Act, as amended by Vision 100-Century of Aviation Reauthorization Act (P.L. 108-176) ("**Vision 100**"), requires an airline in bankruptcy protection (except airlines which filed for bankruptcy protection prior to the effective date of Vision 100, including United and Air Canada) to segregate PFC collections from all of its other revenues. United and Air Canada are current in the payment of PFCs owed to the Authority.

It is possible that the Authority 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 Authority cannot predict whether an airline operating at the Airport that files for bankruptcy protection would have properly accounted for the PFCs owed to the Authority or whether the bankruptcy estate would have sufficient moneys to pay the Authority in full for the PFCs owed by such airline.

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of international hostilities (such as the war in Iraq and the continuing military action in Iraq), 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. However, the Airport Consultant has assumed as part of its passenger forecasts that no future acts of terrorism will occur during the forecast period. See "**Appendix A – Report of the Airport Consultant.**" The Report of the Airport Consultant should be read in its entirety for an explanation of the assumptions and forecasts used therein.

Intensified security precautions have been instituted by government agencies, airlines and airport operators since the events of September 11, 2001. These precautions include the strengthening of aircraft

cockpit doors, the federal program to allow and train U.S. commercial airline pilots to carry firearms during flights, changes to prescribed flight crew responses to attempted hijackings, increased presence of armed sky marshals, federalization of airport security functions under the TSA and revised procedures and techniques for the screening of passengers and baggage for weapons and explosives. No assurance can be given that these precautions will be successful. Also, the possibility of international hostilities and/or further terrorist attacks involving or affecting commercial aviation, are a continuing concern that may affect future travel behavior and airline passenger demand.

The Aviation and Transportation Security Act (“ATSA”) was signed into law by President Bush on November 19, 2001. The ATSA created the TSA which is part of the newly created Department of Homeland Security. The ATSA requires, among other things, that all security screeners at airports be federal employees. Security screeners must undergo background checks and must be U.S. citizens. By 2005, airports that meet increased security guidelines have the option to continue using federal employees or return to using private security companies. The new federal security screening services will be paid for by charging passengers \$2.50 per departure or connection, not to exceed \$5.00 per trip. In addition to the fee charged to passengers, to the extent necessary, a fee may also be imposed on air carriers, which fee may not exceed, in the aggregate, the total amount paid in calendar year 2000 by the air carriers for screening passengers and property. This fee, designated the “Aviation Infrastructure Security Fee,” was imposed on air carriers by the TSA effective February 18, 2002. The TSA assumed most passenger screening functions nationwide in February 2002, largely by contracting with private sector security providers; and by January 1, 2003, the TSA had taken over screening functions at all checkpoints in the Airport.

To comply with the checked baggage screening requirements imposed by the ATSA, by December 31, 2002, EDS machines approved by the TSA were required to be deployed at airports in the United States to screen all checked baggage. However, the Homeland Security Act of 2002 (the “**Homeland Security Act**”) gave the Undersecretary of Transportation for Security (the “**Undersecretary**”) the discretion to determine whether the TSA could meet the December 31, 2002, deadline for deployment of the EDS machines at a particular airport. If the Undersecretary determined that the TSA could not meet the deployment deadline at a particular airport, such airport was allowed to continue to operate past the deadline, provided that by December 31, 2003, the Undersecretary submitted to the Senate Committee on Commerce, Science and Transportation and to the House Committee on Transportation and Infrastructure a detailed plan for the deployment of the required EDS machines at such airport and the airport continued to screen all checked baggage with a combination of EDS machines, manual searches, searches by canine explosive detection units and/or screening by other means or technology (i.e., explosive trace detection systems). In response to the security requirements of ATSA and TSA, the Authority initiated the design and planning of a new terminal building, the construction of which is included in the 2003 Project.

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 new 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. The Department of Homeland Security elevated the alert status to Level Orange four times during 2003 for a total of 72 days. To date, only minor delays have been experienced at the Airport as a result of the new 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.

The ATSA 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, no regulations regarding these enhanced security measures have been proposed as of the date of this Official Statement.

The Authority cannot predict whether the Airport will be a target of terrorists in the future. After the events of September 11, 2001, the United States government launched a military offensive against Afghanistan and in March 2003 against Iraq, and has warned that these hostilities may continue for years. The Authority cannot predict the duration of the effects of these hostilities on the air transportation system or the likelihood of any retaliation. Any such action could directly or indirectly reduce passenger traffic and depress airline industry revenues and Net Revenues. The Authority cannot predict the duration or extent of the reduction in

air travel or the extent of the impact on Net Revenues or the financial condition of the Authority or any of the airlines operating at the Airport, including the potential that these incidents may cause additional airlines to seek bankruptcy protection.

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, without limitation, the provisions of the Airline Agreements, the federal acts authorizing the imposition, collection and use of PFCs and extensive federal legislation and regulations applicable to all airports in the United States. 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 Airport management. See “—Aviation Security Concerns” above.

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 collections for capital projects for the Airport, whether additional requirements will be funded by the federal government or require funding by the Authority, or whether such restrictions or legislation or regulations would adversely affect Net Revenues.

Ability to Meet the Rate Covenant

As discussed, under the Rate Covenant, the Authority agrees that it will establish, fix, prescribe and collect rates, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues, together with the amount on deposit in the Coverage Account permitted to be taken into account for such purpose, will be equal to at least 125% of the Aggregate Annual Debt Service on the Outstanding Bonds. If Net Revenues, together with any amount on deposit in the Coverage Account, were to fall below the level necessary to meet the Rate Covenant, the Indenture provides a procedure under which the Authority is required to revise the schedule of rates, fees, rentals and charges for the use of the Airport as may be necessary to produce the required Net Revenues in the next Fiscal Year. The Indenture provides that if the Authority complies with this requirement, no Event of Default will be deemed to have occurred under the Indenture even though the Net Revenues, together with any amount on deposit in the Coverage Account, are not actually sufficient during the rates and charges revision period to provide funds in the amount required to meet the Rate Covenant. Increasing the schedule of rates, fees, rentals and charges would be subject to contractual, statutory and regulatory restrictions (see “Regulations and Restrictions Affecting the Airport” above) in addition to the limitations imposed by the commercial compensatory rate-making methodology with respect to terminal rental rates in the Airline Agreement. In addition, implementation of an increase in the schedule of rates, fees, rentals and charges for the use of the Airport could have a detrimental impact on the operation of the Airport by making the cost of operating at the Airport unattractive to airlines and others in comparison to other airports, or by reducing the operating efficiency of the Airport.

The Report of the Airport Consultant bases the forecasts of Net Revenues, debt service coverage and airline costs per enplaned passenger on the assumption that the airlines will pay the rates and charges established by the Authority, and while the Authority believes that its rate-making methodologies, including its allocation of costs for purposes of setting rates and charges, are reasonable, no assurance can be given that challenges will not be made to the rates and charges established by the Authority or its method of allocating particular costs. See **Appendix A** – Report of the Airport Consultant. The Report of the Airport Consultant should be read in its entirety for an explanation of the assumptions and forecasts used therein.

Special Considerations for Series 2004 Bonds Bearing Interest at a PARS Rate

The Second Supplemental Trust Indenture and the Auction Agreement provide that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice or 30 days notice, if it has not been paid, to the Authority and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five business days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible

to hold Auctions, with the result that the interest rate on the Series 2004 Bonds will be determined as set forth in the definition of PARS Rate.

The Broker-Dealer Agreement provides that a Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction it might have an advantage over other Bidders in that it would have knowledge of other Orders placed through it in that Auction. As a result of the Broker-Dealer bidding, the Auction clearing rate may be lower than the rate that would have prevailed if the Broker-Dealer had not bid. A Broker-Dealer may also Bid or encourage additional or revised Bidding in order to prevent what would otherwise be a failed Auction, and All Hold Rate or an Auction clearing at a rate that the Broker-Dealer believes does not reflect the market rate for the Series 2004 Bonds at the time of the Auction.

Goldman, Sachs & Co. has advised the Authority that they and certain other participants in the auction rate securities market, including both taxable and tax-exempt markets, have received letters from the SEC requesting that each of them voluntarily conduct a review regarding their respective practices and procedures in those markets. Goldman, Sachs & Co. is cooperating fully with the SEC in this process. No assurance can be given as to whether the results of this process will affect the market for the Series 2004 Bonds or the auctions therefor. See "UNDERWRITER AND BROKER-DEALER" herein.

In addition, during a PARS Rate Period a beneficial owner of the Series 2004 Bonds may sell, transfer or dispose of the Series 2004 Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or through a Broker-Dealer. The ability to sell the Series 2004 Bond in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all the Series 2004 Bonds at a rate equal to or less than the Maximum Rate. Changes to the Auction Periods and Auction Dates do not require the amendment of the Auction Procedures or any consents. See **Appendix D** – Summary of Certain Provisions of the Indenture and **Appendix H** – PARS Provisions for a summary of certain provisions of the Indenture and the provisions applicable to the Series 2004 Bonds bearing interest at a PARS Rate.

Importance of US Airways and United at the Airport

The Authority derives a substantial portion of its operating revenues from landing and facility rental fees. The financial strength and stability of the airlines using the Airport, together with numerous other factors, influence the level of aviation activity at the Airport. In addition, individual airline decisions regarding level of service at the Airport can be expected to affect total enplanements.

For the year ended December 31, 2003, US Airways and its regional/commuter affiliate, US Airways Express (operated by Allegheny Airlines), represented approximately 11% of the total airline rentals, fees and charges component of the Authority's operating revenues. Furthermore, US Airways and its regional/commuter affiliates represented approximately 37% of total enplaned passengers at the Airport during 2003. US Airways emerged from Chapter 11 bankruptcy on March 31, 2003 and has since assumed its Airline Agreement. While US Airways has entered into a letter agreement with the Authority to repay 70% of its pre-petition obligations to the Authority over a 12-month period, US Airways continues to experience recurring losses since its emergence from bankruptcy. In July 2004, US Airways announced that Pittsburgh would cease to be a hub for the airline as early as November 2004, with a slight reduction in service between August and September 2004; a reduction in daily departures from 373 to approximately 240, and a reduction in cities served from 102 to 65, as of November 2004. Specific cities to lose service from Pittsburgh have not yet been announced by US Airways. It is not yet known whether these changes in service at Pittsburgh International Airport will have an effect on service at the Airport. However it is not expected that any such changes would have a significant long-term effect on enplaned passengers at the Airport given its high percentage of origin-destination passengers. US Airways' senior management has indicated that a second Chapter 11 bankruptcy filing is a possibility. Because the Airport serves predominately as an origin and destination facility with minimal connecting air traffic, any potential cessation of operations by US Airways would likely have little or no effect on passenger traffic in the long term. However, such cessation of service could have a negative effect on enplaned passenger numbers at the Airport in the short-term.

For the year ended December 31, 2003, United and its regional/commuter affiliate, United Express, represented approximately 6% of the total airline rentals, fees and charges component of the Authority's operating revenues. Furthermore, United and its regional/commuter affiliates represented approximately 19.9% of total enplaned passengers at the Airport during 2003. On June 17, 2004 the ATSB rejected United's

application for a \$1.6 billion loan guaranty. United resubmitted a loan application to ATSB on June 22, 2004, seeking a \$1.1 billion loan guaranty, but was again rejected by the ATSB in a final determination issued on June 28, 2004. United has stated that it is already moving forward with securing financing through its lenders in order to enable United to exit from bankruptcy protection. See “—Effect of Airline Bankruptcies” above.

Expiration and Possible Termination of Airline Agreement

Pursuant to the Airline Agreement, each Signatory Airline has agreed to pay the rates and charges for its use of the Airport. The Airline Agreement expires by its terms on December 31, 2004. The Authority intends to implement the proposed new Airline Agreement as soon as possible after DBO of the new terminal building (estimated to be August 29, 2004). In the event that the Authority and the Signatory Airlines cannot reach a formal agreement on a new airline rate-making methodology or the timing of its introduction, the Signatory Airlines could, potentially, challenge the Authority’s revised airline rate-making methodology under the U.S. Department of Transportation’s rates and charges review process. This review process includes the Secretary of Transportation reviewing rates and charges complaints brought by airlines. Specifically, the Secretary of Transportation conducts an administrative review to determine the reasonableness of new fees and fee increases imposed on airlines using airport facilities.

Competition

The Airport’s Air Service Region is served by numerous other air carrier airports, including large-hub airports at Baltimore, Philadelphia, and Washington Dulles, as well as airports with scheduled passenger service at Allentown, Altoona, University Park and Wilkes-Barre/Scranton. Service from the Airport, particularly in the Northeast region of the country, is subject to competition from rail and other forms of transportation. In addition, teleconference, videoconference and web-based meetings continue to improve in quality and price to the extent that they are often satisfactory alternatives to face-to-face meetings, and these modes of communication may potentially reduce the need for business travel throughout the aviation industry, including the Airport. Furthermore, the ability of the Airport to continue to attract passengers and air carriers is dependent on factors such as cost and convenience. Increased costs resulting from the Authority’s Capital Program and compliance with federally mandated security requirements could result in the Airport’s being at a competitive disadvantage relative to other airports in the Airport’s Air Service Region, as well as other modes of transportation. See “Aviation Security Concerns,” and “Costs of Capital Program and Schedule” under this heading and **Appendix A** – Report of the Airport Consultant. The Report of the Airport Consultant should be read in its entirety for an explanation of the assumptions and forecasts used therein.

Limitations on Bondholders’ Remedies

The occurrence of an Event of Default under the Indenture does not grant a right to accelerate payment of the Series 2004 Bonds to either the Trustee or the Bondholders. As a result, the Authority may be able to continue indefinitely collecting Revenues and applying them to the operation of the Airport System even if an Event of Default has occurred and no payments are being made on the Series 2004 Bonds. See “THE SERIES 2004 BONDS – Events of Default and Remedies; No Acceleration.”

Costs of Capital Program and Schedule

The projected construction schedule for, and the ability to finance the 2003 Project as currently planned, depends on various sources of funding, including PFCs and federal and state grants (the award of which are subject to governmental appropriations), and are subject to a number of uncertainties. The ability of the Authority to complete the Capital Program may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material, and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation, (xi) environmental issues, including environmental approvals, (xii) permitting requirements, and (xiii) additional security improvements and costs mandated by the federal government. A delay in the completion of certain projects under the Capital Program could delay the collection of revenues in respect of such projects, increase costs for such projects, and may cause the rescheduling of other projects. There can be no assurance that the cost of construction under the Capital Program will not exceed the currently projected dollar amount or that the completion of the projects will not be delayed beyond the currently projected completion dates. 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, that may place the Airport at a competitive disadvantage to other airports. See “Competition” under this heading.

Dependence Upon Government Grants

The Authority’s plan of finance for the 2003 Project includes funding from federal and state grant programs, the award and disbursement of which may be discretionary or dependent upon legislative appropriations in future years. While the Authority believes that all such grants will be received in a timely manner, no assurance can be given that funding will be provided from such grant programs at the time and in the amounts currently contemplated, and any delay in receiving federal and state grant funding could result in the need to issue additional Bonds, subject to meeting the additional Bonds test under the Master Indenture, and may result in increased costs to the airlines.

Forward Looking Statements

This Official Statement, and particularly the information contained under the captions “INTRODUCTION,” “APPLICATION OF SERIES 2004 BOND PROCEEDS,” “THE CAPITAL PROGRAM,” “PLAN OF FINANCING,” “FINANCIAL INFORMATION—Management Discussion of Airport Finances,” “CERTAIN INVESTMENT CONSIDERATIONS,” “REPORT OF THE AIRPORT CONSULTANT,” and in the Report of the Airport Consultant appended hereto as **Appendix A**, contains 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,” “forecasts,” “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. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Assumptions in the Report of the Airport Consultant

The Report of the Airport Consultant incorporates numerous assumptions as to the utilization of the Airport System and other matters, and states that any forecasts are subject to uncertainties. The Report of the Airport Consultant should be read in its entirety for an explanation of the assumptions and forecasts used therein. 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 forecasts period will vary, and the variations may be material. See “REPORT OF THE AIRPORT CONSULTANT,” and **Appendix A — Report of the Airport Consultant**.

Unavailability of Certain Insurance Coverage

The Authority no longer has insurance for war casualty or terrorist acts. The Authority was insured on September 11, 2001, but that coverage was terminated as a result of the events of September 11, 2001 and has not yet been replaced because, as of the date of this Official Statement, such insurance is not available at reasonable costs and in meaningful amounts. No assurance can be given that such insurance will be available at reasonable costs and in meaningful amounts in the future, or that to the extent that the Authority is uninsured, it will be able to satisfy any claims in the event of a future war or terrorist attack.

TAX MATTERS

The following discussion is a summary of the opinion of Eckert Seamans Cherin & Mellott, LLC (“**Bond Counsel**”) that is to be rendered on the federal tax exempt status of interest on the Series 2004A Bonds and of certain state income tax considerations that may be relevant to prospective purchasers of Series 2004 Bonds. This discussion is based upon existing law, including current provisions of the Internal Revenue Code of 1986, as amended (the “**Code**”), existing and proposed regulations under the Code, and current administrative rulings and court decisions, all of which are subject to change.

Upon issuance of the Series 2004A Bonds, Bond Counsel will provide its opinion, substantially in the form set forth in **Appendix E** hereto, to the effect that, under existing law, interest on the Series 2004A Bonds

is excluded from gross income for federal income tax purposes, except for any period during which such Series 2004A Bonds are held by a person who is a “substantial user” of the Airport System or a “related person,” as those terms are used in Section 147(a) of the Code, but is an item of tax preference in calculating the federal alternative minimum tax liability of individuals, trusts, estates and corporations.

The foregoing opinion will assume compliance by the Authority with certain requirements of the Code, including requirements that must be met subsequent to the issuance of the Series 2004A Bonds. The Authority will certify, represent and covenant to comply with such requirements. Failure to comply with such requirements could cause the interest on the Series 2004A Bonds to be included in gross income for federal income tax purposes or could otherwise adversely affect such opinion, retroactive to the date of issuance of the Series 2004A Bonds.

Interest on the Series 2004B Bonds is fully taxable for federal income tax purposes.

The opinion of Bond Counsel will also provide to the effect that, under existing law, the Series 2004 Bonds are exempt from personal property taxes in the Commonwealth of Pennsylvania and the interest on the Series 2004 Bonds is exempt from Pennsylvania state and local personal income tax and the Commonwealth of Pennsylvania Corporate Net Income Tax.

Other than the matters specifically referred to above, Bond Counsel expresses, and will express, no opinion regarding the federal, state, local or other tax consequences of the purchase, ownership and disposition of Series 2004A Bonds. Prospective purchasers of the Series 2004A Bonds should be aware, however, that the Code contains numerous provisions under which receipt of interest on the Series 2004A Bonds may have adverse federal tax consequences for certain taxpayers. Such consequences include the following: (a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2004A Bonds or, in the case of financial institutions, that portion of a holder’s interest expense allocated to interest on the Series 2004A Bonds; (b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Series 2004A Bonds; (c) interest on the Series 2004A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code; (d) passive investment income, including interest on the Series 2004A Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; and (e) Section 86 of the Code requires recipients of certain Social Security and certain railroad retirement benefits to take into account, in determining the inclusion of such benefits in gross income, receipts or accrual of interest on the Series 2004A Bonds.

The Internal Revenue Service (the “Service”) has an ongoing program of auditing state and local government obligations, which may include randomly selected bond issues for audit, to determine whether interest paid to the holders is properly excluded from gross income for federal income tax purposes. It cannot be predicted whether the Series 2004A Bonds will be audited. If an audit is commenced, under current Service procedures, the holders of the Series 2004A Bonds may not be permitted to participate in the audit process. Moreover, public awareness of an audit of the Series 2004A Bonds could adversely affect their value and liquidity.

Amendments to federal and state tax laws are proposed from time to time and could be enacted in the future. There can be no assurance that any such future amendments will not adversely affect the value of the Series 2004A Bonds, the exclusion of interest on the Series 2004A Bonds from gross income from the date of issuance of the Series 2004A Bonds or any other date, or that such changes will not result in other adverse federal or state tax consequences.

Prospective purchasers of Series 2004 Bonds should consult their own tax advisors as to the applicability and extent of federal, state, local or other tax consequences of the purchase, ownership and disposition of Series 2004 Bonds in light of their particular tax situation.

LEGAL MATTERS

All legal matters incident to the validity and enforceability of the Series 2004 Bonds are subject to the approval of Eckert Seamans Cherin & Mellott, LLC, Harrisburg, Pennsylvania, Bond Counsel. The

substantially final text of the Bond Counsel opinion is attached hereto as **Appendix E**. Certain legal matters will be passed upon for the Authority by Rhoads & Sinon LLP, Harrisburg, Pennsylvania, the Authority's Solicitor. Certain legal matters will be passed upon for the Underwriter by Hogan & Hartson L.L.P., Washington, D.C., and for Financial Guaranty Insurance Company by its General Counsel.

LITIGATION

There is no litigation now pending or, to the best of the Authority's knowledge, threatened which seeks to restrain or enjoin the sale, execution, issuance or delivery of the Series 2004 Bonds or in any way contests the validity of the Series 2004 Bonds or any proceedings of the Authority taken with respect to the authorization, sale or issuance of the Series 2004 Bonds, or the pledge or application of any moneys provided for the payment of or security for the Series 2004 Bonds.

There are no legal proceedings of which the Authority has received written notice now pending or, to the best of the Authority's knowledge, threatened which contest or affect any federal or state grants or PFCs awarded to or held by the Authority or the Authority's use of such funds.

The Authority is a defendant in a suit, *Stambaugh's Air Service, Inc. v. Susquehanna Area Regional Airport Authority et al.*, in the U.S. District Court for the Middle District of Pennsylvania, brought by a former FBO at the Airport, Stambaugh's Air Service, Inc. ("**Stambaugh**"). The complaint alleges, among others things, that the Authority's failure to renew Stambaugh's FBO contract violated the: (i) due process clause of the United States Constitution, (ii) due process clause of the Pennsylvania Constitution, (iii) equal protection clause of the United States Constitution, (iv) equal protection clause of the Pennsylvania Constitution, and (v) Pennsylvania Municipalities Authorities Act. Stambaugh is seeking a total damage amount of \$42,500,000. A Magistrate Judge handling the case dismissed all counts of Stambaugh's complaint, except for Stambaugh's claim of a violation of the federal constitutional right to equal protection. However, Stambaugh filed objections to the Magistrate Judge's findings. On June 12, 2002, Stambaugh filed for bankruptcy. On September 11, 2002, a District Court Judge issued an Order staying all proceedings in the litigation until Stambaugh's bankruptcy is adjudicated. The Authority intends to vigorously defend this matter. However, at this time the Authority is unable to predict the outcome of this matter or the extent to which this litigation may have a material impact on the financial condition of the Authority.

The Authority is involved in several claims and lawsuits arising in the ordinary course of business. The Authority believes that any liability assessed against the Authority as a result of claims or lawsuits which are not covered by insurance would not materially adversely affect the financial condition of the Airport System.

RATINGS

Moody's Investors Service ("**Moody's**"), Standard & Poor's, a Division of the McGraw Hill Company, Inc. ("**S&P**"), and Fitch, Inc. ("**Fitch**") have assigned long-term ratings of "Aaa," "AAA," and "AAA" respectively, to the Series 2004 Bonds with the understanding that upon delivery of the Series 2004 Bonds, a bond insurance policy insuring the scheduled payment when due of the principal of and interest on the Series 2004 Bonds will be issued by the Bond Insurer. The ratings assigned by Moody's, S&P, and Fitch are based upon the claims paying ability of the Bond Insurer. Moody's and Fitch have assigned the Authority's Series 2004 Bonds with the underlying ratings of "Baa1" and "BBB +," respectively.

A rating reflects only the views of the rating agency assigning such rating, and an explanation of the significance of such rating may be obtained from such rating agency. The Authority has furnished to the rating agencies certain information and materials relating to the Series 2004 Bonds and the Airport System, including certain information and materials which have not been included in this Official Statement. There is no assurance that any of the ratings will continue for any given period of time or that any of the ratings will not be revised downward or withdrawn entirely by any such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Series 2004 Bonds.

REPORT OF THE AIRPORT CONSULTANT

Leigh Fisher Associates, previously defined as the Airport Consultant, prepared the Report of the Airport Consultant included as **Appendix A** — Report of the Airport Consultant. The Report of the Airport Consultant has been included herein in reliance upon the knowledge and experience of Leigh Fisher Associates as airport consultants.

The Report of the Airport Consultant presents certain airline traffic and financial forecasts for Fiscal Year 2004 through 2009 and sets forth the assumptions upon which the forecasts are based. The financial forecasts are based on certain information and assumptions that were provided by, or reviewed and agreed to by, Authority management. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for the forecasts. The Report of the Airport Consultant should be read in its entirety for an understanding of the forecasts and the underlying assumptions contained therein.

The financial forecasts contained in the Report of the Airport Consultant reflect the estimated debt service requirements for the Series 2004 Bonds. The information in the Report of the Airport Consultant has not been updated subsequent to the date of such report. See “PLAN OF FINANCING.” Prospective purchasers should be aware that there may be differences between the forecasts and actual results because events and circumstances may not occur as expected and those differences may be material. The achievement of any financial forecasts is dependent upon future events which cannot be assured.

The estimated forecasted financial information in the following table, derived from the Report of the Airport Consultant, was in the view of the Authority’s management prepared on a reasonable basis to reflect the best currently available estimates and judgments and presents, to the best of the Authority management’s knowledge and belief, the expected future financial performance of the Authority. The table has not been updated subsequent to the date of the Report of the Airport Consultant.

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FORECAST DEBT SERVICE COVERAGE
Susquehanna Area Regional Airport Authority
For Fiscal Years Ending December 31

	Actual	Forecast					
	2003	2004	2005	2006	2007	2008	2009
<u>BOND DEBT SERVICE COVERAGE</u>							
Revenues	\$14,123,720	\$16,897,000	\$22,791,000	\$23,680,000	\$24,252,000	\$25,079,000	\$25,467,000
Plus: Revenue Credit Account Balances	-	-	-	-	-	12,000	-
Less: M&O Expenses	\$14,123,720	\$16,897,000	\$22,791,000	\$23,680,000	\$24,252,000	\$25,091,000	\$25,467,000
	(12,909,524)	(14,561,000)	(14,600,000)	(14,966,000)	(15,341,000)	(15,725,000)	(16,120,000)
Net Revenues	\$1,214,196	\$2,336,000	\$8,191,000	\$8,714,000	\$8,911,000	\$9,366,000	\$9,347,000
Plus: Coverage Account Balances	133,000	165,000	802,000	802,000	802,000	802,000	802,000
Net Revenues plus Coverage Account Balances	\$1,347,196	\$2,501,000	\$8,993,000	\$9,516,000	\$9,713,000	\$10,168,000	\$10,149,000
Annual Net Debt Service*	531,531	658,161	3,327,834	3,535,594	3,464,594	4,117,479	4,037,000
Bond Debt Service Coverage	2.53	3.80	2.70	2.69	2.80	2.47	2.51
<u>SUBORDINATE BOND DEBT SERVICE COVERAGE</u>							
Net Revenues	\$1,214,196	\$2,336,000	\$8,191,000	\$8,714,000	\$8,911,000	\$9,366,000	\$9,347,000
Plus: Coverage Account Balances	133,000	165,000	802,000	802,000	802,000	802,000	802,000
Net Revenues plus Coverage Account Balances	\$1,347,196	\$2,501,000	\$8,993,000	\$9,516,000	\$9,713,000	\$10,168,000	\$10,149,000
Total Net Debt Service							
Bond Debt Service*	\$531,531	\$658,161	\$3,327,834	\$3,535,594	\$3,464,594	\$4,117,479	\$4,037,000
Subordinate Bond Debt Service*	272,668	591,236	4,139,587	4,613,950	4,620,991	4,664,870	4,511,424
	\$804,199	\$1,249,397	\$7,467,421	\$8,149,544	\$8,085,585	\$8,782,349	\$8,548,424
Overall Debt Service Coverage (Senior plus Subordinate Bond Debt)	1.68	2.00	1.20	1.17	1.20	1.16	1.19

* Net of PFC revenues and LOI Receipts irrevocably committed or pledged to pay debt service.

The assumptions and estimates underlying the forecasted financial information are inherently uncertain and, though considered reasonable by the management of the Authority as of the date hereof, are subject to a wide variety of significant business, national and international economic and political conditions, and competitive risks and uncertainties including, among others, the risks and uncertainties described under "CERTAIN INVESTMENT CONSIDERATIONS" that could cause actual results to differ materially from those contained in the forecasted financial information. Accordingly, there can be no assurance that the forecasted results are indicative of the future performance of the Authority or that actual results will not be materially different from those contained in the forecasted financial information.

The Report of the Airport Consultant includes a "base" air traffic forecast and one sensitivity scenario (a low forecast of enplaned passengers and aircraft landed weight), taking into account the potential impact of future unforeseen negative events. The assumptions underlying the low forecast are the same as those for the base airline traffic forecast except that Revenues related to passenger activity, such as terminal concessions, automobile parking, PFCs, and rental car activity are reduced. Airline payments per enplaned passenger would be higher, and PFC revenues would be lower than the base forecast. Under the low forecast scenario, debt service coverage ratios would be lower. Nevertheless, projected debt service coverage ratios are forecast to meet or exceed the requirements of the Rate Covenant in the Master Indenture.

If US Airways were to cease operations systemwide or at the Airport, such actions would be expected to cause a significant decrease in airline revenues at the Airport, at least on a short-term basis, which could impact the Authority's ability to meet the Rate Covenants under the Master Indenture and the Master Subordinate Indenture. See **Appendix A** — Report of the Airport Consultant. The Report of the Airport Consultant should be read in its entirety for an explanation of the assumptions and forecasts used therein.

Inclusion of the forecasted financial information in this Official Statement should not be regarded as a representation by the Authority nor the Underwriter that the results contained in the forecasted financial information will be achieved.

EXPERTS

Leigh Fisher Associates has served as the Airport Consultant to the Authority with respect to the Series 2004 Bonds and in such capacity has prepared the Report of the Airport Consultant.

INDEPENDENT AUDITORS

The financial statements of the Airport System included in Appendix B to this Official Statement have been audited by KPMG LLP, independent certified public accountants, to the extent and for the period indicated in their report thereon. Such financial statements have been included in reliance upon the report of KPMG LLP.

UNDERWRITING AND BROKER-DEALER

The Underwriter has agreed to purchase the Series 2004A Bonds at an underwriting discount of \$390,151.80 and the Series 2004B Bonds at an underwriting discount of \$26,314.20 from the public offering prices set forth on the inside front cover page of this Official Statement pursuant to a bond purchase agreement entered into by and between the Authority and the Underwriter. The Underwriter will be obligated to purchase all of the Series 2004 Bonds if any Series 2004 Bonds are purchased. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2004 Bonds to the public. The obligations of the Underwriter to accept delivery of the Series 2004 Bonds are subject to various conditions of the bond purchase agreement. Pursuant to the bond purchase agreement the Authority has agreed to indemnify the Underwriter against certain liabilities based on claims under the federal securities laws.

The Authority, the Auction Agent, and Goldman, Sachs & Co, as Broker-Dealer, will enter into a Broker-Dealer Agreement with respect to the Series 2004 Bonds. Pursuant to the Broker-Dealer Agreement, the Broker-Dealer will undertake to perform the duties of Broker-Dealer under the Second Supplemental Trust Indenture with respect to the Series 2004 Bonds. See “CERTAIN INVESTMENT CONSIDERATIONS — Special Considerations for Series 2004 Bonds Bearing Interest at a PARS Rate”.

CONTINUING DISCLOSURE UNDERTAKING

The Authority has covenanted to provide such annual financial statements and other information in the manner required by the Rule of the SEC. The Authority has entered into an undertaking (the “**Undertaking**”) for the benefit of the holders of the Series 2004 Bonds to provide certain financial information and operating data concerning the Authority and certain other obligated persons to each NRMSIR annually and to provide notice to the Municipal Securities Rulemaking Board or to the NRMSIRs of certain events, pursuant to the requirements of section (b)(5)(i) of the Rule. See **Appendix F** — Form of Continuing Disclosure Undertaking herein for a description of the Undertaking. A failure by the Authority to provide any information required thereunder shall not constitute an Event of Default under the Indenture.

RELATIONSHIPS AMONG PARTIES

Leigh Fisher Associates has served as the Airport Consultant with respect to the Series 2004 Bonds and also serves as the Authority’s Program Manager for the implementation of the 2003 Project. Manufacturers and Traders Trust Company serves as both Trustee for the outstanding Bonds, including the Series 2004 Bonds, and Subordinate Trustee for the outstanding Subordinate Bonds.

MISCELLANEOUS

The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement. The descriptions of the Indenture do not purport to be comprehensive or definitive, and prospective purchasers of the Series 2004 Bonds are referred to the Indenture for the complete terms thereof. During the offering period of the Series 2004 Bonds, copies of the Indenture may be obtained

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Appendix A

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

SUSQUEHANNA AREA REGIONAL AIRPORT AUTHORITY
AIRPORT SYSTEM REVENUE BONDS, SERIES 2004

Prepared for

Susquehanna Area Regional Airport Authority
Middletown, Pennsylvania

Prepared by

Leigh Fisher Associates
a Division of Jacobs Consultancy Inc.
Burlingame, California

July 30, 2004

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555 Airport Boulevard, Suite 300
Burlingame, California 94010 U.S.A.
1.650.579.7722 Fax 1.650.343.5220

July 30, 2004

Mr. Alfred Testa, Jr.
Director of Aviation
Susquehanna Area Regional Airport Authority
Harrisburg International Airport
208 Airport Drive
Middletown, Pennsylvania 17057

Re: Report of the Airport Consultant, Susquehanna Area Regional Airport Authority,
Airport System Revenue Bonds, Series 2004

Dear Mr. Testa:

We are pleased to submit this Report of the Airport Consultant on certain aspects of the proposed issuance of Susquehanna Area Regional Airport Authority Airport System Revenue Bonds, Series 2004A and Series 2004B (collectively, the Senior Series 2004 Bonds or the Series 2004 Bonds) in the aggregate principal amount of approximately \$29.7 million. The Series 2004 Bonds are being issued to:

- Partially fund the completion of certain capital improvements at Harrisburg International Airport (the Airport), referred to in this report as the 2003 Project.
- Pay the issuance and financing costs (including the establishment of reserves) associated with the Series 2004 Bonds.

The Series 2004 Bonds are being issued primarily because (1) in August 2003, the Authority approved modification of the new terminal building to add four jet gates, and (2) the Authority needs to secure alternative funding sources for certain elements of the 2003 Project that were expected to be funded with federal grants and Authority cash (primarily, elements of the new terminal, and the Multimodal Transportation Center).

SUMMARY

The Authority owns and operates the Airport and Capital City Airport, a general aviation reliever airport. On July 28, 2004, the Authority acquired Franklin County Regional Airport (previously known as Chambersburg Municipal Airport). Together, the Airport, Capital City Airport, and Franklin County Regional Airport compose the Airport System. The Airport is the principal air carrier airport in southcentral Pennsylvania; Harrisburg is the capital of the Commonwealth of Pennsylvania.

Note: Except as otherwise noted, capitalized terms in this report are used as defined in the Master Trust Indenture, the Master Subordinate Trust Indenture, or the Airline Agreement, discussed later.

Mr. Alfred Testa, Jr.
July 30, 2004

The purpose of this report is to present a review of the historical and forecast financial performance of the Authority through 2009*, and to assess the Authority's ability to meet certain financial requirements of the Master Trust Indenture and the Master Subordinate Trust Indenture, as described in more detail later.

This report describes:

- The 2003 Project
- Additional Airport System capital improvements to be undertaken during the forecast period
- The Master Trust Indenture, as supplemented, governing the issuance of the Senior Series 2003 Bonds and the Senior Series 2004 Bonds
- The Master Subordinate Trust Indenture, as supplemented, governing the issuance of the Subordinate Series 2003 Bonds
- Additional financings that may be undertaken by the Authority
- The Rate Covenants of the Master Trust Indenture and the Master Subordinate Trust Indenture
- The Airline Agreement
- The Authority's passenger facility charge (PFC) program at the Airport
- Federal Airport Improvement Program (AIP) and Transportation Security Administration (TSA) grants, and receipts from a Letter of Intent (LOI) from the Federal Aviation Administration (FAA)
- Commonwealth of Pennsylvania and other grants
- A summary of the forecast financial results, including debt service coverage and airline payments per enplaned passenger. The report also describes the airline traffic forecasts underlying the forecast financial results and the sensitivity of the financial results to reduced airline traffic.

In conducting the analyses and preparing this report, it was concluded that:

- In the short term, airline traffic at the Airport is expected to increase as a result of (1) airline pricing changes and service enhancements, and Authority marketing initiatives, which are allowing the Authority to recapture a portion of its regional market, and (2) continued recovery from the national economic recession and other events that have negatively affected the airline industry—

*The Authority's Fiscal Year is the same as the calendar year.

Mr. Alfred Testa, Jr.
July 30, 2004

notably, the effects of the terrorist attacks on September 11, 2001, and the war in Iraq.

In the long term, airline traffic is expected to increase largely as a function of growth in the population and economy of southcentral Pennsylvania and continued enhancements in airline service at the Airport. Enplaned passengers at the Airport numbered 670,269 in 2003—1.0% lower than in 2002, 14.5% higher than in 2001, and 1.0% higher than in 2000. The number of enplaned passengers is forecast to increase 4.1% in 2004, and 2.5% per year in 2005 through 2009 (see Table 21 later in the report).

- Based on the assumptions discussed in this report regarding traffic growth, revenues, expenses, and the availability of funding sources, airline payments per enplaned passenger are forecast to be within the average industrywide range throughout the forecast period, though at the high end of that range (see Exhibit J-1).*
- Net Revenues available for the payment of Aggregate Annual Debt Service on the Senior Series 2003 Bonds and the Senior Series 2004 Bonds are forecast to exceed the sum of Aggregate Annual Debt Service plus required deposits, pursuant to the Master Trust Indenture, and Net Revenues plus Coverage Account balances are forecast to exceed 125% of Aggregate Annual Debt Service, as required by the Master Trust Indenture.
- Net Revenues plus Coverage Account balances are forecast to meet or exceed 110% of total debt service (i.e., combined Senior Series 2003 Bond debt service, Subordinate Series 2003 Bond debt service, and Senior Series 2004 Bond debt service), as required by the Master Subordinate Trust Indenture.

THE 2003 PROJECT

The capital improvements at the Airport referred to in this report as the 2003 Project are as follows:

- ***Construct Terminal and Related Work:*** Construction of a new 380,000-square-foot passenger terminal building encompassing 12 multi-use jet gates, and including the provision of aircraft support systems (passenger boarding bridges, preconditioned air, and 400 Hz power systems) and airline tenant fit-outs
- ***Construct Terminal Loop Roadway:*** Construction of a new 3,400-linear-foot roadway to allow access to and egress from the new terminal

*The financial exhibits are presented at the end of this appendix.

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- ***Construct Aircraft Parking Apron:*** Construction of a new 212,000-square-yard aircraft parking apron adjacent to the new terminal building
- ***Install Nav aids and Runway Lighting:*** Purchase and installation of a Category III instrument landing system (ILS) and associated airfield improvements
- ***Construct Parallel Taxiway and Related Work:*** Construction of a new 10,000-foot parallel taxiway encompassing high-speed aircraft exits, lighting, and signage systems
- ***Construct Multimodal Transportation Center and Related Work:*** Construction of a new 3,400-space automobile parking facility (including 2,700 public parking spaces and 700 rental car ready-return spaces), a rental car counter area, and a pickup and drop-off area for commercial ground transportation vehicles

The Authority estimates that the 2003 Project will cost approximately \$232.7 million (including design, construction, program management, and construction management costs, as applicable; excluding bond financing and interest costs) and that it will be substantially completed by August 2004.

According to the Authority, the new terminal and the Multimodal Transportation Center are currently scheduled to be substantially complete and to open for service on August 29, 2004. The Terminal Loop Roadway and the Aircraft Parking Apron are expected to be substantially complete by the same date. The Parallel Taxiway project was completed in April 2004, and the Nav aids and Runway Lighting project is expected to be completed by August 2004. Another project that had been part of the 2003 Project—Construct Amtrak Station—has been deferred by the Authority, and will only be undertaken in the future subject to the availability of funding from the Pennsylvania Department of Transportation (PennDOT) and federal Congestion Mitigation and Air Quality (CMAQ) grants.

The 2003 Project is being fully funded with a combination of the proceeds of the Senior Series 2003 Bonds, the Subordinate Series 2003 Bonds, the proposed Senior Series 2004 Bonds, an LOI from the FAA for federal grants, other AIP grants, Commonwealth of Pennsylvania grants, PFC revenues, TSA grants, other federal grants, and Authority funds.

Series 2004 Bond proceeds are expected to be applied to five elements of the 2003 Project: (1) Construct Terminal and Related Work (including aircraft support systems), (2) Construct Terminal Loop Roadway, (3) Construct Aircraft Parking Apron, and (4) Construct Multimodal Transportation Center and Related Work, and (5) Install Nav aids and Runway Lighting. The Construct Parallel Taxiway and Related Work project is expected to be fully funded by other sources.

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July 30, 2004

ADDITIONAL AIRPORT SYSTEM CAPITAL IMPROVEMENTS

In addition to the 2003 Project, the Authority has identified approximately \$18.6 million in other capital improvements at the Airport and Capital City Airport that it expects to undertake through 2007, subject to the availability of funding. These include environmental remediation and development of certain property at the Airport, to be primarily funded with Commonwealth and AIP entitlement grants.

Additionally, the Authority acquired Franklin County Regional Airport (previously known as Chambersburg Municipal Airport), a general aviation airport approximately 45 miles from the Airport, for a purchase price of \$790,000 (95% of which was grant funded).

THE MASTER TRUST INDENTURE

The Senior Series 2004 Bonds are to be issued under the Authority's Master Trust Indenture (the Master Indenture) dated as of April 15, 2003, with Manufacturers and Traders Trust Company as the Senior Trustee, on a parity with the Senior Series 2003 Bonds. The Senior Series 2003 Bonds, and the proposed Senior Series 2004 Bonds, are payable from and secured by a pledge of the Net Revenues of the Airport System and certain funds held under the Master Indenture, as described in this report.

Airport System Net Revenues are defined in the Master Indenture as Revenues less Maintenance and Operation Expenses. Revenues are defined as substantially all income and receipts of the Authority, derived directly or indirectly from the operation of, and otherwise pertaining to, the Airport System. Under the Master Indenture, Revenues are defined to exclude PFC revenues, LOI Receipts, other federal and Commonwealth grant receipts, any revenues (other than ground rentals) from properties and facilities classified as a Special Facility, and certain other items, including any investment income derived therefrom.

Each series of bonds to be issued under the Master Indenture is to be issued under a supplemental indenture. The Senior Series 2003 Bonds were issued under the Master Indenture as amended and supplemented by the First Supplemental Trust Indenture, dated as of April 15, 2003. The Senior Series 2004 Bonds are to be issued under the Master Indenture, as supplemented by the Second Supplemental Trust Indenture, dated as of August 1, 2004.

THE MASTER SUBORDINATE TRUST INDENTURE

The Subordinate Series 2003 Bonds were issued under the Authority's Master Subordinate Trust Indenture (the Subordinate Indenture) dated as of April 15, 2003, with Manufacturers and Traders Trust Company as the Subordinate Trustee. The Subordinate Series 2003 Bonds are payable from and secured by a pledge of Subordinate Net

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July 30, 2004

Revenues (defined as Revenues less Maintenance and Operation Expenses less Aggregate Annual Debt Service and debt service reserve funding requirements on the Senior Series 2003 Bonds and the proposed Senior Series 2004 Bonds, and any other bonds issued in the future under the terms of the Master Indenture), and certain funds held under the Subordinate Indenture, as described in this report. LOI Receipts received by the Authority pursuant to an LOI from the FAA dated April 15, 2003, in Federal Fiscal Year 2005 and thereafter, are pledged to the payment of debt service on the Subordinate Series 2003C Bonds.

Each series of bonds issued under the Subordinate Indenture is issued under a supplemental subordinate indenture. The Subordinate Series 2003 Bonds were issued under the Subordinate Indenture, as amended and supplemented by the First and Second Supplemental Subordinate Trust Indentures, dated as of April 15, 2003.

ADDITIONAL BONDS

The Authority does not currently intend to issue “new money” Additional Bonds (other than the proposed Senior Series 2004 Bonds) under the Master Indenture during the forecast period (i.e., through 2009). The Authority may, however, issue refunding bonds under the Master Indenture during that period. The Authority may issue Additional Bonds in the future by means of a supplemental indenture to the Master Indenture, provided that certain conditions are met, as outlined in Section 2.11 of the Master Indenture (Tests for Issuance of Bonds), and discussed in this report. The Authority may also issue Additional Bonds for completion of the 2003 Project in an amount not to exceed 15% of the principal amount of the Senior Series 2003 Bonds without performing the tests for meeting the conditions described in Section 2.11 of the Master Indenture.

Similarly, the Authority does not currently intend to issue “new money” additional subordinate bonds under the Subordinate Indenture during the forecast period. The Authority may, however, issue refunding bonds under the Subordinate Indenture during that period. The Authority may also issue additional subordinate bonds in the future by means of a supplemental indenture to the Subordinate Indenture, provided that certain conditions are met, as outlined in Section 2.11 of the Subordinate Indenture (Tests for Issuance of Subordinate Bonds) and discussed in this report.

RATE COVENANTS

Senior Rate Covenant

In Section 5.04 of the Master Indenture, the Authority covenants as follows:

- (a) The Authority, so long as any [Senior] Bonds remain Outstanding, shall establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection

Mr. Alfred Testa, Jr.
July 30, 2004

therewith, so that Net Revenues in each Fiscal Year will be at least equal to the following amounts:

- (i) the [Senior] Aggregate Annual Debt Service on any Outstanding [Senior] Bonds required to be funded by the Authority in such Fiscal Year as required by [the Master Indenture];
 - (ii) the required deposits to the [Senior] Debt Service Reserve Fund which may be established by a Supplemental Indenture;
 - (iii) the interest on and principal of any indebtedness required to be funded during such Fiscal Year other than Outstanding [Senior] Bonds, including Subordinated Obligations;
 - (iv) payments of any reserve requirement for debt service for any indebtedness other than Outstanding [Senior] Bonds, including Subordinated Obligations;
 - (v) the reimbursement owed to any Credit Provider as required by a Supplemental Indenture or the Master Subordinate Trust Indenture;
 - (vi) transfers to the Maintenance and Operation Reserve Fund pursuant to Section 4.07 [of the Master Indenture]; and
 - (vii) transfers to the Renewal and Replacement Fund pursuant to Section 4.08 [of the Master Indenture].
- (b) The Authority further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues, together with the amount on deposit in the Coverage Account, will be equal to at least 125% of [Senior] Aggregate Annual Debt Service on the Outstanding [Senior] Bonds. For purposes of this subsection (b), the amount on deposit in the Coverage Account taken into account shall not exceed 25% of [Senior] Aggregate Annual Debt Service on the Outstanding [Senior] Bonds in such Fiscal Year.

These provisions are known as the Senior Rate Covenant.

Mr. Alfred Testa, Jr.
July 30, 2004

Subordinate Rate Covenant

In Section 5.04 of the Subordinate Indenture, the Authority covenants as follows:

- (a) The Authority, so long as any Subordinate Bonds remain Outstanding, shall establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that Net Revenues in each Fiscal Year will be at least equal to the following amounts:
 - (i) the Senior Aggregate Annual Debt Service and Senior Debt Service Reserve Requirement required to be funded by the Authority in such Fiscal Year;
 - (ii) the Subordinate Aggregate Annual Debt Service on all Subordinate Bonds Outstanding and the Subordinate Debt Service Reserve Requirement with respect to Subordinate Bonds required to be funded by the Authority in such Fiscal Year;
 - (iii) the interest on and principal of any indebtedness required to be funded during such Fiscal Year other than Senior Bonds or Outstanding Subordinate Bonds, including Junior Obligations;
 - (iv) payments of any reserve requirement for debt service for any indebtedness other than Senior Bonds or Outstanding Subordinate Bonds, including Junior Obligations;
 - (v) the reimbursement owed to any Senior Credit Provider and Subordinate Credit Provider as required by the Senior Indenture or this [Subordinate] Indenture, respectively;
 - (vi) transfers to the Maintenance and Operation Reserve Fund pursuant to Section 4.07 [of the Master Indenture]; and
 - (vii) transfers to the Renewal and Replacement Fund pursuant to Section 4.08 [of the Master Indenture].
- (b) The Authority further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues, together with the amount on deposit in the Coverage Account, will be equal to at least 110% of Subordinate Aggregate Annual Debt Service on the Outstanding Subordinate Bonds and the Senior Aggregate Annual Debt Service on all Senior Bonds outstanding. For purposes of this subsection (b), the amount on deposit in the Coverage Account taken into account shall not exceed 25% of

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Senior Aggregate Annual Debt Service on the Senior Bonds outstanding in such Fiscal Year.

These provisions are known as the Subordinate Rate Covenant.

THE AIRLINE AGREEMENT

Current Airline Agreement

The Authority has entered into substantially similar Airline Operating Agreements and Terminal Building Leases or Airline Operating Agreements, as may be amended (collectively, the Airline Agreement), with the following passenger and cargo airlines serving the Airport: Airborne/DHL, Allegheny Airlines, American Airlines, American Eagle, Atlantic Coast Airlines, Comair, Continental Express, Emery Worldwide, FedEx, Mesaba Airlines, Northwest Airlines, United Airlines, UPS Air Cargo, and US Airways—collectively, the Signatory Airlines. The term of the Airline Agreement extends through December 31, 2004.

The Airline Agreement establishes procedures for the annual adjustment of Signatory Airline terminal building rentals and landing fees charged for the use and occupancy of terminal and airfield facilities. As set forth in the Airline Agreement, the Terminal Building Area Rental Requirement and the Airfield Area Landing Fee Requirement are based on cost center compensatory and cost center residual rate-making methodologies, respectively. The Airline Agreement does not incorporate majority-in-interest (MII) provisions related to capital improvements at the Airport.

As of January 1, 2002, the Authority, after informal consultation with the airlines, instituted a modified rentals, fees, and charges structure, adding a Ramp Fee and eliminating seven miscellaneous fees and charges.

Proposed Airline Agreement

The Authority is currently in discussions with the Signatory Airlines regarding a new airline agreement to become effective as of the date of beneficial occupancy (DBO) of the new terminal building, scheduled to be August 29, 2004. The Authority proposes to adopt an airline rate-making methodology substantially similar to that currently in effect, except that (1) a Revenue Credit Account would be established, (2) the terminal rental rate would be calculated using “commercial compensatory” principles, and (3) new gate use and aircraft parking charges would be implemented. A portion of the net operating cash flow of the Authority would be deposited in the Revenue Credit Account, balances in which would then be applied to reduce landing fees and terminal rentals in the following fiscal year. The proposed rate-making methodology is explained later in this report. The Authority does not intend to include MII provisions in the proposed airline agreement.

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The Authority intends to implement a revised terminal rental rate (calculated according to commercial compensatory rate-making principles), and gate use and aircraft parking charges, at DBO, pursuant to a rate resolution to be approved by the Authority Board. The full revised airline rate-making methodology would then be adopted as of January 1, 2005, also pursuant to a rate resolution to be approved by the Authority Board, if a new airline agreement is not adopted by that date. Although Authority management has discussed its proposed rate implementation strategy with the airlines, the Authority could potentially face a challenge to its proposed airline rate-making methodology (or the timing of its introduction) from the airlines under the U.S. DOT's policy regarding airport rates and charges.

PASSENGER FACILITY CHARGE PROGRAM

On February 1, 1997, a PFC program was implemented at the Airport, with eligible enplaned passengers paying a PFC of \$3. PFC revenues have been collected continuously at the Airport since that date.

On October 31, 2002, the Authority received approval from the FAA to impose a \$4.50 PFC per eligible enplaned passenger and to use a total of \$70.1 million in PFC revenues for the payment of (1) debt service related to PFC-approved project costs, and (2) PFC-approved project costs on a pay-as-you-go basis, associated with the 2003 Project. The \$4.50 PFC became effective January 1, 2003.

As stated in its Final Agency Decision, the FAA approved imposition of a \$4.50 PFC and the use of \$70.1 million in PFC revenues for the following 2003 Project elements: (1) Construct Terminal and Related Work (\$54.4 million), (2) Construct Terminal Loop Roadway (\$3.8 million), (3) Install Navaids and Runway Lighting (\$10.9 million), and (4) Construct Parallel Taxiway and Related Work (\$1.0 million). These amounts include bond financing and interest costs as estimated by the Authority and included in its PFC application.

From inception of the PFC program in 1997 through June 30, 2004, PFC revenues received by the Authority, including PFC-restricted investment earnings, totaled \$14,820,829, all of which has been expended on PFC-approved project costs.

PFC revenues are excluded from the definition of Revenues under the Master Indenture. However, PFC revenues may be designated for inclusion within the definition of Revenues as part of a future supplemental indenture. The Authority has committed, for the period January 1, 2005, through December 31, 2008, to deposit all PFC revenues into the Senior Debt Service Fund. This application of PFC revenues reduces the amount of required Senior Aggregate Annual Debt Service on the Senior Bonds that would otherwise be payable from Net Revenues in a given year, thereby reducing the amount of Revenues required to meet the Senior Rate Covenant.

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The Authority is currently in the process of applying to the FAA to amend its PFC approvals. The Authority's proposed amendments are to encompass:

- Modifying the approved scope of the terminal project to reflect the addition of 4 jet gates (for a total of 12 multi-use jet gates).
- Increasing the amount of PFC-related bond-funded project costs allocated to PFC-eligible elements of the 2003 Project, such that all PFC revenues collected after January 1, 2005 (plus associated interest earnings), would be used to pay debt service on the Authority's Senior Bonds. Application of PFC revenues to payment of the Bonds would reduce the amount of required Aggregate Annual Debt Service on the Senior Bonds that would otherwise be payable from Net Revenues in a given year, thereby reducing the amount of Revenues required to meet the Senior Rate Covenant.
- Modifying the application of PFC revenues to PFC-eligible projects to reflect the actual disposition of these revenues during construction of the 2003 Project.

These proposed changes would, if approved by the FAA in their entirety, result in a revised total PFC collection amount of approximately \$120 million. The Authority expects to file the PFC application amendment with the FAA by August 31, 2004, and to receive a Final Agency Decision from the FAA regarding its proposed amendment by December 31, 2004.

FEDERAL GRANTS AND LETTER OF INTENT RECEIPTS

On April 15, 2003, the Authority received an LOI from the FAA for costs related to airfield elements of the 2003 Project. The LOI received by the Authority is for a total of \$44.3 million in discretionary AIP grants, to be received over a period of 6 years.

The Authority leveraged its LOI Receipts by issuing the Subordinate Series 2003C Bonds in the principal amount of approximately \$34.4 million.

LOI Receipts are excluded from the definition of Revenues under the Master Indenture and the Subordinate Indenture. However, the Authority has pledged LOI Receipts to be received pursuant to the LOI from the FAA dated April 15, 2003, in Federal Fiscal Year 2005 and thereafter to the payment of debt service on the Subordinate Series 2003C Bonds. This application of LOI Receipts reduces the amount of required Subordinate Series 2003 Bond debt service that would otherwise be payable from Net Revenues in a given year, thereby reducing the amount of Revenues required to meet the Subordinate Rate Covenant. LOI Receipts may be designated for inclusion within the definition of Revenues as part of future supplemental indentures to the Master Indenture and the Subordinate Indenture.

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The Authority has received or expects to receive \$21.3 million in AIP entitlement grants in addition to amounts received under the LOI to pay for portions of the Construct Terminal and Related Work, Construct Terminal Loop Roadway, and Construct Aircraft Parking Apron projects. The Authority has also received \$15.9 million in additional AIP discretionary grants to pay for portions of the Construct Terminal and Related Work, Construct Aircraft Parking Apron, and Construct Parallel Taxiway and Related Work projects.

The Authority was awarded a grant of \$4 million from the TSA for elements of the terminal project related to accommodating explosives detection system (EDS) equipment. The Authority also expects to receive an additional grant of \$8.5 million from the TSA for this purpose.

Further, the Authority expects to receive a total of approximately \$2.5 million in grants from the Federal Highway Administration and the Federal Transit Administration.

SCOPE OF STUDY

Our study was undertaken to evaluate the ability of the Authority to generate sufficient moneys to pay Senior Aggregate Annual Debt Service on the Senior Series 2003 Bonds and the proposed Senior Series 2004 Bonds issued under the Master Indenture as supplemented, and to pay total debt service (senior and subordinate) under the terms of the Subordinate Indenture as supplemented, for each year 2004 through 2009.

In conducting the study, we reviewed:

- Future airline traffic demand at the Airport, giving consideration to the demographic and economic characteristics of the region served, historical trends in airline traffic, and other key factors that may affect future airline traffic
- The history, status, and estimated costs of the 2003 Project
- Estimated sources and uses of funds for the 2003 Project, debt service requirements on the Senior and Subordinate Series 2003 Bonds, and estimated debt service requirements on the proposed Senior Series 2004 Bonds
- Historical relationships among Revenues, expenses, PFC revenues, and airline traffic for the Airport System and other factors that may affect future Revenues and expenses
- The Authority's 2004 annual budget and estimated 2004 Revenues and expenses for the Airport System, as well as other operational considerations

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- The Authority's Capital Program for the Airport System for 2004 through 2007 (the majority of which is represented by the 2003 Project)
- The Authority's policies and contractual arrangements relating to the use and occupancy of Airport facilities, including the calculation of airline rentals, fees, and charges; the operation of concession privileges; and the leasing of buildings and grounds
- The Authority's LOI from the FAA, and the AIP, TSA, Federal Highway Administration, Federal Transit Administration, and Commonwealth grant funding programs
- The Authority's PFC program
- Historical PFC collections and PFC Fund interest income
- The number of passengers who would pay a PFC as the basis for forecasting PFC revenue

We also identified key factors upon which the future financial results of the Airport System may depend and formulated assumptions about those factors. On the basis of those assumptions, we assembled the financial forecasts presented in the exhibits provided at the end of this report:

Exhibit

A-1	2003 Project Costs and Sources of Funding
A-2	2004-2007 Capital Program Costs and Sources of Funding
B	Series 2004 Bonds Sources and Uses of Funds
C	Passenger Facility Charge Revenues and Application of PFC Revenues
D	Letter of Intent Receipts and Application
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J-1	Summary of Financial Results—Base Forecast
J-2	Summary of Financial Results—Low Forecast

Estimates of 2003 Project and other capital improvement costs (Exhibits A-1 and A-2), 2003 Project financing requirements (Exhibit B), and debt service requirements (Exhibit E) were provided by the sources noted in the exhibits.

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SUMMARY OF FORECAST FINANCIAL RESULTS

Forecast Aggregate Annual Debt Service Coverage

As indicated in Exhibits H and I, (1) Airport System Net Revenues are forecast to be sufficient to pay Senior Aggregate Annual Debt Service requirements on the Senior Series 2003 Bonds and the proposed Senior Series 2004 Bonds, plus pay Subordinate Aggregate Annual Debt Service on the Subordinate Series 2003 Bonds, plus make other required deposits, (2) Net Revenues plus Coverage Account balances are forecast to be sufficient to meet Senior Aggregate Annual Debt Service on the Senior Series 2003 Bonds and the proposed Senior Series 2004 Bonds in each year of the forecast period and to provide at least 125% coverage on the Senior Bonds in each year through 2009, as required by the Master Indenture, and (3) Net Revenues plus Coverage Account balances are forecast to be sufficient to meet total debt service (on the Senior Series 2003 Bonds, the proposed Senior Series 2004 Bonds, and the Subordinate Series 2003 Bonds in total) with at least 110% coverage in each year through 2009, as required by the Subordinate Indenture.

The table below summarizes forecasts of Airport System Net Revenue, Senior Aggregate Annual Debt Service on the Senior Series 2003 Bonds and the proposed Senior Series 2004 Bonds, Subordinate Aggregate Annual Debt Service on the Subordinate Series 2003 Bonds, and debt service coverage. The forecasts indicate compliance with the Senior and Subordinate Rate Covenant provisions of the Master Indenture and the Subordinate Indenture, respectively, for each year of the forecast period.

Fiscal Year	Airport System Net Revenue	Coverage Account balances	Senior Bond debt service (a)	Less: Debt service to be paid from PFC revenues	Senior Aggregate Annual Debt Service to be paid from Airport System Net Revenues	Senior Bond debt service coverage (b)	Subordinate Series 2003 Bond debt service	Less: Debt service to be paid from LOI Receipts	Subordinate Aggregate Annual Debt Service to be paid from Airport System Net Revenues	Debt service coverage (all debt) (c)
	(Exhibit I)	(Exhibit I)	(Exhibit E)	(Exhibit E)	(Exhibit E)	(Exhibit I)	(Exhibit E)	(Exhibit E)	(Exhibit E)	(Exhibit I)
2004	\$2,336,000	\$165,000	\$ 658,000	\$ --	\$ 658,000	3.80	\$ 591,000	\$ --	\$ 591,000	2.00
2005	8,191,000	802,000	6,158,000	(2,830,000)	3,328,000	2.70	10,800,000	(6,660,000)	4,140,000	1.20
2006	8,714,000	802,000	6,437,000	(2,901,000)	3,536,000	2.69	12,954,000	(8,340,000)	4,614,000	1.17
2007	8,911,000	802,000	6,437,000	(2,972,000)	3,465,000	2.80	13,751,000	(9,130,000)	4,621,000	1.20
2008	9,366,000	802,000	7,164,000	(3,047,000)	4,117,000	2.47	15,965,000	(11,300,000)	4,665,000	1.16
2009	9,347,000	802,000	7,159,000	(3,122,000)	4,037,000	2.51	6,681,000	(2,170,000)	4,511,000	1.19

(a) Debt service on the Senior Series 2003 Bonds plus the proposed Senior Series 2004 Bonds.
(b) Debt service coverage of 1.25x is required pursuant to the Master Indenture.
(c) Debt service coverage of 1.10x is required pursuant to the Subordinate Indenture.

As discussed in the report and shown in Exhibit J-2, the provisions of the Senior and Subordinate Rate Covenants are also forecast to be met under the low passenger forecast scenario.

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Forecast Airline Payments per Enplaned Passenger

As shown in Exhibits G and J-1, airline rentals and fees (including terminal building rentals, ramp fees, and landing fees) are forecast to range from about \$5.7 million in 2003 to about \$11.8 million in 2009. Forecast airline rental and fee payments, in total and expressed on a per enplaned passenger basis, are presented below.

Fiscal Year	Signatory Airline rental and fee payments (a)	Enplaned passengers	Passenger airline payments per enplaned passenger
2003	\$ 5,682,000	670,269	\$7.01
2004	7,245,000	698,000	9.01
2005	10,773,000	715,000	13.16
2006	11,152,000	733,000	13.28
2007	11,263,000	751,000	13.08
2008	11,756,000	770,000	13.33
2009	11,811,000	789,000	13.05

(a) Payments from both passenger and cargo airlines.

These estimates of airline payments per enplaned passenger subsequent to DBO of the new terminal reflect, among other payments, terminal rental revenues that incorporate Authority funding for the costs of fitting out and finishing airline space (equivalent to approximately \$1.30 to \$1.50 per enplaned passenger) and the cost of utilities provided to airline-related equipment, such as passenger boarding bridges and other aircraft support systems. As part of terminal development projects at other airports, such tenant finishes, fit-outs, and utility costs are frequently funded by individual tenants.

Assumptions Underlying the Financial Forecasts

The financial forecasts accompanying this report are based on information and assumptions that were provided by, or reviewed with and agreed to by, Authority management. Accordingly, the forecasts reflect Authority management’s expected course of action during the forecast period and, in Authority management’s judgment, present fairly the expected financial results of the Authority. The key factors and assumptions that are significant to the forecasts are set forth in the attachment, “Background, Assumptions, and Rationale for the Financial Forecasts.” The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the underlying assumptions provide a reasonable basis for the forecasts. However, 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, there are likely to be differences between the forecast and actual results, and those differences may be material.

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For example, among the challenges facing the Authority—any or all of which could negatively affect the Authority’s ability to meet the Senior and Subordinate Rate Covenants during the forecast period—are the following (discussed in more detail later in this report):

- The initiation of low-fare airline service at Philadelphia and Washington-Dulles international airports
- The uncertainty regarding US Airways’ ability to continue operating as a going concern
- The continued provision by United Airlines of significant service at the Airport
- The Authority’s success in implementing airline and nonairline rate increases without negatively affecting Airport activity and Authority revenues
- The Authority’s ability to limit increases in Maintenance and Operation Expenses
- The Authority’s ability to obtain significant additional grant funding from federal and Commonwealth sources

Consequently, there can be no assurance that the forecast financial results will be realized. Any eventuality that leads to lower-than-expected Revenues, higher-than-anticipated Maintenance and Operation Expenses, or lower-than-expected grant receipts could result in the Authority not being able to meet the requirements of the Senior and Subordinate Rate Covenants during the forecast period.

We have no responsibility to update this report for events and circumstances occurring after the date of the report.

* * * * *

We appreciate the opportunity to serve as the Authority’s Airport Consultant on this proposed financing.

Respectfully submitted,



LEIGH FISHER ASSOCIATES ^{MD}

Attachment

BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL FORECASTS

Susquehanna Area Regional Airport Authority
Middletown, Pennsylvania

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1. INTRODUCTION

1.1 THE AUTHORITY

The Susquehanna Area Regional Airport Authority is a joint municipality authority of the counties of Dauphin, Cumberland, and York; the cities of Harrisburg and York; and the townships of Fairview and Lower Swatara, created under the Pennsylvania Municipality Authorities Act, 53 Pa. C.S.A. §5601 et seq., as amended and supplemented. The Authority was created on September 9, 1997, for the sole purpose of owning, developing, and operating Harrisburg International Airport and Capital City Airport. Harrisburg International Airport is located in the Township of Lower Swatara, and the boroughs of Middletown and Highspire, Dauphin County, Pennsylvania. Capital City Airport is located in the Township of Fairview in York County, Pennsylvania. On July 28, 2004, the Authority acquired Franklin County Regional Airport (previously known as Chambersburg Municipal Airport) located in Franklin County, Pennsylvania. The Airport System encompasses all three airports.

On January 2, 1998, the Commonwealth of Pennsylvania transferred ownership and operation of the Airport System to the Authority. Prior to that date, the airports were owned and operated by the Pennsylvania Department of Transportation (PennDOT), Bureau of Aviation. The Authority acquired all of the assets and assumed all of the liabilities (including approximately \$16 million in outstanding debt) related to the Airport System. Upon taking ownership and assuming responsibility for operation of the Airport System, the Authority awarded BAA Harrisburg, Inc. (BAAH) a 10-year contract to manage and operate the Airport System on a day-to-day basis. On July 2, 2001, the Authority terminated the management contract with BAAH, and Authority staff assumed full responsibility for the day-to-day management and operation of the Airport System.

The Authority's Board of Directors consists of 15 individuals, each appointed to a 5-year term. Each county appoints three Board members, each city appoints two Board members, and each township appoints one Board member. The Board appoints a Director of Aviation to manage and operate the airports.

The Authority maintains its financial records in accordance with generally accepted accounting principles as they apply to governmental entities.

1.2 THE AIRPORT

The Airport is about 12 road miles southeast of downtown Harrisburg, the capital of the Commonwealth of Pennsylvania, and is the principal air carrier airport serving southcentral Pennsylvania. The Airport occupies about 800 acres and has one runway designed for air carrier aircraft operations. Runway 13-31 is 9,501 feet long by 200 feet wide and, together with all associated approach surfaces and runway

protection zones, meets all FAA standards. A parallel taxiway was recently constructed and is now operational. A lighted taxiway system connects the runway to the passenger terminal building north of the airfield.

The terminal currently in operation provides six gates for jet aircraft, with eight aircraft parking positions. A separate commuter concourse, connected to the terminal building, provides 14 parking positions for commuter aircraft. The Authority is currently constructing a new terminal building, with 12 multi-use jet aircraft gates. The new terminal is scheduled to open for service on August 29, 2004, and will replace both the existing terminal and the commuter concourse for passenger processing.

A parallel taxiway and the new terminal are elements of the Authority's 2003 Project, as discussed in Section 4 of this report.

The Federal Aviation Administration classifies Harrisburg as a small air traffic hub.* According to data published by Airports Council International-North America, the Airport was the nation's 97th busiest airport in 2003 in terms of passengers. As of July 2004, the Airport is served by 11 scheduled passenger airlines, including 7 regional/commuter airlines, which together provide 55 daily nonstop departures to 14 destinations. The Airport is also served by 8 all-cargo airlines.

Based on recent activity at the Airport and scheduled airline service for the next several months, it appears that the effects of the events that negatively affected the airline industry over the past few years (including the terrorist attacks of September 11, 2001; the national economic recession; and the war in Iraq) were temporary, and that passenger traffic at the Airport has resumed a long-term growth trend, based on assumptions discussed later in this report.

1.3 REPORT SUMMARY

The remainder of this Report of the Airport Consultant presents a discussion of the economic basis for airline traffic at the Airport; key factors affecting future airline traffic; forecasts of enplaned passengers and aircraft landed weight; the framework for financial operations of the Airport System; Airport System capital improvements, including the 2003 Project; and the financial analysis, including the Authority's ability to meet debt service requirements and the sensitivity of the financial forecasts to reduced airline traffic.

*A small hub is defined as a community that enplanes between 0.05% and 0.25% of all passengers enplaned on certificated route air carriers in all services in the 50 states, the District of Columbia, and other designated territorial possessions of the United States.

2. AIRLINE TRAFFIC ANALYSIS

2.1 AIRPORT SERVICE REGION

The Airport primarily serves origin-destination passengers (i.e., passengers beginning or ending their air journeys at the Airport). In 2003, of the 670,269 passengers enplaned at the Airport, substantially all were origin-destination passengers. Currently, no airline operates a connecting hub at the Airport. As shown on Figure 1, the Airport service region consists of 28 counties in central Pennsylvania, extending to Altoona to the west, University Park to the northwest, Wilkes-Barre/Scranton to the northeast, Lehigh Valley and Reading to the east, and the Pennsylvania/Maryland border to the south. Many areas in the Airport service region are served by other air carrier airports, as shown on Figure 1.

For purposes of this analysis, an immediate Airport service region was identified as the area immediately surrounding the Airport, the population and economy of which generate the majority of the Airport's passenger traffic. The immediate Airport service region includes all of Adams, Cumberland, Dauphin, Lancaster, Lebanon, Perry, and York counties.

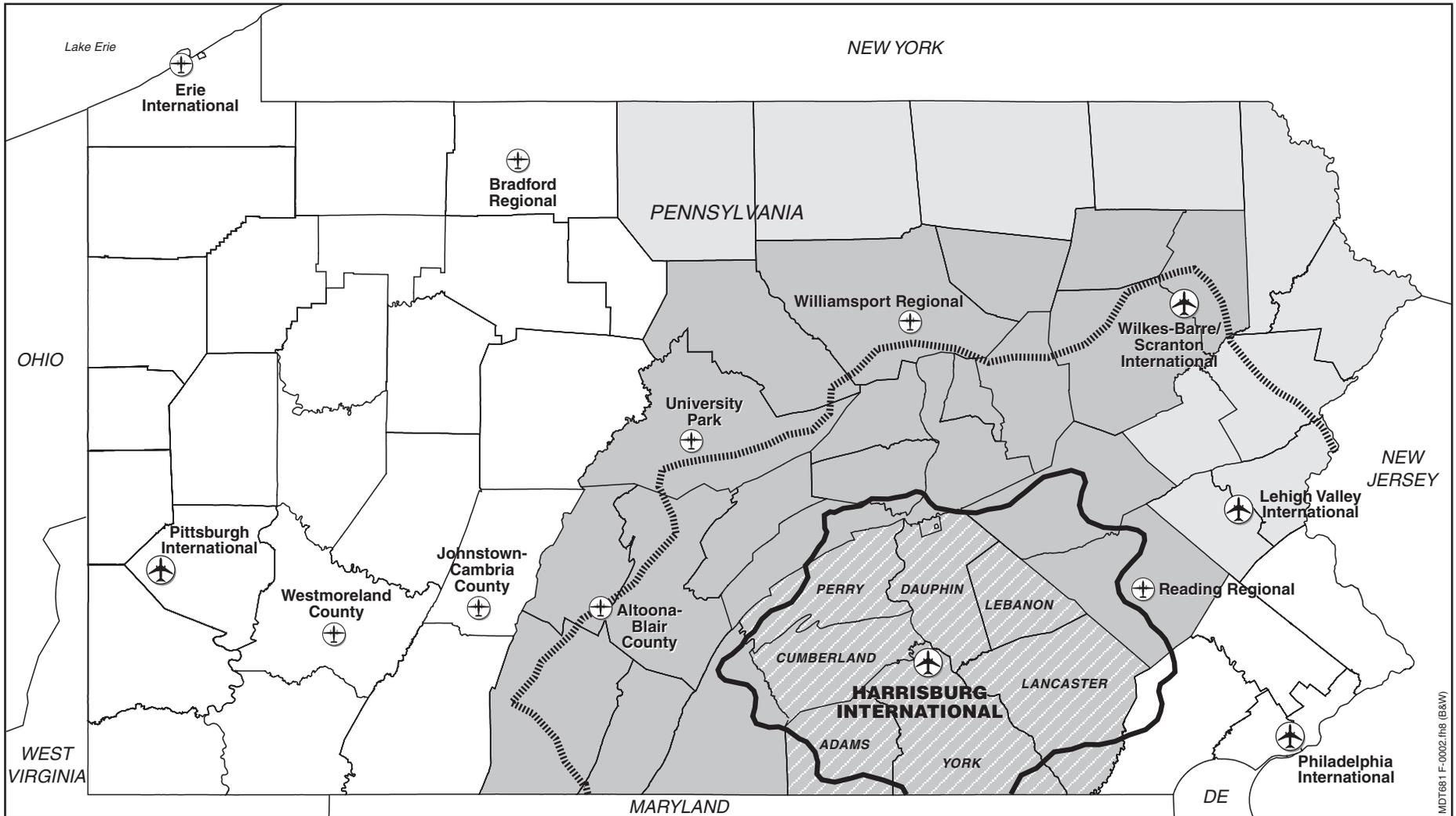
The counties in the immediate Airport service region are, for the most part, within a 1-hour drive of the Airport. The driving distance to, and the availability, price, and quality of airline service at, other air carrier airports in the region generally determine the limits of an airport's service region.

A secondary Airport service region, also shown on Figure 1, includes areas that are considered by the Authority to have market development potential.

The population, employment, and income data presented in Section 2.2 are for the seven counties in the immediate Airport service region, which generate the majority of passenger demand at the Airport.

According to a market survey conducted by Pennsylvania State University-Harrisburg for the Authority during summer 2001, and updated on a monthly basis since, more than 75% of the surveyed passengers who reside in the Airport service region, and whose trips originated at the Airport, reside in the immediate Airport service region. According to official U.S. Department of Commerce, Bureau of the Census data provided by the same source, the population of the Airport service region was 3.7 million in 2000, of which 1.6 million reside in the immediate Airport service region.

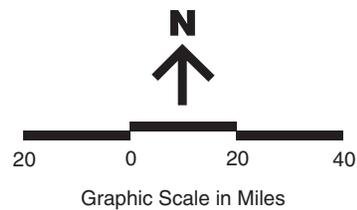
According to a study prepared by Wilbur Smith Associates on behalf of the Commonwealth of Pennsylvania, during 2000 more than 3.4 million originating air trips were generated within the Airport service region. This total included trips



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LEGEND

- | | | | |
|---|----------------------------------|---|---------------------------|
|  | Airport service region |  | County boundary |
|  | Immediate Airport service region |  | Air carrier airport |
|  | Secondary Airport service region |  | Regional/commuter airport |
|  | 1-hour drive from Harrisburg | | |
|  | 2-hour drive from Harrisburg | | |



Notes: The immediate Airport service region is a subset of the Airport service region.
Reading Regional Airport is expected to lose scheduled airline service in late summer 2004.

Figure 1
AIRPORT SERVICE REGION
Harrisburg International Airport
July 2004



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originating from the Airport, as well as trips originating from other regional airports (including airports outside Pennsylvania; in particular, Baltimore/Washington International Airport). According to Wilbur Smith Associates, a total of 2.1 million trips originated from counties in the immediate Airport service region, while 1.3 million trips originated from counties within the remainder of the Airport service region.

Table 1 summarizes the Airport service region population and the number of enplaned passengers originating their trips from within the region. The ratio of enplaned passengers at the Airport to total enplaned passengers generated within the Airport service region is shown for 2000, the most recent year for which comparative data are available from all of the sources listed in Table 1. Approximately one-fifth of all enplaned passengers from within the Airport service region were enplaned at the Airport, while the remaining four-fifths of enplaned passengers in the Airport service region used other airports. It is expected that the Airport's market share of total air trips generated within its service region could increase as a result of air service development and other market-related developments at the Airport.

Table 1
AIRPORT SERVICE REGION POPULATION AND ENPLANED PASSENGERS—2000

Airport service region	Population (a)	Airport service region enplaned passengers (b)	Enplaned passengers using the Airport (b)	Enplaned passengers at the Airport as a percentage of Airport service region enplaned passengers
Immediate Airport service region	1,576,000	2,082,000	495,000	24%
Airport service region	3,652,000	3,447,000	636,000	18

Note: 2000 is the most recent year for which data from all sources are available.

(a) Pennsylvania State University-Harrisburg, 2002, based on U.S. Department of Commerce, Bureau of the Census data.

(b) Developed from information included in Wilbur Smith Associates, *Assessment of Pennsylvania Air Service*, 2002.

Table 2 shows airline service at the Airport and other nearby airports as of July 2004.

Figure 2 shows road connections to the Airport and the location of other airports, both within and outside of the Airport service region. As shown, the Airport has excellent road connections to the population centers within the Airport service region.

Table 2
AIRLINE SERVICE AT AIRPORTS NEAR HARRISBURG
 July 2004

Airport location	Driving distance (miles)	Average daily passenger airline nonstop departures		
		Jet	Regional/commuter	Total
Harrisburg	--	9	45	54
Allentown	88	4	35	39
Altoona	123	--	4	4
Baltimore	97	292	43	335
Hagerstown	77	--	4	4
Lancaster (a)	33	--	--	--
Philadelphia	110	344	239	583
Reading (b)	59	--	3	3
University Park	102	--	19	19
Washington, D.C. (Dulles)	142	175	398	573
Wilkes-Barre/Scranton	119	1	19	20
Williamsport	102	--	7	7

Note: Rows may not add to total shown because of rounding.

(a) Regional/commuter service was discontinued in April 2004. Service may be reintroduced (2 daily flights to Pittsburgh) in late-summer 2004.

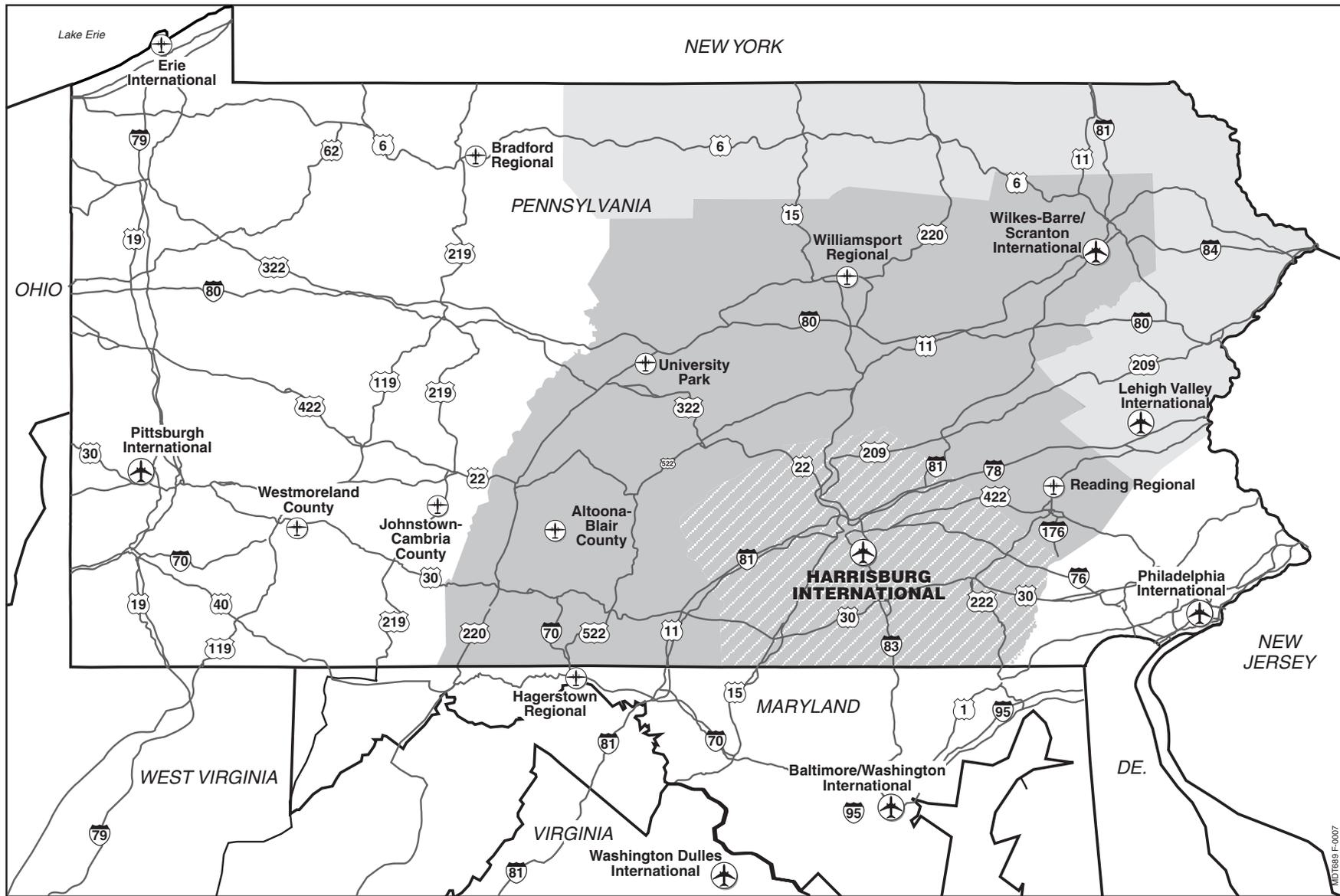
(b) Regional/commuter service is expected to be discontinued in late-summer 2004.

Sources: Official Airline Guides, Inc., online database, July 2004, and Susquehanna Area Regional Airport Authority records.

Baltimore/Washington International Airport, 97 miles from Harrisburg, is a significant alternative to the Airport for residents and visitors to the Airport service region because of its proximity to south central Pennsylvania and the high level of airline service, including low-fare service provided by Southwest Airlines and AirTran Airways.

2.2 ECONOMIC BASIS FOR AIRLINE TRAFFIC

The economy of the Airport service region is an important determinant of long-term passenger demand at the Airport. This section presents a discussion of the economic basis for airline traffic at the Airport—the population and economy of the immediate



LEGEND

- Airport service region
- Immediate Airport service region
- Secondary Airport service region
- State boundary
- ✈
+ Air carrier airport
- +
✈ Regional/commuter airport

Notes: The immediate Airport service region is a subset of the Airport service region.
 Reading Regional Airport is expected to lose scheduled airline service in late summer 2004.

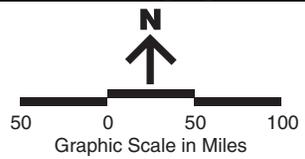


Figure 2
**AIRPORT SERVICE REGION—
 REGIONAL AIRPORTS AND ROAD CONNECTIONS**
 Harrisburg International Airport
 July 2004

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Airport service region—and a summary of the economic outlook for the immediate Airport service region.

2.2.1 Population and Economy of the Immediate Airport Service Region

In general, the development and diversity of the economic base of an airport service region are the primary drivers of traffic growth at the airport serving the region. This is particularly true where the industries in the region rely on the airport for passenger and cargo service. Table 3 presents comparative trends in population, nonagricultural employment, and per capita income for the immediate Airport service region, the Commonwealth of Pennsylvania, and the United States.

Population. According to the U.S. Department of Commerce, Bureau of the Census, the population of the immediate Airport service region has historically grown at higher rates than that of the Commonwealth of Pennsylvania and similar to that of the nation as a whole. As shown in Table 3, the population of the immediate Airport service region increased from 1,428,656 in 1990 to 1,614,266 in 2003, an average increase of 0.9% per year, higher than the average for the Commonwealth of Pennsylvania (0.3%), and slightly lower than the average for the United States (1.2%).

According to the National Planning Association (NPA), Data Services, Inc.,* the immediate Airport service region population is projected to increase an average of 0.8% per year between 2003 and 2020, twice the rate projected for the Commonwealth (0.4%), but lower than the rate projected for the nation (1.1%).

Nonagricultural Employment. According to the U.S. Department of Labor, Bureau of Labor Statistics, nonagricultural employment in the immediate Airport service region increased an average of 0.5% per year between 1990 and 2003, similar to that in the Commonwealth (0.6%), but lower than the rate for the United States (1.6%).

NPA projects nonagricultural employment in the immediate Airport service region to increase an average of 1.3% per year between 2003 and 2020, higher than the rate projected for the Commonwealth (0.9%), and lower than the rate projected for the nation (1.6%).

*The National Planning Association is a nationally recognized private firm that analyzes and projects trends by county across the United States. These projections were used in our analysis in conjunction with projections by local economists to evaluate consistent comparisons among county-level, Commonwealth, and national data. The most recent edition of *Key Indicators of County Growth, 1970-2030*, was published in September 2003.

Table 3

HISTORICAL AND PROJECTED SOCIOECONOMIC DATAImmediate Airport Service Region, Commonwealth of Pennsylvania, and United States
1980-2020

	Immediate Airport service region (a)		Commonwealth of Pennsylvania		United States	
	Number	Average annual increase	Number	Average annual increase	Number	Average annual increase
Population						
Historical (b)						
1980	1,298,759	--%	11,864,720	--%	226,542,199	--%
1990	1,428,656	1.0	11,881,643	0.0	248,709,873	0.9
2000	1,576,102	1.0	12,281,054	0.3	281,421,906	1.2
2003	1,614,266	0.9	12,365,455	0.2	290,809,777	1.1
1980-2003		1.0%		0.2%		1.1%
Projected (c)						
2010	1,707,000	0.8	12,586,000	0.3	313,942,000	1.1
2020	1,855,000	0.8	13,213,000	0.5	350,902,000	1.1
2003-2020		0.8%		0.4%		1.1%
Nonagricultural employment						
Historical (d)						
1980	614,800	--%	4,753,000	--%	90,406,000	--%
1990	739,600	1.9	5,177,400	0.9	109,403,000	1.9
2000	808,700	0.9	5,734,700	1.0	131,759,000	1.9
2003	784,000	(1.0)	5,585,000	(0.9)	130,035,000	(0.4)
1980-2003		1.1%		0.7%		1.6%
Projected (c)						
2010	897,000	1.5	6,169,000	1.0	150,330,000	1.9
2020	978,000	0.9	6,542,000	0.6	169,954,000	1.2
2003-2020		1.3%		0.9%		1.6%
Per capita income (in 1996 dollars) (c)						
Historical						
1980	\$18,278	--%	\$18,380	--%	\$18,445	--%
1990	23,146	2.4	23,149	2.3	22,873	2.2
2000	26,321	1.3	27,441	1.7	27,413	1.8
2002	29,726	6.3	31,116	6.5	30,906	6.2
1980-2002		2.2%		2.4%		2.4%
Projected						
2010	\$34,020	1.8	\$35,046	1.5	\$35,697	1.9
2020	36,738	0.9	39,017	1.2	39,865	1.2
2002-2020		1.2%		1.3%		1.4%

(a) Consists of Adams, Cumberland, Dauphin, Lancaster, Lebanon, Perry, and York counties.

(b) U.S. Department of Commerce, Bureau of the Census.

(c) National Planning Association, Data Services Inc., *Key Indicators of County Growth, 1970-2025*, 2003 edition. Projected growth rates applied by Leigh Fisher Associates.(d) U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, for years noted.

Nationwide, the rate of economic growth has declined since the end of 2000, resulting in increases in national and regional unemployment rates. According to the U.S. Department of Labor, Bureau of Labor Statistics, the immediate Airport service region has demonstrated stronger performance relative to the Commonwealth and the nation as a whole, with an average unemployment rate for 2003 of approximately 3.8%, compared to 5.6% in the Commonwealth and 6.0% in the nation as a whole. The average unemployment rate for the immediate Airport service region has consistently been lower than that for the Commonwealth and the nation, but the rate increased in 2001 and 2002 consistent with general economic trends in the Commonwealth and the nation, as shown in Table 4.

Table 4
COMPARATIVE UNEMPLOYMENT RATES

	Immediate Airport service region (a)	Commonwealth of Pennsylvania	United States
1998	3.1%	4.6%	4.5%
1999	3.2	4.4	4.2
2000	2.8	4.2	4.0
2001	3.6	4.7	4.8
2002	4.1	5.7	5.8
2003	3.8	5.6	6.0

(a) Does not include Adams County.

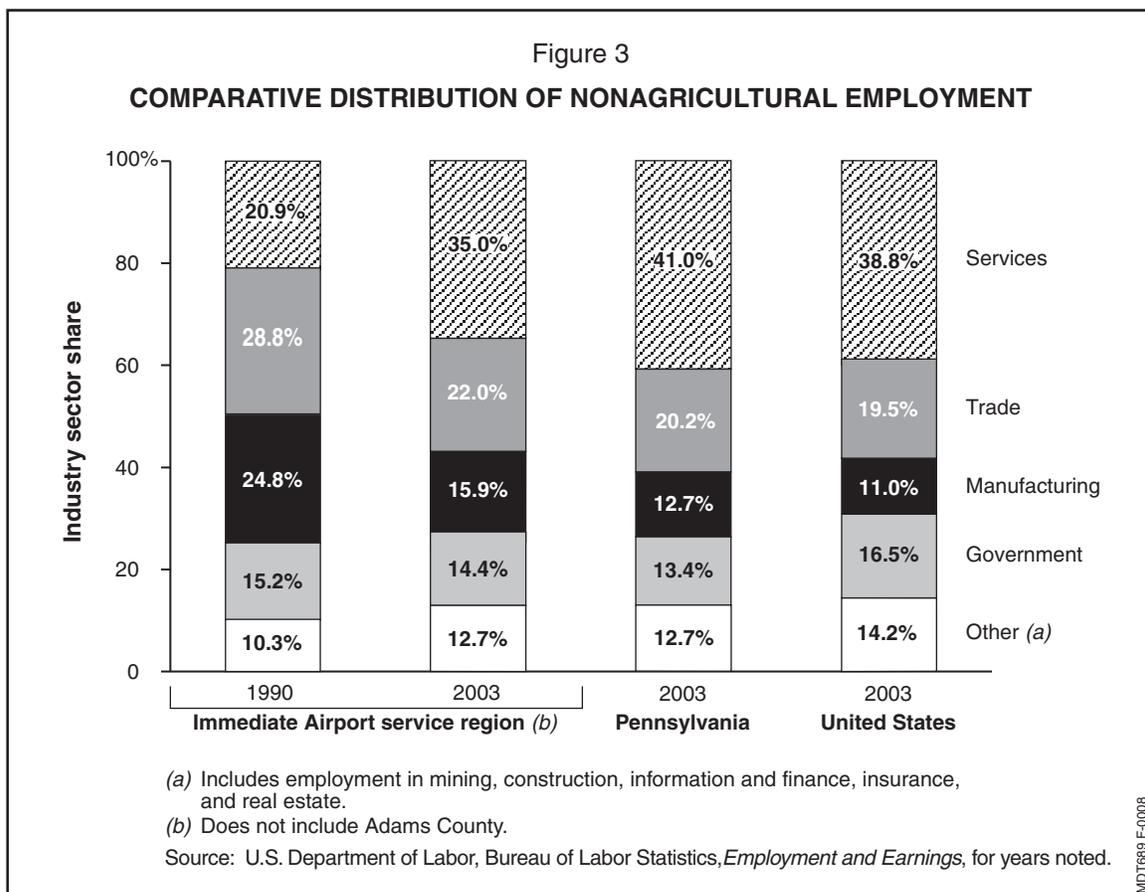
Source: U.S. Department of Labor, Bureau of Labor Statistics,
<http://stats.bls.gov/bls/employment.htm>.

Per Capita Income. According to the Bureau of Labor Statistics, per capita income in the immediate Airport service region historically grew at a rate similar to those for Pennsylvania and the nation as a whole between 1980 and 1990, and at a lower rate than those for Pennsylvania and the nation between 1990 and 2003. Per capita income in the immediate Airport service region increased an average of 2.4% per year between 1980 and 1990 and 1.9% per year between 1990 and 2003. The growth rate for the period between 1990 and 2002 (2.1%) compares to 2.5% for both the Commonwealth and the United States.

According to NPA, per capita income in the immediate Airport service region is projected to increase an average of 1.2% per year between 2002 and 2020, compared to 1.3% for the Commonwealth and 1.4% for the nation.

According to a survey conducted by the Center for Survey Research, Pennsylvania State University-Harrisburg, between June 2001 and June 2002, the nationwide median annual household income was \$42,148, while that of the Commonwealth was \$43,742. The income for travelers surveyed at the Airport whose trip originated from the Airport service region was \$65,000.

Employment by Industry Sector. Figure 3 shows the major nonagricultural employment sectors for the immediate Airport service region (excluding Adams County, data for which are not reported by the U.S. Department of Labor, Bureau of Labor Statistics) for 1990 and 2003, and for the Commonwealth and the nation in 2003. Employment in services (35.0%), trade, transportation and utilities (22.0%), and manufacturing (15.9%) accounted for more than 70% of total nonagricultural employment in the immediate Airport service region in 2003.



Services. The services sector is the largest employment sector in the immediate Airport service region (as it is in the Commonwealth and the nation). This sector includes a wide range of businesses, such as health care and health-related services and technology and computer-related services. While the

employment shares of the other major nonagricultural employment sectors decreased between 1990 and 2003, the services sector share increased significantly.

Trade, Transportation and Utilities. This sector accounts for a significant portion of nonagricultural employment in the immediate Airport service region (22.0%, compared with 19.5% nationwide), reflecting the role of southcentral Pennsylvania as a major trading center in the Commonwealth. A significant number of distribution centers are located in the immediate Airport service region.

Manufacturing. Manufacturing accounted for 15.9% of total nonagricultural employment in the immediate Airport service region in 2003. Major manufacturers in the area include Tyco Electronics Corporation, Hershey Foods Corporation, York International Corporation, Harley-Davidson Motor Company, Armstrong Holdings, Harsco Corporation, and Starbucks Corporation. Manufacturing employment declined as a percentage of total employment, from 24.8% in 1990 to 15.9% in 2003, reflecting a decrease in manufacturing activity consistent with national trends. Table 5 lists the 10 largest manufacturing companies in the immediate Airport service region, ranked by revenue for 2000.

Table 5
LARGEST LOCAL MANUFACTURERS
Immediate Airport Service Region (a)
2000

Company name	Products manufactured	Total corporate revenue (billions)
Tyco Electronics Corp.	Electrical and electronic connectors	\$5.8
Hershey Foods Corp.	Chocolate and nonchocolate confectionary	4.2
York International Corp.	Heating, ventilating, air conditioning, and refrigeration	3.9
Armstrong Holdings, Inc.	Floor coverings, ceiling tiles, grid systems	3.0
Harsco Corp.	Diversified industrial services and products	2.0
Dentsply International, Inc.	Dental supplies and equipment	0.9
Graham Packaging Co.	Plastic containers	0.8
Glatfelter Co.	Specialty paper and engineered products	0.7
New Holland North America	Agriculture and construction equipment	0.7
Hanover Foods Corp.	Canned and frozen vegetables	0.3

(a) Data for Cumberland, Dauphin, Lancaster, Lebanon, and York counties only.

Source: *Central Penn Business Journal*, "Book of Lists", 2002 edition.

Government. With Harrisburg as the capital of Pennsylvania, government continues to be a major employer in the immediate Airport service region. In 2003, 14.4% of total nonagricultural employment was related to local, Commonwealth, and federal government. A significant share of economic activity in the immediate Airport service region has historically been tied to the government sector, traditionally a stable base in the economy. Although the government still contributes to the economic stability of the region, the economy has diversified significantly in other growing sectors. Employment growth in other sectors has established a trend of economic diversification and reduced reliance on governmental employment as the basis of economic stability.

Major Employers. Table 6 lists the largest employers in the immediate Airport service region as of 2000, the most recent year for which data are available. Although the largest private sector employers in the region employ substantially fewer people than the largest public sector employers (e.g., the Commonwealth), the

Table 6
LARGEST LOCAL EMPLOYERS
Immediate Airport Service Region (a)
2000

Employers	Industry	Number of local full-time employees
Commonwealth of Pennsylvania	State government	22,039
U.S. Government	Federal government	11,471
U.S. Postal Service	U.S. Postal Service	6,327
Hershey Foods Corp	Manufacturing	5,473
Pennsylvania High Mark	Health insurance	5,200
Naval Support Activity Center	U.S. military	4,774
WellSpan Health	Health care	3,842
Milton S. Hershey Medical Center	Health care	3,614
PinnacleHealth System	Health care	3,133
Harley-Davidson Motor Company	Manufacturing	3,100
Wal-Mart Stores Inc.	Retail	3,050
Lancaster General Hospital	Health care	2,416
High Industries Inc.	Diversified	2,310
Giant Foods Stores	Retail	2,295
York County	Government	2,195

(a) Data for Cumberland, Dauphin, Lancaster, Lebanon, and York counties only.

Source: *Central Penn Business Journal*, February 15, 2002.

private sector accounts for 86% of total nonagricultural employment in the region. The list of major employers reflects the diversity of the companies and organizations in the region.

2.2.2 Economic Outlook

The immediate Airport service region is expected to experience growth in population, nonagricultural employment, and per capita income at rates exceeding those for the Commonwealth of Pennsylvania, and slightly lower than those projected for the nation as a whole (except for per capita income, which is expected to be slightly lower than both the Commonwealth of Pennsylvania and the nation), as indicated by the independent projections presented in Table 3. This outlook is reflected in the forecasts of airline traffic presented later in this report.

2.3 HISTORICAL AIRLINE TRAFFIC

This section presents information on airlines serving the Airport, enplaned passengers and factors that have influenced passenger numbers, airline market shares, origin-destination markets and airline service, airline fares, cargo activity, and aircraft landed weight.

2.3.1 Airlines Serving the Airport

As of July 2004, 11 scheduled passenger airlines—4 major/national U.S. airlines and 7 regional/commuter airlines—provide scheduled service at the Airport, as shown in Table 7. Eight all-cargo airlines also provide scheduled service at the Airport.

2.3.2 Enplaned Passengers

Table 8 presents data on enplaned passengers at the Airport since 1980. The number of enplaned passengers increased an average of 0.7% per year between 1990 and 2000, from 621,511 to 664,202, and decreased 11.9% between 2000 and 2001 to 585,286. The number of enplaned passengers increased 14.5% between 2001 and 2003 to 670,269, representing an average annual increase of 0.6% between 1990 and 2003.

Table 7

SCHEDULED AIRLINES SERVING HARRISBURG INTERNATIONAL AIRPORT
July 2004

Major/national	Regional/commuter	All-cargo airlines
Northwest Airlines	Air Canada (a)	Active Aero
TransMeridian Airlines	American Eagle	Air Cargo Carriers
United Airlines	Comair (b)	Air Now
US Airways	Continental Express (c)	DHL Worldwide Express
	Northwest AirlinK (d)	Emery Worldwide
	United Express (e)	FedEx
	US Airways Express (f)	UPS Air Cargo
		Wiggins Airways

(a) Operated by Air Canada Jazz and Air Georgian.

(b) Operating as Delta Connection.

(c) Some flights operated by CommutAir.

(d) Operated by Pinnacle Airlines.

(e) Operated by Air Wisconsin, Atlantic Coast Airlines, and Trans States Airlines. Atlantic Coast Airlines has stated that it intends to cease its arrangement with United Airlines by August 5, 2004.

(f) Operated by Mesa Airlines, Pinnacle Airlines, and Trans States Airlines.

Sources: Official Airline Guides, Inc., online database, July 2004 and Susquehanna Area Regional Airport Authority records.

Table 8

HISTORICAL ENPLANED PASSENGERS

Year	Enplaned passengers	Average annual percentage increase (decrease)
1980	382,061	--%
1985	418,698	1.8
1990	621,511	8.2
1991	595,074	(4.3)
1992	657,239	10.4
1993	673,100	2.4
1994	696,673	3.5
1995	622,615	(10.6)
1996	582,760	(6.4)
1997	743,153	27.5
1998	740,325	(0.4)
1999	714,658	(3.5)
2000	664,202	(7.1)
2001	585,286	(11.9)
2002	676,738	15.6
2003	670,269	(1.0)
Jan.-June 2003	325,264	--
Jan.-June 2004	347,115	6.7%
1980-2003		2.5%
1990-2000		0.7
1990-2003		0.6

Sources: 1980 and 1985: Pennsylvania DOT, Bureau of Aviation.
1990-June 2004: Susquehanna Area Regional Airport
Authority records.

Key factors that have affected historical numbers of enplaned passengers at the Airport over this period include:

- **Economic growth in the region.** The effects of downturns and events in the national and regional economies have been factors in reducing numbers of enplaned passengers in certain years, such as 1991 and 2001. Growth in the national and regional economies has helped to generate positive growth in numbers of enplaned passengers in other years.
- **Airline service at the Airport.** Airline service at the Airport has mostly been provided by the major/national airlines and their regional/commuter affiliates. Key events include:
 - **1993 – present: Southwest Airlines provides service at Baltimore/Washington International Airport.** In 1993, Southwest Airlines began low-fare service at Baltimore/Washington International Airport, and has identified Baltimore as a “focus city”, with 157 scheduled average daily departures from this airport as of July 2004. Southwest Airlines’ focus cities have relatively high service concentrations and connection opportunities, and include airports such as Chicago Midway International Airport, Nashville International Airport, and Phoenix Sky Harbor International Airport. As shown earlier in Table 2, Baltimore/Washington International Airport is a 97-mile drive from the Airport. As discussed later in Section 2.3.5, and summarized in Table 15, airline airfares were consistently lower at Baltimore/Washington International Airport than at either Harrisburg or Philadelphia international airports between 1995 and 2003. As also discussed in Section 2.3.5 and shown in Table 15, the number of departing seats at the Airport decreased an average of 3.3% per year between 1995 and 2003. In comparison, the number of departing seats at Baltimore/Washington and Philadelphia international airports increased an average of 4.2% and 3.1% per year, respectively, between 1995 and 2003.
 - **1998 – 2001: MetroJet provided service at Baltimore/Washington International Airport.** In addition to Southwest Airlines initiating service in 1993, US Airways developed service at Baltimore/Washington International Airport between 1998 and 2001 through its low-fare subsidiary, MetroJet, and did not develop competitive service at the Airport. US Airways’ customers in southcentral Pennsylvania were, therefore, offered alternative, relatively convenient, low-fare service compared to that provided from the Airport, resulting in additional diversion of passengers within the Airport service region to nearby airports. This diversion, already an issue with the presence of Southwest Airlines at Baltimore/Washington International Airport, became more pronounced. In March 2001, MetroJet ceased operations nationwide, and by July 2001, the rate of diversion slowed.

- **1997: AirTran Airways initiated service at the Airport.** The 27.5% increase in enplaned passengers at the Airport in 1997, as shown in Table 8, was partially the result of AirTran Airways initiating low-fare service to Orlando International Airport from the Airport in February of that year. AirTran Airways eliminated this service in November 1997, reportedly as a result of the poor economics of providing a single daily departure at the Airport. Subsequently, AirTran Airways merged with ValuJet and then reorganized under the same name.
- **Terrorist attacks on September 11, 2001.** The passenger totals for 2001 were significantly affected by the terrorist attacks on September 11, 2001, as discussed later in this section. Based on recent activity and scheduled airline service, it appears that the effects at the Airport of the September 11, 2001, terrorist attacks were temporary and, based on assumptions discussed later in this report, that passenger traffic has resumed its long-term growth trend.
- **US Airways reorganization.** US Airways, together with its regional/commuter airline affiliates, enplaned 36.8% of passengers at the Airport in 2003, more than any other airline serving the Airport. On August 11, 2002, US Airways filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code, citing severe financial losses subsequent to the events of September 11, 2001, as the underlying cause of its financial difficulties (discussed in more detail in Section 2.4.6). On March 31, 2003, US Airways completed its reorganization and emerged from bankruptcy.

Since emerging from bankruptcy, and as summarized for the months of July 2003 and July 2004 (see Table 12), US Airways has reduced service at the Airport from 5 daily departures to 4, but has maintained 15 regional/commuter affiliate daily departures. In April 2004, US Airways announced that it would reduce emphasis on connecting activity at its Charlotte and Pittsburgh hubs and increase “point-to-point” service. In July 2004, US Airways announced that Pittsburgh would cease to be a hub for the airline as early as November 2004--with a slight reduction in service between August and September 2004; a reduction in daily departures from 373 to approximately 240, and a reduction in cities served from 102 to 65, as of November 2004. Specific cities to lose service from Pittsburgh have not yet been announced by US Airways. It is not yet known whether these changes in service at Pittsburgh International Airport will have an effect on service at the Airport. However, it is not expected that any such changes would have a significant long-term effect on enplaned passengers at the Airport, given its high percentage of origin-destination passengers.

It should be noted that in July 2004, US Airways operated 2 daily narrowbody and 4 daily regional/commuter aircraft departures to Pittsburgh, and 2 daily narrowbody aircraft departures to Charlotte. If service reductions are considered at these airports, that service could be transferred to the US Airways main hub in Philadelphia. US Airways' senior management has indicated that a second Chapter 11 bankruptcy filing is a possibility. Because the Airport serves predominantly as an origin and destination facility with minimal connecting air traffic, any potential cessation of operations by US Airways would likely have little or no effect on passenger traffic in the long term. However, such cessation of service could have a negative effect on enplaned passenger numbers at the Airport in the short term. US Airways has recently made or is expected to make certain service changes at the Airport, including:

- Initiated weekly service to Orlando International Airport, effective June 12, 2004
- Added a third daily regional jet flight to Charlotte in July 2004
- Upgraded certain flights to Pittsburgh from turboprop to regional jet equipment in July 2004
- **United Airlines bankruptcy.** On December 9, 2002, UAL Corporation, parent of United Airlines, filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In 2003, United Airlines, together with its regional/commuter airline affiliate, enplaned 19.9% of passengers at the Airport. In April 2004, United Airlines stated that several major issues were yet to be resolved prior to exiting from Chapter 11 proceedings. At the time of this report, United Airlines indicated that it would attempt to exit bankruptcy in the fall of 2004.
- **Increases in low fare airline service.** Consistent with national trends, low fare airline service at the Airport and in the region has increased.
 - *The Airport.* TransMeridian Airlines introduced twice-weekly service to Orlando Sanford Airport effective February 26, 2004, and increased service to three weekly departures effective April 24, 2004.
 - *Other regional airports.* Effective May 9, 2004, Southwest Airlines initiated low-fare airline service at Philadelphia International Airport, with approximately 14 daily departures, increasing to approximately 26 scheduled daily departures in July 2004. Effective May 23, 2004, Frontier Airlines initiated low-fare airline service at Philadelphia International Airport, with 3 daily departures. In response, US Airways announced lower airline fares at Philadelphia International Airport effective May 9, 2004. Effective June 16, 2004, Independence Air (formerly Atlantic Coast Airlines, a United Airlines

regional affiliate) initiated low fare service from Washington Dulles International Airport, initially using regional/commuter aircraft and later to use Airbus A-319 narrowbody aircraft.

Table 9 shows the year-to-year changes, by month, in numbers of enplaned passengers at the Airport from January 2000 through June 2004. Key conclusions include:

- Monthly enplaned passengers were lower in every month of 2001 compared to 2000 as a result of a slowdown in the national and local economies and continued air service development at nearby airports (e.g., Southwest Airlines' service at Baltimore/Washington International Airport). This decline accelerated from September 2001 onward as a result of the terrorist attacks.
- Monthly numbers of enplaned passengers in January through March 2002 were lower than in the same months of 2001, but then began to recover—the number of passengers increased 15.6% for the full year of 2002, compared with 2001.
- Monthly numbers of enplaned passengers from April 2003 through January 2004 were lower than for the same months of the prior year (except for October 2003), but then recovered strongly in February through May 2004, most likely as a result of more competitive airline fares and the initiation of service by TransMeridian Airlines

Table 9

MONTHLY CHANGES IN ENPLANED PASSENGERS FROM PRIOR YEAR

	2001			2002		
	2000 Enplaned passengers	Enplaned passengers	Percent increase (decrease) from 2000	Enplaned passengers	Percent increase (decrease) from 2001	Percent increase (decrease) from 2000 (a)
January	48,946	45,283	(7.5%)	43,099	(4.8%)	(11.9%)
February	48,513	44,378	(8.5)	43,084	(2.9)	(11.2)
March	58,106	52,273	(10.0)	52,231	(0.1)	(10.1)
April	54,671	50,045	(8.5)	53,295	6.5	(2.5)
May	59,947	54,641	(8.9)	58,559	7.2	(2.3)
June	62,935	58,719	(6.7)	63,576	8.3	1.0
July	58,678	57,823	(1.5)	63,081	9.1	7.5
August	57,665	56,493	(2.0)	65,085	15.2	12.9
September	52,730	32,391	(38.6)	57,022	76.0	8.1
October	61,442	46,358	(24.5)	63,688	37.4	3.7
November	54,955	46,241	(15.9)	56,115	21.4	2.1
December	<u>45,614</u>	<u>40,641</u>	(10.9)	<u>57,903</u>	42.5	26.9
Total	664,202	585,286	(11.9%)	676,738	15.6%	1.9%
	2003			2004		
	Enplaned passengers	Percent increase (decrease) from 2002	Percent increase (decrease) from 2000 (a)	Enplaned passengers	Percent increase (decrease) from 2003	Percent increase (decrease) from 2000 (a)
January	51,976	20.6%	6.2%	49,279	(5.2%)	0.7%
February	47,793	10.9	(1.5)	49,840	4.3	2.7
March	55,074	5.4	(5.2)	59,844	8.7	3.0
April	51,472	(3.4)	(5.9)	59,490	15.6	8.8
May	57,696	(1.5)	(3.8)	61,235	6.1	2.1
June	61,253	(3.7)	(2.7)	67,427	10.1	7.1
July	60,685	(3.8)	3.4			
August	57,416	(11.8)	(0.4)			
September	54,242	(4.9)	2.9			
October	64,107	0.7	4.3			
November	55,755	(0.7)	1.5			
December	<u>52,800</u>	(8.8)	15.8			
Total	670,269	(1.0%)	0.9%			

n.a. = Not available.

(a) Not annualized.

Source: Susquehanna Area Regional Airport Authority records.

Figure 4 shows monthly enplaned passenger data for the Airport for January 2001 through June 2004.

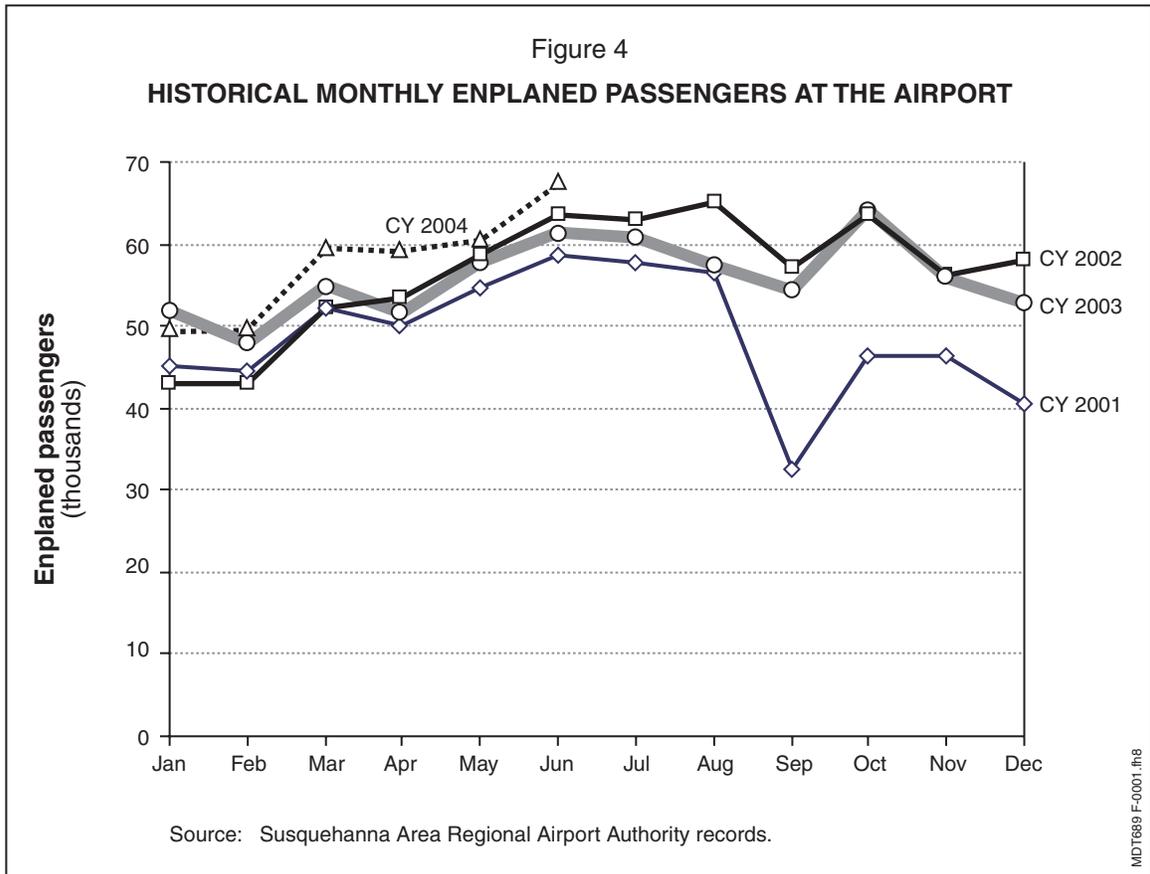
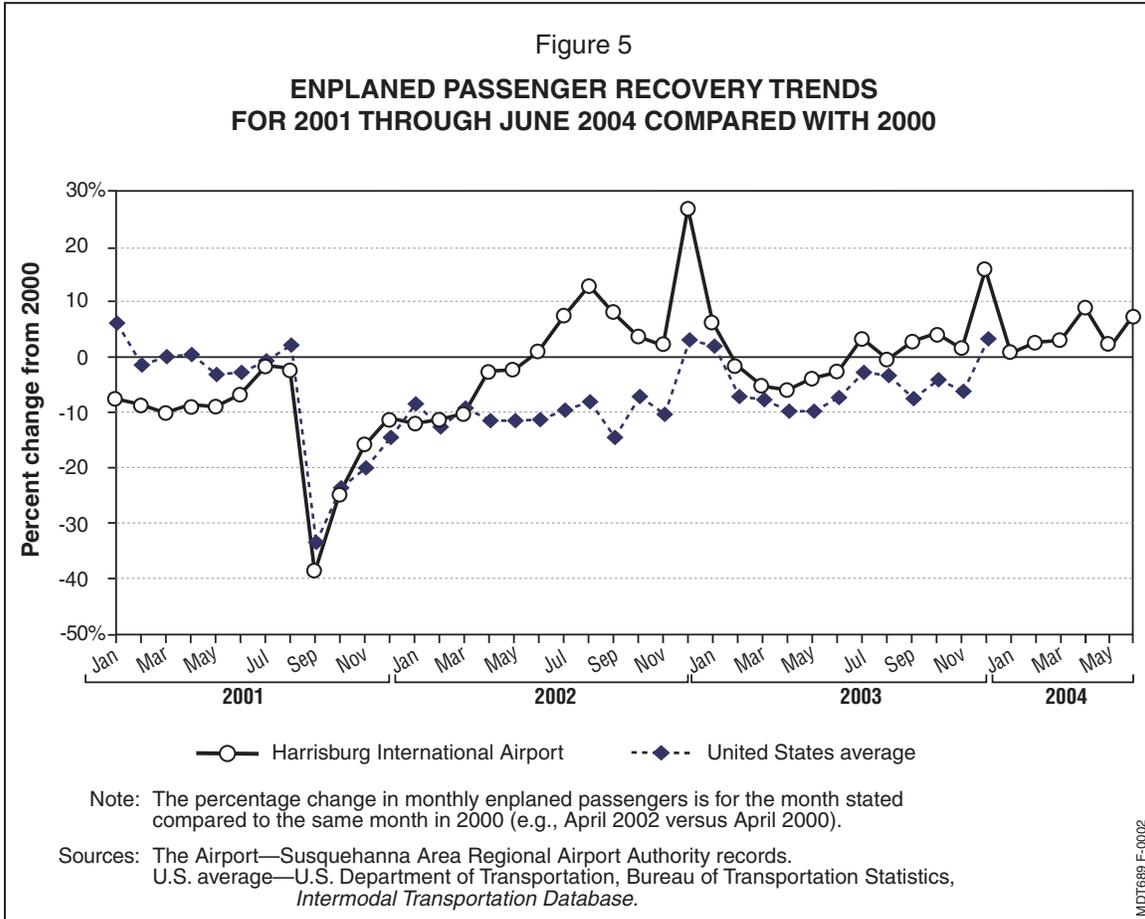


Figure 5 presents a comparison of monthly enplaned passenger growth at the Airport and in the nation for 2001 through June 2004 with that for 2000. For the Airport, it shows (1) a recovery from the events of September 11, 2001, between April 2002 and January 2003, followed by (2) a period of generally negative growth between March and June 2003, and (3) a positive growth trend from July 2003 onwards. When compared to national recovery trends, enplaned passenger growth at the Airport has been relatively higher since February 2002.



2.3.3 Airline Market Shares

Table 10 shows the airline market shares of enplaned passengers at the Airport for 2000 through 2003. US Airways continues to enplane the largest share of passengers. However, together with its commuter affiliates, its market share of enplaned passengers declined from approximately 44% in 2000 to approximately 37% in 2003. Since the terrorist attacks of September 11, 2001, there has been a significant shift of service at the Airport from mainline carriers to their regional/commuter partners. For example, when Delta Air Lines discontinued mainline jet service at the Airport in November 2001, its regional/commuter affiliate Comair assumed Delta's service. The same was true when American discontinued service at the Airport in October 2002. American Airlines (and Northwest Airlines) increased regional/commuter activity at the Airport, with regional/commuter affiliates American Eagle and Pinnacle Airlines, respectively. Also, United Airlines reduced its mainline jet service, replacing it with regional/commuter service by March 2003. In 2003, the regional/commuter airlines accounted for about 62% of enplaned passengers at the Airport compared to about 34% in both 2000 and 2001 and 48% in 2002.

Table 10

AIRLINE MARKET SHARES OF ENPLANED PASSENGERS
Harrisburg International Airport
2000-2003

Passenger airlines	2000		2001		2002		2003	
	Number	Percent of total						
Major/national and charter								
US Airways	183,372	27.6%	167,611	28.7%	173,978	25.7%	139,718	20.8%
United Airlines	74,267	11.2	75,349	12.9	85,364	12.6	57,561	8.6
Delta Air Lines (a)	68,512	10.3	53,849	9.2	--	--	--	--
American Airlines (b)	59,219	8.9	44,085	7.5	34,645	5.1	--	--
Northwest Airlines	52,243	7.9	46,229	7.9	55,868	8.3	56,572	8.4
TWA (c)	2,050	0.3	--	--	--	--	--	--
Charter	<u>2,603</u>	<u>0.4</u>	<u>865</u>	<u>0.1</u>	<u>3,756</u>	<u>0.6</u>	<u>2,636</u>	<u>0.4</u>
	442,266	66.6%	387,988	66.3%	353,611	52.3%	256,487	38.2%
Regional/commuter								
US Airways Express (d)	107,116	16.1%	88,783	15.2%	112,639	16.6%	106,685	15.9%
Comair	51,352	7.7	35,552	6.1	108,197	16.0	116,973	17.5
Delta Connection (e)	--	--	--	--	3,765	0.6	1,483	0.2
American Eagle	--	--	11,396	1.9	24,310	3.6	54,411	8.1
United Express (f)	28,931	4.4	27,020	4.6	26,123	3.9	75,778	11.3
Continental Express	17,117	2.6	16,401	2.8	22,098	3.3	24,116	3.6
CommutAir (g)	--	--	937	0.2	5,074	0.7	3,691	0.6
Air Canada (h)	8,689	1.3	7,463	1.3	8,440	1.2	6,597	1.0
Shuttle America (i)	--	--	--	--	258	--	--	--
Northwest Airlink (j)	<u>8,731</u>	<u>1.3</u>	<u>9,746</u>	<u>1.6</u>	<u>12,223</u>	<u>1.8</u>	<u>24,048</u>	<u>3.6</u>
	<u>221,936</u>	<u>33.4%</u>	<u>197,298</u>	<u>33.7%</u>	<u>323,127</u>	<u>47.7%</u>	<u>413,782</u>	<u>61.8%</u>
Total passenger airlines	664,202	100.0%	585,286	100.0%	676,738	100.0%	670,269	100.0%

Table 10 (page 2 of 2)
AIRLINE MARKET SHARES OF ENPLANED PASSENGERS
Harrisburg International Airport
2000-2003

Passenger airlines	2000		2001		2002		2003	
	Number	Percent of total	Number	Percent of total	Number	Percent of total	Number	Percent of total
Airline Groups (k)								
US Airways	290,488	43.7%	256,394	43.8%	286,617	42.4%	246,403	36.8%
Delta	119,864	18.0	89,401	15.3	111,962	16.5	118,456	17.7
United	103,198	15.5	102,369	17.5	111,487	16.5	133,339	19.9
Northwest	60,974	9.2	55,975	9.5	68,091	10.1	80,620	12.0
American	61,269	9.3	55,481	9.5	58,955	8.7	54,411	8.1
Continental	17,117	2.6	17,338	3.0	27,172	4.0	27,807	4.1
Other	<u>11,292</u>	<u>1.7</u>	<u>8,328</u>	<u>1.4</u>	<u>12,454</u>	<u>1.8</u>	<u>9,233</u>	<u>1.4</u>
Total	664,202	100.0%	585,286	100.0%	676,738	100.0%	670,269	100.0%

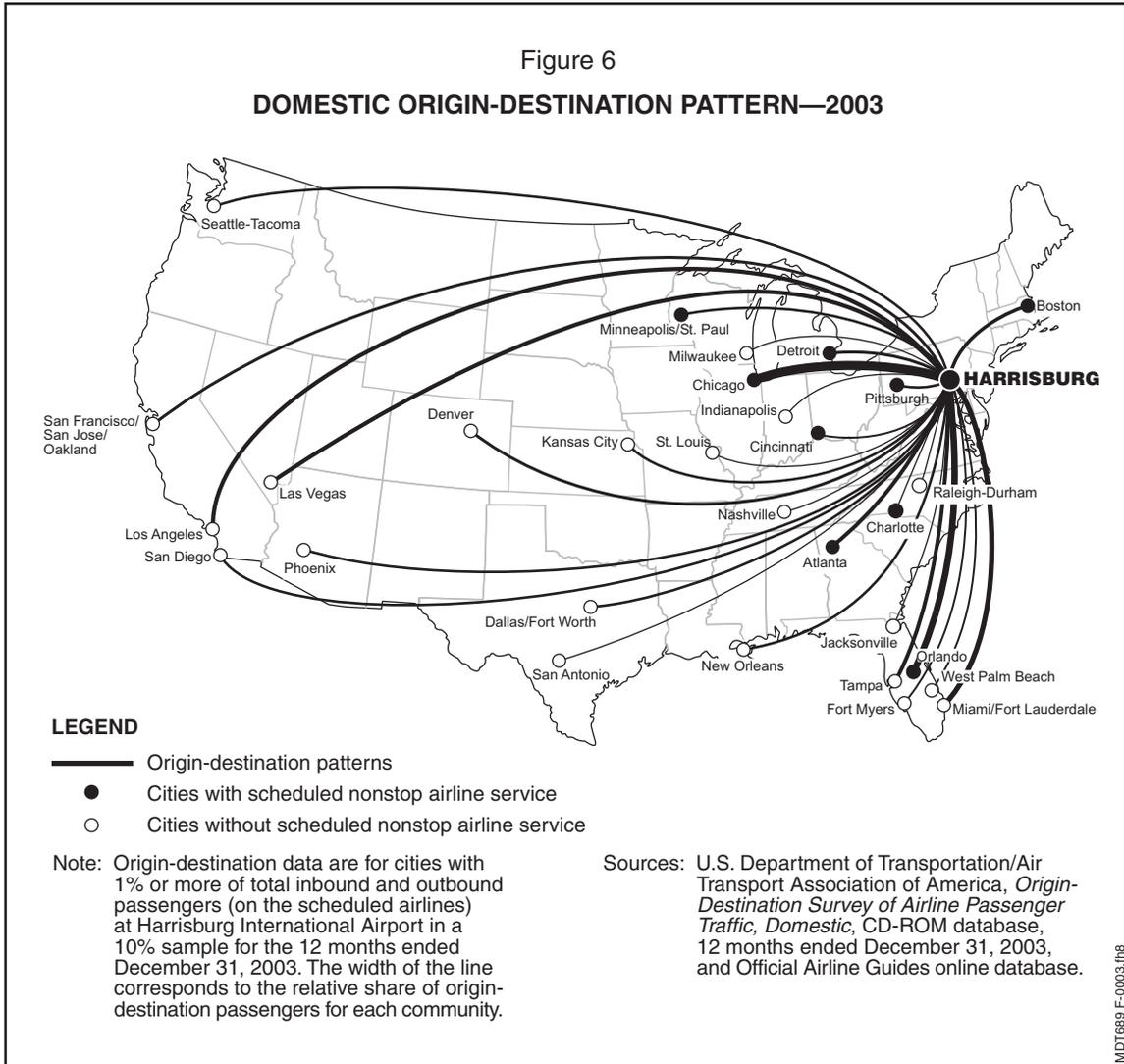
Note: The Authority's fiscal year is the same as the calendar year.

- (a) Delta Air Lines discontinued service at the Airport in November 2001.
- (b) American Airlines discontinued service at the Airport in October 2002.
- (c) Acquired by American Airlines in April 2001.
- (d) Operated by Allegheny Airlines and Trans States Airlines (since September 2003).
- (e) Operated by Atlantic Southeast Airlines, which operated at the Airport between March 2002 and May 2003.
- (f) Operated by Atlantic Coast Airlines.
- (g) Initiated service in August 2001.
- (h) Operated by Air Georgian.
- (i) Initiated and discontinued service at the Airport in 2002.
- (j) Operated by Mesaba Airlines (until October 2002), Pinnacle Airlines, and Express Airlines (in 2001 only).
- (k) Includes major/national and regional/commuter airlines.

Source: Susquehanna Area Regional Airport Authority records.

2.3.4 Origin-Destination Markets and Airline Service

Table 11 shows the 30 origin and destination markets that accounted for 1% or more of the total scheduled domestic airline passengers at the Airport in 2003. These markets accounted for nearly 67% of the total scheduled origin and destination passengers at the Airport. The origin-destination patterns are illustrated on Figure 6.



The Chicago area is the top destination for origin-destination passengers at the Airport, accounting for 6.4% of the total in 2003. Airports in Florida (Orlando International, Miami International, Fort Lauderdale-Hollywood International, Tampa International, Palm Beach International, Southwest Florida International in Fort Myers, and Jacksonville) accounted for 17.2% of the total origin-destination passengers at the Airport in 2003. Other major destinations included Atlanta, Boston, Las Vegas, Los Angeles, San Francisco, Dallas/Fort Worth, and Denver. Of

Table 11
DOMESTIC PASSENGER DESTINATION PATTERN AND AIRLINE SERVICE
Harrisburg International Airport
2003 (except as noted)

Origin-destination markets (a)	Air miles from Harrisburg	Percent of total origin- destination passengers	Average daily scheduled nonstop departures (b)
Chicago (c)	594	6.4%	10
Orlando	851	5.9	4 times weekly (d)
Miami/Fort Lauderdale (e)	1,001	4.0	--
Atlanta	619	3.5	4
Tampa	904	3.5	--
Boston	335	3.3	2
Las Vegas	2,094	3.2	--
Los Angeles (f)	2,310	3.2	--
San Francisco (g)	2,434	2.4	--
Denver	1,474	2.1	--
Detroit	370	2.1	4
Dallas/Fort Worth (h)	1,232	1.9	--
Phoenix	1,995	1.8	--
Minneapolis/St. Paul	898	1.8	2
Pittsburgh	185	1.7	5
Seattle-Tacoma	2,297	1.7	--
San Diego	2,289	1.7	--
Kansas City	956	1.6	--
New Orleans	1,036	1.6	--
Fort Myers	984	1.4	--
Cincinnati	429	1.4	5
West Palm Beach	951	1.3	--
Charlotte	412	1.2	3
Indianapolis	506	1.2	--
Nashville	608	1.2	--
St. Louis	733	1.2	--
Milwaukee	607	1.2	--
Jacksonville	725	1.1	--
San Antonio	1,430	1.1	--
Raleigh-Durham	318	<u>1.0</u>	<u>--</u>
Top 30 cities		66.7%	35
Other cities		<u>33.3</u>	<u>16 (i)</u>
All cities		100.0%	51

- (a) Markets with 1% or more of total inbound and outbound passengers (on scheduled airlines) at Harrisburg International Airport on the basis of a 10% sample for the 12 months ended December 31, 2003.
- (b) Official Airline Guides, Inc., online database, for July 2004 and the Susquehanna Area Regional Airport Authority.
- (c) Chicago O'Hare and Midway international airports.
- (d) As of July 2004, TransMeridian Airlines and US Airways are operating 3 weekly flights (to Orlando Sanford International Airport) and 1 weekly flight (to Orlando International Airport), respectively.
- (e) Miami and Fort Lauderdale-Hollywood international airports.
- (f) Los Angeles International, Bob Hope, John Wayne (Orange County), Ontario International, and Long Beach airports.
- (g) San Francisco, Mineta San Jose, and Oakland international airports.
- (h) Dallas/Fort Worth International Airport and Love Field.
- (i) Of these flights, 8 are to Philadelphia; 4 are to Washington, D.C.; 2 are to Cleveland; and 2 are to Albany. Additionally, Air Canada has 3 international daily nonstop departures to Toronto, which are excluded from this analysis of domestic airline service. The percentage of total origin-destination passengers for New York airports (John F. Kennedy International, LaGuardia, and Newark Liberty International airports) is 0.4%.

Source: U.S. Department of Transportation/Air Transport Association of America, *Origin-Destination Survey of Airline Passenger Traffic, Domestic*, CD-ROM database, for 12 months ended December 31, 2003, except as noted.

the top 10 origin-destination markets, 6 are medium-haul routes (between 500 and 1,500 miles) and 3 are long-haul routes (1,500 miles or longer).

Table 11 also presents the average daily nonstop departures to the origin-destination cities listed, as of July 2004. Of the total 51 average daily domestic nonstop departures, 35 are to the top 30 origin-destination markets shown in Table 11. As of July 2004, the Airport has nonstop service to 9 of the 30 top origin-destination markets, although it should be noted that one of these markets (Orlando) has less-than-daily service as of July 2004.

As of July 2004, airlines serving the Airport offer nonstop service to Albany, Atlanta, Boston, Charlotte, Chicago, Cincinnati, Cleveland, Detroit, Minneapolis/St. Paul, Orlando, Philadelphia, Pittsburgh, and Washington, D.C., as shown on Figure 7. Additionally, Air Canada, operated by Air Canada Jazz and Air Georgian, provides 3 international nonstop daily flights to Toronto.



Table 12 shows the scheduled average daily nonstop departures from the Airport by airline for July, 2001 through 2004. The amount of nonstop service at the Airport has remained relatively constant despite the negative effects of the terrorist attacks on passenger traffic. Delta Air Lines discontinued service on November 1, 2001, at which point its regional/commuter affiliate (Comair) increased its number of daily nonstop departures. Since 2000, seven commuter airlines have initiated service at the Airport, including Air Canada Jazz, Air Wisconsin (a United Airlines affiliate), American Eagle, Atlantic Southeast Airlines (Delta Connection), CommutAir, Shuttle America, and Trans States Airlines (a United Airlines and US Airways affiliate). Express Airlines, a Northwest Airlines regional/commuter affiliate, operated at the Airport for 2 months in 2001. In March 2002, Shuttle America discontinued service at the Airport. In October 2002, when American Airlines discontinued air carrier service at the Airport, its regional/commuter affiliate, American Eagle, added the same number of flights to Chicago. In June 2003, Atlantic Southeast discontinued service at the Airport; however, Comair added approximately the same number of flights to Atlanta. In June 2004, Allegheny Airlines ceased service at the Airport; however the other US Airways regional/commuter affiliate airlines described in Table 12 added approximately the same number of flights. Similarly, United Airlines had reduced its daily narrowbody departures to 2 from 4 by February 2003, while increasing its regional/commuter departures to 7 by March 2003, compared to 4 narrowbody and 4 regional/commuter departures in July 2002. In February 2004, Transmeridian Airlines added service to Orlando Sanford International Airport.

Since September 11, 2001, airlines have reduced service nationwide in response to reduced passenger demand and to reduce costs. At the Airport, the service reductions have been temporary. Table 13 shows monthly scheduled service at the Airport in 2003 and for the first 7 months of 2004. In general, the negative growth trend in departing seats on 2003 has been reversed through July 2004.

Table 12

SCHEDULED AVERAGE DAILY NONSTOP DEPARTURES BY AIRLINE
Harrisburg International Airport

Airlines	Average daily scheduled nonstop departures (a)			
	July 2001	July 2002	July 2003	July 2004
Major/national				
American Airlines (b)	2	2	--	--
Delta Air Lines (c)	3	--	--	--
Northwest Airlines	3 (2)	3	3	3
Transmeridian Airlines	--	--	--	(d)
United Airlines	4	4	2	2
US Airways	<u>6</u>	<u>6</u>	<u>5</u>	<u>4</u>
Subtotal	18	15	10	9
Regional/commuter				
Air Canada (e)	1 (4)	3	2	3 (2)
American Eagle (b)	2	2	5	5
CommutAir (f)	--	3	2	2
Continental Express	4	3	2	2
Delta Connection (g)	4	9	9	9
Northwest Airlink (h)	2	1 (2)	2	3
United Express (i)	6	4	7	6 (7)
US Airways Express (j)	<u>17</u>	<u>17</u>	<u>15</u>	<u>15</u> (16)
Subtotal	<u>36</u>	<u>42</u>	<u>44</u>	<u>45</u> (46)
Total	53	56	54	54 (55)

Note: The totals and subtotals shown reflect Official Airline Guides data only and the columns may not add to totals shown because of rounding.

- (a) **The Authority has indicated that the Official Airline Guides data shown may be inaccurate. Data shown in parentheses are the number of aircraft departures as counted by the Authority. Data provided by the Authority for the week of July 19-25, 2004, also indicate that there are approximately 58 daily departures on weekdays.**
- (b) As of October 2002, American Eagle is providing service previously provided by American Airlines.
- (c) As of November 2001, Comair is providing service previously provided by Delta Air Lines.
- (d) Less than daily frequency.
- (e) Operated by Air Georgian, Air Ontario in 2001 only, and Air Canada Jazz in 2004 only.
- (f) Affiliated with Continental Express.
- (g) Operated by Atlantic Southeast Airlines (July 2002 only) and Comair.
- (h) Operated by Mesaba Airlines in July 2001, Mesaba Airlines and Pinnacle Airlines in July 2002, and Pinnacle Airlines in July 2003 and July 2004.
- (i) Operated by Atlantic Coast Airlines except for July 2004, when Air Wisconsin and Trans States Airlines also operated.
- (j) Operated by Allegheny Airlines except for July 2004, and Mesa Airlines, Pinnacle Airlines, and Trans States Airlines in July 2004 only.

Source: Official Airline Guides, Inc., online database, July 2004, except as noted.

Table 13
TREND IN MONTHLY SCHEDULED DEPARTURES AND DEPARTING SEATS
 2003 and 2004

	Daily nonstop departures		Daily nonstop departing seats	
	Number	Percent increase (decrease)	Number	Percent increase (decrease)
		from prior year		from prior year
2003				
January	51	1.1%	2,852	(4.3%)
February	52	3.9	2,822	(3.3)
March	52	(0.1)	2,847	(4.6)
April	56	6.3	2,936	(0.2)
May	57	7.6	2,995	0.0
June	58	5.4	3,097	(3.5)
July	54	(3.7)	2,999	(8.6)
August	53	(4.3)	2,988	(9.1)
September	55	(0.6)	2,959	(7.0)
October	56	7.6	2,973	(3.9)
November	50	(2.2)	2,749	(3.6)
December	52	(1.1)	2,825	(2.7)
2004				
January	53	4.1%	2,867	0.5%
February	56	7.4	3,006	6.5
March	55	4.1	2,976	4.5
April	55	(1.2)	3,073	4.7
May	55	(1.9)	3,115	4.0
June	56	(3.6)	3,141	1.4
July (a)	54	(0.1)	3,097	3.3

(a) Projected.

Source: Official Airline Guides, Inc., online database, July 2004.

2.3.5 Airline Fares

Airline fares are an important determinant of originating passenger demand. As shown in Table 14, average one-way airline fares at the Airport decreased 12% between 2001 and the fourth quarter of 2003. Average fares at the Airport and the comparison airports (Lehigh Valley International Airport in Allentown, Baltimore/Washington International Airport, and Philadelphia International Airport) decreased throughout 2002, but increased in the first quarter of 2003 before generally decreasing throughout 2003. In particular, airline fares at the Airport increased in the first through third quarters of 2003, but decreased in the fourth

quarter of that year. Table 14 also provides yield data (defined as airline revenue per passenger mile).

Table 14

COMPARISON OF AVERAGE ONE-WAY AIRFARES AND YIELDS AT SELECTED AIRPORTS

Airport location	2001	2002				2003			
		First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
Average one-way domestic airfares									
Harrisburg	\$203	\$197	\$178	\$165	\$165	\$178	\$181	\$184	\$178
Allentown	191	198	199	189	185	191	194	196	188
Baltimore	125	125	124	120	126	128	126	124	128
Philadelphia	188	179	173	168	168	183	175	174	172
Average one-way domestic yields									
Harrisburg	\$0.18	\$0.17	\$0.15	\$0.14	\$0.14	\$0.16	\$0.16	\$0.16	\$0.15
Allentown	0.18	0.17	0.18	0.17	0.16	0.17	0.17	0.17	0.17
Baltimore	0.11	0.11	0.11	0.11	0.12	0.12	0.12	0.11	0.12
Philadelphia	0.16	0.16	0.15	0.14	0.14	0.16	0.15	0.14	0.15

Source: U.S. Department of Transportation/Air Transport Association of America, *Origin/Destination Survey of Airline Passenger Traffic, Domestic*, CD ROM database.

Table 15 summarizes comparative historical scheduled departing seats and airline fares at Harrisburg, Baltimore/Washington, and Philadelphia international airports between 1995 and 2003. Baltimore/Washington International Airport has offered consistently lower airline fares than Harrisburg and Philadelphia international airports, with its airfares decreasing approximately 0.9% over that period, a greater rate than the decrease at Harrisburg International Airport of 0.7%. Average airfares at Philadelphia International Airport increased 0.4% over that period.

As shown in Table 16, for passengers traveling to Harrisburg International Airport's top 10 origin and destination markets—which accounted for 37.5% of the Airport's total passengers in 2003—the average one-way fare from the Airport (\$160) was slightly lower than the average one-way fare for all destinations (\$178) in the fourth quarter of 2003. The Airport generally has higher airline fares to its top 10 and total markets than the other airports (except Lehigh Valley International) shown in Table 16.

Table 15

COMPARATIVE HISTORICAL SCHEDULED DEPARTING SEATS, AIRFARES, AND YIELDS

	Harrisburg International			Baltimore/Washington International					Philadelphia International		
	Scheduled departing seats (a)	Average fare (b)	Average yield (b)	Southwest Airlines		Total scheduled			Scheduled departing seats (a)	Average fare (b)	Average yield (b)
				Scheduled departing seats	Percent of total	departing seats	Average fare (b)	Average yield (b)			
1995	1,395,363	\$191	\$0.18	994,523	9.5%	10,478,851	\$135	\$0.13	14,889,736	\$170	\$0.16
2000	1,307,300	215	0.20	5,095,113	35.3	14,451,896	134	0.12	20,954,181	199	0.18
2001 (c)	1,218,819	203	0.18	6,167,320	39.9	15,459,178	125	0.11	21,204,054	188	0.16
2002	1,117,332	175	0.15	6,576,414	45.4	14,482,110	123	0.11	19,942,976	172	0.15
2003	1,068,827	180	0.16	7,394,443	50.8	14,569,616	126	0.12	18,937,063	176	0.15
1995-2000	(1.3%)	2.4%	2.1%	38.7%	30.0%	6.6%	(0.2%)	(1.6%)	7.1%	3.2%	2.4%
1995-2003	(3.3)	(0.7)	(1.5)	28.5	23.3	4.2	(0.9)	(1.0)	3.1	0.4	(0.8)

(a) Official Airline Guides, Inc., April 2004.

(b) U.S. Department of Transportation/Air Transport Association of America, *Origin/Destination Survey of Airline Passenger Traffic, Domestic*, CD ROM database.

(c) Data are for scheduled service and may not reflect the effects of September 11, 2001.

Table 16

**COMPARISON OF AVERAGE ONE-WAY AIRLINE FARES
TO HARRISBURG'S TOP 10 MARKETS**
Fourth Quarter 2003

Top 10 Harrisburg markets	Harrisburg International		Lehigh Valley International		Baltimore/Washington International		Philadelphia International	
	Fare	Yield	Fare	Yield	Fare	Yield	Fare	Yield
Chicago (a)	\$185	\$0.31	\$190	\$0.28	\$114	\$0.18	\$178	\$0.26
Orlando	117	0.11	119	0.11	107	0.13	115	0.13
Miami - Fort Lauderdale (b)	127	0.11	140	0.11	115	0.12	119	0.12
Atlanta	192	0.29	159	0.22	122	0.21	122	0.18
Tampa	120	0.11	117	0.11	109	0.12	115	0.12
Boston	135	0.39	178	0.48	96	0.26	79	0.28
Las Vegas	155	0.07	170	0.08	143	0.07	157	0.07
Los Angeles (c)	213	0.09	218	0.09	183	0.08	209	0.09
San Francisco (d)	214	0.09	245	0.10	192	0.08	233	0.09
Denver	186	0.12	181	0.11	194	0.12	201	0.12
Average for top 10 markets	\$160	\$0.18	\$163	\$0.16	\$132	\$0.14	\$145	\$0.16
Average for all markets	\$178	\$0.15	\$188	\$0.17	\$128	\$0.12	\$172	\$0.15

(a) Chicago O'Hare and Midway international airports.

(b) Miami and Fort Lauderdale-Hollywood international airports.

(c) Los Angeles International, Bob Hope, John Wayne (Orange County), Ontario International, and Long Beach airports.

(d) San Francisco, Mineta San Jose, and Metropolitan Oakland international airports.

Source: U.S. Department of Transportation/Air Transport Association of America, *Origin-Destination Survey of Airline Passenger Traffic, Domestic*, Fourth Quarter 2003.

2.3.6 Cargo Activity

Recent trends in cargo activity at the Airport are summarized in Table 17. The total amount of cargo enplaned and deplaned at the Airport increased an average of 1.9% per year between 1990 and 2003.

Table 17

HISTORICAL AIR CARGO (FREIGHT PLUS MAIL)

<u>Calendar Year</u>	<u>Enplaned and deplaned cargo (tons)</u>	<u>Percent increase (decrease)</u>
1990	37,393	-- %
1991	33,602	(10.1)
1992	36,932	9.9
1993	38,397	4.0
1994	44,173	15.0
1995	45,989	4.1
1996	52,177	13.5
1997	62,064	18.9
1998	58,600	(5.6)
1999	61,473	4.9
2000	54,756	(10.9)
2001	46,523	(15.0)
2002	47,069	1.2
2003	47,969	1.9
January - June		
2003	24,111	--
2004	23,954	(0.7)
		Average annual increase
1990-2003 (a)		1.9%

(a) Average annual increase.

Source: Susquehanna Area Regional Airport Authority records.

As shown in Table 18, the all-cargo airlines serving the Airport consistently accounted for more than 98% of the total freight enplaned at the Airport in 2000 through 2003. The passenger airlines accounted for the remaining 1% to 2% of total enplaned freight.

Table 18
AIRLINE MARKET SHARES OF ENPLANED FREIGHT

Airline	2000		2001		2002		2003	
	Tons	Market share						
All-cargo airlines								
FedEx	11,981	44.3%	11,618	49.5%	12,099	48.8%	10,955	46.0%
UPS Air Cargo	5,693	21.0	5,589	23.8	5,840	23.6	6,437	27.0
Emery Worldwide	3,502	13.0	2,106	9.0	2,415	9.7	2,117	8.9
Airborne Express	3,065	11.3	2,845	12.1	2,957	11.9	3,218	13.5
BAX Global	1,117	4.3	--	--	--	--	--	--
Air Cargo Carriers	635	2.3	582	2.5	648	2.6	330	1.4
Other (a)	<u>626</u>	<u>2.3</u>	<u>449</u>	<u>1.9</u>	<u>611</u>	<u>2.6</u>	<u>556</u>	<u>2.4</u>
Subtotal	26,619	98.5%	23,189	98.8%	24,570	99.2%	23,613	99.2%
Passenger airlines								
	<u>423</u>	<u>1.5</u>	<u>266</u>	<u>1.1</u>	<u>204</u>	<u>0.8</u>	<u>197</u>	<u>0.8</u>
Total	27,042	100.0%	23,454	100.0%	24,774	100.0%	23,810	100.0%

Note: Mail is not included.

(a) Includes Active Aero, Air Now, Martinaire, Mid-Atlantic Freight, Mountain Air Cargo, Superior Aviation, Wiggins Airways, and miscellaneous international freight carriers.

Source: Susquehanna Area Regional Airport Authority records.

2.3.7 Aircraft Landed Weight

Table 19 presents historical aircraft landed weight at the Airport. From 1990 to 2003, total aircraft landed weight decreased an average of 1.1% per year. Passenger airline aircraft landed weight decreased an average of 2.1% per year. By comparison, the number of enplaned passengers increased an average of 0.6% per year. Landed weight for the all-cargo airlines increased an average of 3.2% per year between 1990 and 2003, compared to 1.9% average annual growth in total air cargo for the same period.

Table 19
HISTORICAL AIRCRAFT LANDED WEIGHT

Calendar year	1,000-pound units			Average annual percent increase (decrease)
	Passenger airlines	All-cargo airlines	Total	
1990	1,306,400	209,400	1,515,800	--%
1991	1,299,102	218,231	1,517,333	0.1
1992	1,374,863	207,381	1,582,244	4.3
1993	1,328,149	190,319	1,518,468	(4.0)
1994	1,296,041	232,539	1,528,580	0.7
1995	1,282,119	220,586	1,502,705	(1.7)
1996	1,224,730	259,139	1,483,869	(1.3)
1997	1,198,048	328,965	1,527,013	2.9
1998	1,228,116	355,855	1,583,971	3.7
1999	1,207,985	401,653	1,609,638	1.6
2000	1,158,939	376,282	1,535,221	(4.9)
2001	1,076,089	317,683	1,393,772	(9.2)
2002	1,050,336	318,434	1,368,770	(1.8)
2003	992,574	315,193	1,307,767	(4.5)
January - June				
2003	498,767	154,465	653,232	--
2004	512,577	158,924	671,501	2.8
	Average annual percent increase (decrease)			
1990-2003	(2.1%)	3.2%	(1.1%)	

Source: Susquehanna Area Regional Airport Authority records.

Table 20 presents the relative shares of aircraft landed weight for the passenger and all-cargo airlines from 2000 through 2003.

	2000	2001	2002	2003
Passenger airlines				
US Airways	249,682	252,277	245,993	206,548
Delta Air Lines	164,625	116,481	--	--
United Airlines	157,041	149,000	155,888	87,330
Northwest Airlines	91,207	101,477	96,227	96,280
American Airlines	91,206	71,074	52,390	--
Other (a)	<u>405,178</u>	<u>385,780</u>	<u>552,228</u>	<u>602,416</u>
Subtotal	1,158,939	1,076,089	1,050,336	992,574
Percent of total	75%	77%	77%	76%
All-cargo airlines	<u>376,282</u>	<u>317,683</u>	<u>318,434</u>	<u>315,193</u>
Percent of total	25%	23%	23%	24%
Total	1,535,221	1,393,772	1,368,770	1,307,767

(a) Including regional/commuter affiliates.

Source: Susquehanna Area Regional Airport Authority records.

2.4 KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

In addition to future growth in the population and economy of southcentral Pennsylvania, as discussed earlier, key factors that will affect future airline traffic at the Airport are:

- Aviation security concerns
- Airline service and routes
- Airline fares and competition
- Airline industry economics
- National and international economic and political conditions
- Airline industry restructuring and consolidation
- Availability and price of aviation fuel
- Capacity of the national air traffic control and airport systems
- Capacity provided at Harrisburg International Airport

2.4.1 Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures lead to both the avoidance of travel and the switching from air to surface modes for short-haul trips.

Safety concerns in the aftermath of the terrorist attacks of September 2001 were largely responsible for the steep decline in airline travel in 2002. In early 2003, safety concerns were again heightened by hostilities in Iraq and the threat of retaliatory terrorist attacks.

Since September 2001, government agencies, airlines, and airport operators have upgraded security measures with the objective of restoring public confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (TSA), and more intensive screening of passengers and baggage.

Historically, airline travel demand has recovered from temporary decreases stemming from terrorist attacks, hijackings, aircraft crashes, and international hostilities. Provided that intensified security precautions serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Airport will depend primarily on economic, not security, factors.

2.4.2 Airline Service and Routes

Although passenger demand at an airport depends primarily on the population and economy of the region served, airline service and the numbers of passengers enplaned also depend on the route networks of the airlines serving that airport. Most major full-fare airlines have emphasized the development of hub-and-spoke route networks as a means of increasing their service frequencies, passenger numbers, and profitability. At an airport almost exclusively serving origin-destination passengers, such as Harrisburg International Airport, the number of enplaned passengers is not as dependent upon the hub-and-spoke operations of the airlines serving the airport.

2.4.3 Airline Fares and Competition

As discussed earlier in Section 2.3.5, airline fares have an important effect on passenger demand, particularly for relatively short trips where the automobile or other travel modes are alternatives and for price-sensitive "discretionary" travel, such as leisure travel. Airfares are influenced by airline operating costs and debt burden,

passenger demand, capacity and yield management, market presence, and competition.

A large part of the typical airfare paid by passengers is now accounted for by taxes, fees, and other charges assessed by governmental and airport agencies. Charges on domestic airline tickets consist of federal ticket taxes assessed as a percentage of the base airfare (7.5%), federal ticket taxes assessed per flight segment (\$3.00 per segment), passenger facility charges (up to \$18.00 per round trip), and security fees (up to \$10.00 per round trip). Additional fees and charges are assessed on international tickets. Such taxes and charges can account for 20% or more of the cost of short-haul and low-fare tickets and have a proportionate effect on depressing travel demand.

As shown in Table 11, only 6 of the top 30 markets for the Airport in 2003 were short-haul routes (less than 500 miles).

In an attempt to stimulate passenger traffic and maintain their market shares, the airlines reduced airfares early in 2001 and, following the events of September 11, 2001, reduced airfares further. Concerns have been expressed by industry analysts about the sustainability of the current “revenue model” of most of the major airlines, which involves uneconomically low discount fares made available to many leisure travelers and high “walk-up” fares that must be paid by many business travelers. Simplification and rationalization of this model is seen as a key to the industry regaining profitability.

In many air travel markets nationwide, new entrant and other airlines with lower cost structures provide price competition. At Baltimore/Washington International Airport, Southwest Airlines and AirTran Airways, at Philadelphia International Airport, Southwest Airlines and Frontier Airlines, and at Washington Dulles International Airport, Independence Air and JetBlue Airways, provide such competition for the Airport, along with other airlines. While the nature and extent of such “low-fare” competition varies from airport to airport, most large origin-destination passenger markets have attracted low-fare airline service and passenger traffic has increased as a result. Continued increases in passenger traffic at the Airport will depend on the continued availability of competitive airfares and service.

Since September 11, 2001, most of the major airlines, including US Airways, have reduced their systemwide seat capacity while the low-fare airlines have generally increased seat capacity. As a result, the share of domestic airline revenue-passenger-miles accounted for by the low-fare airlines increased from 10.7% in 2001 to 17.9% in 2003.* The major airlines further reduced capacity in response to the outbreak of war in Iraq in March 2003. In the mid-1990s, many of the major airlines established their own low-fare divisions, such as Delta Express, US Airways’ MetroJet, and

*As defined by the U.S. DOT, low-fare airlines currently operating include AirTran, America West, American Trans Air, Frontier, JetBlue, Southwest, Spirit, and Sun Country.

Shuttle by United, to compete with the low-fare airlines. Most of these operations have since been discontinued or reduced. However, several new low-fare divisions of major airlines have been established. Delta's Song subsidiary initiated service in 2003 to replace Delta Express and primarily provides service between the Northeast and Florida. United's new low fare subsidiary, Ted, began serving western U.S. destinations, mainly from Denver, in February 2004.

In response to economic pressures, most of the major airlines have also transferred marginally profitable routes from their "mainline" to regional/commuter airline affiliates operating regional jet or turboprop aircraft, particularly over the last 3 years. As discussed earlier in Section 2.3, "Historical Airline Traffic," this trend is evident at the Airport, where American Airlines, Delta Air Lines, and United Airlines have transferred service from mainline flights to American Eagle, Comair, and United Express regional jet flights, respectively. A continuation of this trend is foreseen nationwide, although it may be limited by "scope clauses" in labor agreements with pilots' unions restricting the number of regional jet aircraft that may be operated by certain airlines.

2.4.4 Airline Industry Economics

Increases in passenger traffic at the Airport will depend partly on the profitability of the airline industry and the associated ability of the industry and individual airlines to invest in aircraft capacity.

A weak economy reduces the demand for air travel and causes fare discounting, resulting in steep declines in airline revenues. The 1990-1991 economic recession, coupled with increased operating costs and security concerns during the Gulf War, generated then-record financial losses in the U.S. airline industry. These losses put particular pressures on financially weak or highly indebted airlines, forcing many to seek bankruptcy protection, sell productive assets, lay off workers, reduce service, or discontinue operations in the early 1990s.

Between 1995 and 2000, the airline industry as a whole was profitable, but as a result of the 2001 economic recession and the disruption of the airline industry that followed the September 2001 terrorist attacks, the industry has again experienced huge financial losses. In 2003, industry traffic, as measured by revenue-passenger-miles for the major U.S. airlines, was about 13% lower than in 2000, yields (revenue per passenger-mile) were about 14% lower, and revenues were about 23% lower. The major U.S. airlines collectively recorded net losses totaling \$7.5 billion on revenues of \$78.9 billion in 2001, \$11.2 billion on revenues of \$71.0 billion in 2002, and \$4.5 billion on revenues of \$70.8 billion in 2003.

In response to these losses, all of the major network airlines have reduced their route networks and flight schedules and negotiated with their employees, lessors, and vendors to cut costs, either under Chapter 11 bankruptcy protection or the threat of

such. US Airways filed for Chapter 11 protection in August 2002 and emerged from bankruptcy in March 2003. United filed for Chapter 11 protection in December 2002 and has announced that it does not expect to emerge from bankruptcy until late 2004. In June 2004, United Airlines was denied its \$1.1 billion loan guarantee application by the Air Transportation Stabilization Board, and is expected to seek private financing and intensify cost saving efforts in response to that event. American avoided filing for bankruptcy protection in early 2003 only after obtaining labor cost concessions from its employees. Delta reported large losses in 2002 and 2003 and may be forced to seek bankruptcy protection as a way of achieving cost savings.

Continuing losses could again force airlines to retrench, seek bankruptcy protection, discontinue marginal operations, or liquidate. The restructuring or liquidation of one or more of the large network airlines would drastically affect airline service at many connecting hub airports, present business opportunities for the remaining airlines, and change travel patterns throughout the U.S. aviation system.

2.4.5 National and International Economic and Political Conditions

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable personal income. Recession in the U.S. economy in 2001 contributed to reduced passenger traffic nationwide and at the Airport during the year. Future increases in passenger traffic will depend largely on the ability of the nation to sustain growth in economic output and income.

With the globalization of business and the increased importance of international trade, growth in the U.S. economy has become more closely tied to economic and political conditions worldwide. As a result, international economics, currency exchange rates, trade balances, political relationships, and hostilities among nations are now important influences on passenger traffic at major U.S. airports. Future increases in both domestic and international passenger traffic will depend on stable international relationships and global economic growth.

2.4.6 Airline Industry Restructuring and Consolidation

Recent and potential consolidation of the U.S. airline industry could also affect airline competition, airfares, and passenger numbers at the Airport. US Airways—which, together with its US Airways Express affiliates, Allegheny Airlines and Trans States Airlines, accounted for 36.7% (20.8% and 15.9%, respectively) of enplaned passengers at the Airport in 2003—filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code on August 11, 2002, to reorganize its obligations and reduce its operating costs. The severe downturn in nationwide passenger traffic subsequent to the September 11, 2001, terrorist attacks is cited as the primary cause of US Airways' financial difficulties.

US Airways reduced its systemwide capacity, as measured by enplaned seats, by about 15% between 2001 and 2003, partly as a result of its bankruptcy filing, including a reduction from 6 to 4 daily air carrier aircraft departures at the Airport between July 2001 and July 2004. On March 31, 2003, US Airways completed its reorganization and emerged from bankruptcy. US Airways has also recently indicated that it is considering re-entering bankruptcy proceedings; however the airline continues to operate as a going concern. There can be no assurances that US Airways' service at the Airport (e.g., the amount of service or airfare levels) will not be affected by those ongoing developments.

On October 2, 2002, United Airlines and US Airways received approval from the U.S. DOT for a marketing alliance that includes a code-sharing agreement, having earlier proposed and then withdrawn a potential merger agreement. In addition to initiating the code-sharing arrangement, reciprocal frequent flyer program benefits were made available effective January 7, 2003. In January 2003, US Airways started codeshare operations with United Airlines and in May 2004 joined Star Alliance.

UAL Corporation, parent of United Airlines, filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code on December 9, 2002. United reduced its systemwide capacity, as measured by enplaned seats, by about 10% between 2001 and 2003, partly as a result of its bankruptcy filing, including a reduction from 4 to 2 daily air carrier aircraft departures at the Airport between July 2001 and July 2004. United and its affiliates accounted for 19.9% of total enplaned passengers at the Airport in 2003.

Similarly, Delta Air Lines eliminated its 3 daily narrowbody departures between July 2001 and July 2002, increasing its daily regional/commuter departures from 4 to 9 over the same period.

In addition to potential consolidation within the U.S. airline industry, alliances among U.S. and foreign-flag airlines are being formed as part of the globalization of the airline industry. Such global alliances typically involve marketing and code-sharing arrangements to facilitate the transfer of passengers between the airlines' route systems and may involve equity investment by the allied airlines.

The Airport serves almost exclusively as an origin-destination airport, and does not have airline hubbing operations. Consequently, the long-term growth of airline traffic at the Airport will be primarily driven by the underlying economics of the region, as discussed in Section 2.2, "Economic Basis for Airline Traffic." In the short term, however, reductions in airline service or increases in airfares because of airline bankruptcies could reduce numbers of enplaned passengers at the Airport below forecast levels.

2.4.7 Availability and Price of Aviation Fuel

According to the U.S. Department of Energy, the United States is the largest single jet fuel market by far, consuming about 38% of the worldwide total. There has been no shortage of jet fuel since the “fuel crisis” of 1974, which reflected a reduction in production and an increase in prices rather than an actual shortage. The price of jet fuel, however, continues to be an important and uncertain factor affecting airline operating economics. Historically, jet fuel prices have been particularly sensitive to worldwide political instability.

The invasion of Iraq and political unrest in Venezuela caused fuel prices to increase sharply in early 2003. In March 2004, average fuel prices were 58% and 22% higher than in March 2002 and March 2001, respectively. Increases in jet fuel prices have contributed to recent airline industry financial losses. Also, increases in energy prices have contributed to major economic recessions in recent decades. Future fluctuations in jet fuel prices could affect airline service, airfares, passenger numbers—and ultimately, jet fuel demand. Individual airlines do not publicly report their consumption or cost of jet fuel at individual airports. According to the Air Transport Association, jet fuel costs represent the second largest expense item for airlines (behind labor)—approximately 10% to 12% of airline operating expenses.

2.4.8 Capacity of National Air Traffic Control and Airport Systems

Demands on the national air traffic control system have caused aircraft delays and restrictions, both on the number of aircraft movements in certain air traffic routes and on the number of landings and takeoffs at certain airports. No such restrictions are in place at the Airport. However, these restrictions affect airline schedules and passenger traffic nationwide. The FAA is gradually automating and enhancing the computer, radar, and communications equipment of the air traffic control system, and enhancing the use of runways through improved air navigation aids. Air traffic delays have been significantly reduced as a result of the reduction in air traffic since September 2001. However, as demands on the national air traffic control and airport systems return to and exceed pre-September 2001 levels, flight delays and restrictions are again likely.

2.4.9 Capacity Provided at Harrisburg International Airport

The Authority has developed a Capital Program, discussed in Section 4 of this report, to accommodate current needs and anticipated growth in numbers of passengers and cargo traffic at the Airport. According to the Authority, the 2003 Project and the other Capital Program projects planned for completion through 2007 will together provide sufficient capacity to accommodate forecast airline traffic through the end of the forecast period (2009).

In addition to constraints that may be imposed by the national air traffic control and airport systems, future growth in airline traffic at the Airport could, in the long term, be affected by the capacity of the Airport itself.

2.5 AIRLINE TRAFFIC FORECASTS

Given the recent volatility in the airline industry, the approach to forecasting airline traffic for purposes of this report was to develop a short-term forecast for 2004 and longer-term forecasts through 2009. Airline traffic forecasts for 2004 through 2009, together with recent historical data, are presented in Table 21 and Figure 8.

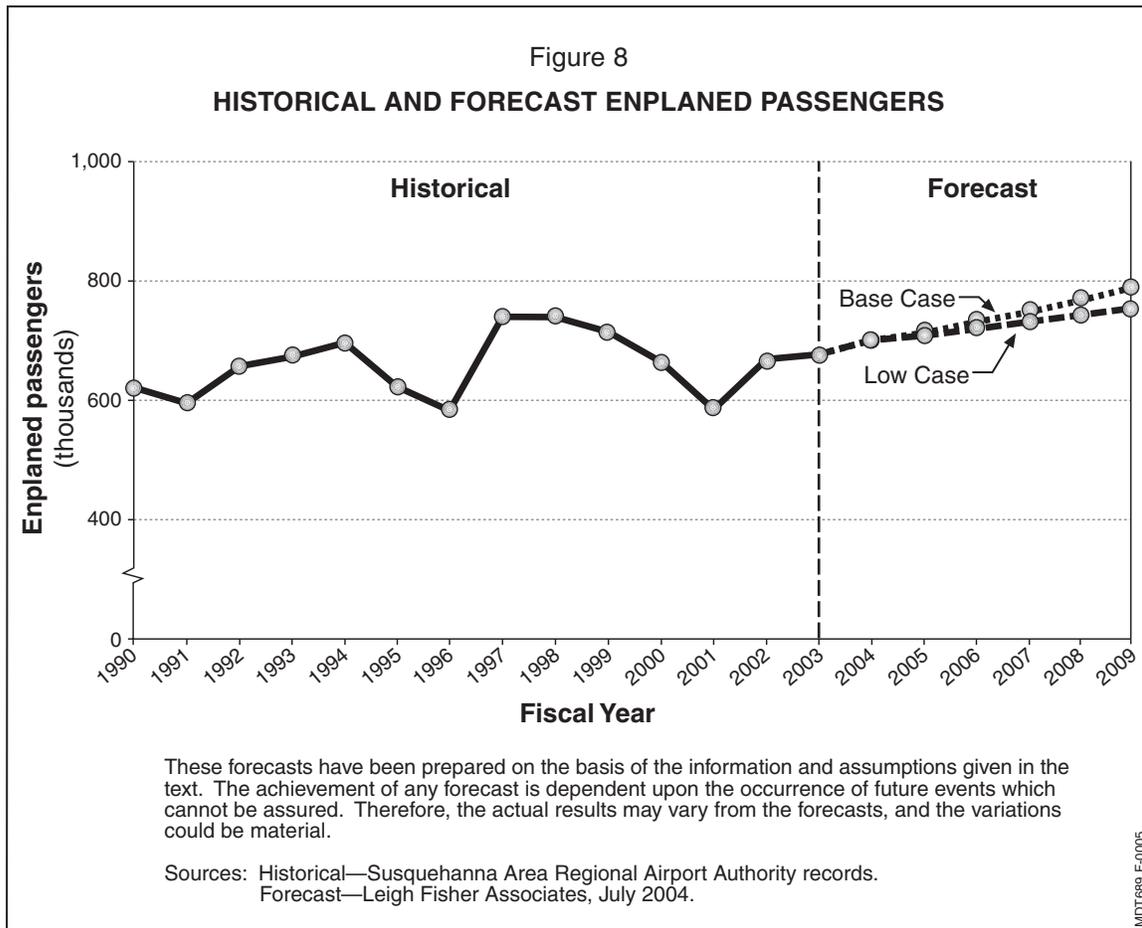


Table 21

HISTORICAL AND FORECAST AVIATION ACTIVITY
Harrisburg International Airport
2001-2009

These forecasts have been prepared on the basis of the information and assumptions given in the text. The achievement of any forecast is dependent upon the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the forecasts, and the variations could be material.

	Historical			Forecast						Average annual increase (decrease) 2003-2009
	2001	2002	2003	2004	2005	2006	2007	2008	2009	
ENPLANED PASSENGERS										
Base case										
Major/national and charter airlines	387,988	353,611	256,487	248,000	251,000	255,000	258,000	263,000	268,000	0.7%
Regional/commuter airlines	<u>197,298</u>	<u>323,127</u>	<u>413,782</u>	<u>450,000</u>	<u>464,000</u>	<u>478,000</u>	<u>493,000</u>	<u>507,000</u>	<u>521,000</u>	3.9
Total	585,286	676,738	670,269	698,000	715,000	733,000	751,000	770,000	789,000	2.8
Annual percent increase (decrease)	(11.9%)	15.6%	(1.0%)	4.1%	2.4%	2.5%	2.5%	2.5%	2.5%	
Low case										
Major/national and charter airlines	387,988	353,611	256,487	248,000	249,000	250,000	251,000	253,000	256,000	--% (a)
Regional/commuter airlines	<u>197,298</u>	<u>323,127</u>	<u>413,782</u>	<u>450,000</u>	<u>459,000</u>	<u>469,000</u>	<u>479,000</u>	<u>488,000</u>	<u>496,000</u>	3.1
Total	585,286	676,738	670,269	698,000	708,000	719,000	730,000	741,000	752,000	1.9
Annual percent increase (decrease)	(11.9%)	15.6%	(1.0%)	4.1%	1.4%	1.6%	1.5%	1.5%	1.5%	
LANDED WEIGHT (1,000-pound units)										
Base case										
Passenger airlines										
Major/national and charter airlines	700,261	551,928	395,014	369,000	364,000	369,000	363,000	368,000	362,000	(1.4%)
Regional/commuter airlines	<u>375,828</u>	<u>498,407</u>	<u>597,560</u>	<u>646,000</u>	<u>665,000</u>	<u>684,000</u>	<u>705,000</u>	<u>724,000</u>	<u>741,000</u>	3.7
Subtotal	1,076,089	1,050,335	992,574	1,015,000	1,029,000	1,053,000	1,068,000	1,092,000	1,103,000	1.8
All-cargo airlines (b)	<u>317,683</u>	<u>318,434</u>	<u>315,193</u>	<u>315,000</u>	<u>321,000</u>	<u>327,000</u>	<u>334,000</u>	<u>341,000</u>	<u>348,000</u>	1.7
Total	1,393,772	1,368,770	1,307,767	1,330,000	1,350,000	1,380,000	1,402,000	1,433,000	1,451,000	1.7
Annual percent increase (decrease)	(9.2%)	(1.8%)	(4.5%)	1.7%	1.5%	2.2%	1.6%	2.2%	1.3%	
Low case										
Passenger airlines										
Major/national and charter airlines	700,261	551,928	395,014	369,000	364,000	358,000	351,000	356,000	350,000	(2.0%)
Regional/commuter airlines	<u>375,828</u>	<u>498,407</u>	<u>597,560</u>	<u>646,000</u>	<u>658,000</u>	<u>671,000</u>	<u>685,000</u>	<u>696,000</u>	<u>706,000</u>	2.8
Subtotal	1,076,089	1,050,335	992,574	1,015,000	1,022,000	1,029,000	1,036,000	1,052,000	1,056,000	1.0
All-cargo airlines (b)	<u>317,683</u>	<u>318,434</u>	<u>315,193</u>	<u>315,000</u>	<u>318,000</u>	<u>321,000</u>	<u>324,000</u>	<u>327,000</u>	<u>330,000</u>	0.8
Total	1,393,772	1,368,770	1,307,767	1,330,000	1,340,000	1,350,000	1,360,000	1,379,000	1,386,000	1.0
Annual percent increase (decrease)	(9.2%)	(1.8%)	(4.5%)	1.7%	0.8%	0.7%	0.7%	1.4%	0.5%	

(a) Less than 0.1%.

Sources: Historical: Susquehanna Area Regional Airport Authority records.
Forecast: Leigh Fisher Associates, July 2004.

2.5.1 Forecast Enplaned Passengers—2004

Our approach to forecasting the number of enplaned passengers at the Airport in 2004, and the assumptions underlying the estimated split between major/national and regional/commuter airline enplaned passengers are discussed below.

Major/national and regional/commuter airline enplaned passengers were analyzed separately to reflect the differing historical growth trends between these categories, described below. In forecasting 2004 enplaned passengers, a combination of the following was used:

1. Examination of percentage changes in historical year-to-year monthly enplaned passengers
2. Review of historical trends in monthly numbers of enplaned passengers to account for seasonality

Base Case. In the base case, the number of enplaned passengers is forecast to increase 4.1% in 2004 compared with the number in 2003, reflecting a 3.3% decrease in major/national (and charter) airline enplaned passengers and an 8.8% increase in regional/commuter airline enplaned passengers. The forecast of 698,000 passengers in 2004 is lower than the actual numbers of enplaned passengers at the Airport in 1999, but higher than the numbers achieved in any year since 1999. The following were assumed:

- Continued moderate recovery in numbers of enplaned passengers by the major/national airlines. The annual growth rate of 4.1% in 2004 is partly a result of low enplaned passenger numbers in 2003 during the post-September 11, 2001, recovery process, economic recovery, an improvement in the national and local economies, and less competitive airfares at the Airport during 2003.
- The continued hostilities in Iraq and related events will result in continued passenger concerns about terrorist attacks and the security of air travel, but those concerns will be less than over the last few years. There will be no further terrorist events affecting the aviation industry.
- A continued but moderated transfer of enplaned passengers from major/national to regional/commuter service. The 8.8% annual growth rate in regional/commuter passengers is a reduction from the 28.1% growth rate between 2002 and 2003.
- The regional/commuter percentage share of total enplaned passengers will increase between 2003 and 2004, from 61.7% to 64.5%.

Low Case. In the low case, the number of enplaned passengers is forecast to increase at the same rate as in the base case, under the same assumptions.

2.5.2 Forecast Enplaned Passengers—2005 through 2009

Forecasts of airline traffic were prepared taking into account analyses of the economic basis for airline traffic, analyses of historical airline traffic, and an assessment of the key factors that may affect future airline traffic, as discussed in earlier sections. Key assumptions regarding future airline traffic are discussed below.

In general, it was assumed that, in the long term, changes in airline traffic at the Airport will occur largely as a function of growth in the population and economy of the Airport service region and changes in airline service. It was also assumed that continued development of airline service at the Airport will not be constrained by the availability of aviation fuel, long-term limitations in airline fleet capacity, limitations in the capacity of the air traffic control system or the Airport, or government policies or actions that restrict growth. Also considered were recent and potential developments in the national economy and in the air transportation industry as they affected or may affect airline traffic at the Airport.

Base Case. In the base case, it was assumed that, between 2005 and 2009:

- Employment, per capita income, and population in the immediate Airport service region, the Commonwealth, and the nation will increase at the projected rates shown in Table 3.
- The effects of the recent national economic recession, international hostilities affecting the United States, and terrorist events will be minimal beyond 2004.
- The Airport service region will continue to attract a diversified mix of industries, including business and health services, technology, and financial companies.
- US Airways, United Airlines, and their respective affiliates, will continue to serve the Airport at levels consistent with current scheduled service levels. Additional airline service will be introduced at the Airport consistent with underlying demand growth, most likely in the form of increased regional jet frequencies and additional destinations served.
- Airfares for flights to and from the Airport's top origin-destination markets will not increase at a higher rate than airfares at other nearby airports, particularly those in Allentown, Baltimore, Philadelphia, and Washington, D.C., and will change from current levels at rates generally consistent with the prices of other goods and services.

- Regional/commuter airlines will continue to increase their relative share of total enplaned passengers compared to the major/national airlines, from approximately 65% in 2004 to approximately 66% in 2009.

Low Case. In the low case, it was assumed that, between 2005 and 2009:

- Employment, per capita income, and population in the immediate Airport service region, the Commonwealth, and the nation will increase more slowly than the projected rates shown in Table 3.
- No significant new types of business activity will occur in the Airport service region.
- No further terrorist events affecting the aviation industry will occur.
- Major and national airline service will decrease at the Airport, with incremental increases in regional jet frequencies to current destinations.
- Additional regular and low-fare service will continue to be introduced at competing airports, particularly service by Southwest Airlines at Baltimore/Washington International Airport, and by Frontier Airlines and Southwest Airlines at Philadelphia International Airport.
- Regional/commuter airlines will continue to increase their relative share of total enplaned passengers, compared to major/national airlines, from approximately 65% in 2004 to approximately 66% in 2009.

2.5.3 Enplaned Passengers

As shown in Table 21 and Figure 8, the number of enplaned passengers at the Airport is forecast in the base and low cases to increase an average of 2.8% and 1.9% per year, respectively, between 2003 and 2009. This forecast is based on the assumptions discussed above.

2.5.4 Aircraft Landed Weight

Forecast landed weight is also shown in Table 21. Total landed weight at the Airport in the base and low cases is forecast to increase an average of 1.7% and 1.0% per year, respectively, between 2003 and 2009. The forecasts are based on increases in airline operations combined with assumed increases in the average size of aircraft serving the Airport and the expansion of regional jet service at the Airport.

2.5.5 Effect of Potential Discontinuation of US Airways Service

Given US Airways' current financial situation and business outlook, as discussed earlier, there is the possibility that the airline could cease operations systemwide or at the Airport. In the event that US Airways ceases operations, its passengers—accounting for 36.8% of enplaned passengers at the Airport, or 246,403 passengers, in 2003—would have to seek alternative air transportation service, until such time as other airlines would add new service at the Airport. It is estimated, based upon analysis of available enplaned seat data at the Airport, that the average Airport load factor in 2003 was approximately 63%. If it is assumed that load factors could increase to approximately 75% as a result of US Airways' passengers obtaining seats on other airlines, then that would allow approximately 128,000, or about half of these passengers, to be accommodated without other airline service being added. Additionally, it is anticipated that airline landed weight would also be reduced and would not necessarily return to prior levels in the short-term, even if enplaned passenger levels were to do so.

It is expected, given the Airport's role as an origin-destination facility, that other airlines would add replacement service within a relatively short period. Nevertheless, the discontinuation of service at the Airport by US Airways could be expected to have a negative effect on enplaned passenger numbers at the Airport in the short-term.

3. FRAMEWORK FOR FINANCIAL OPERATION OF THE AIRPORT SYSTEM

3.1 PROPOSED SENIOR SERIES 2004 BONDS

The Authority intends to issue Airport System Revenue Bonds, Series 2004A and Series 2004B (collectively, the Senior Series 2004 Bonds, or the Series 2004 Bonds) in the aggregate principal amount of approximately \$29.7 million. The Series 2004 Bonds are being issued to:

- Partially fund the completion of certain capital improvements at Harrisburg International Airport, referred to in this report as the 2003 Project.
- Pay the issuance and financing costs (including the establishment of reserves) associated with the Series 2004 Bonds.

The Series 2004 Bonds are being issued primarily because (1) in August 2003, the Authority approved modification of the new terminal building to add four jet gates, and (2) the Authority needs to secure alternative funding sources for certain elements of the 2003 Project that were expected to be funded with federal grants and Authority cash (primarily, elements of the new terminal, and the Multimodal Transportation Center).

3.2 THE SERIES 2003 BONDS

On May 8, 2003, Authority issued Airport System Revenue Bonds, Series 2003A and Series 2003B (collectively, the Senior Series 2003 Bonds) in the aggregate principal amount of \$103.9 million, and Subordinate Airport System Revenue Bonds, Series 2003C, Series 2003D, and Series 2003E (collectively, the Subordinate Series 2003 Bonds) in the aggregate principal amount of \$75.2 million. The Senior Series 2003 Bonds and the Subordinate Series 2003 Bonds are collectively referred to in this report as the Series 2003 Bonds. The Series 2003 Bonds were issued to:

- Partially fund certain capital improvements at Harrisburg International Airport, referred to in this report as the 2003 Project.
- Refund the entire outstanding balance of approximately \$15.6 million in the Authority's Airport Revenue Notes, held by the Commerce Bank. These Notes were used to fund the assumption by the Authority, upon its acquisition of the Airport System, of approximately \$16 million in debt related to the Airport System, as well as miscellaneous capital improvements at the Airport.
- Defease the entire outstanding balance of approximately \$9.1 million in bonds issued by the Dauphin County General Authority (DCGA) to finance

automobile parking improvements at the Airport during the 1990s (the Public Parking Bonds). Prior to the issuance of the Series 2003 Bonds, DCGA was responsible for operating public parking facilities at the Airport. The Authority now has full responsibility for operating those facilities.

- Pay the issuance and financing costs (including the establishment of reserves) associated with the Series 2003 Bonds.

3.3 MASTER TRUST INDENTURE

The Senior Series 2004 Bonds are to be issued, and the Senior Series 2003 Bonds were issued, under the Authority's Master Trust Indenture (the Master Indenture), as supplemented, dated as of April 15, 2003, with Manufacturers and Traders Trust Company as the Senior Trustee. The Senior Series 2003 Bonds were the first series of Bonds issued under the Master Indenture. The Senior Series 2004 Bonds are being issued on a parity basis with the Senior Series 2003 Bonds.

Under the provisions of the Master Indenture, the Senior Series 2003 Bonds and the proposed Senior Series 2004 Bonds are secured by a pledge of and lien on Authority Net Revenues (Revenues less Maintenance and Operation Expenses) and certain funds held under the Master Indenture.

Revenues are defined in the Master Indenture as substantially all income and receipts of the Authority, derived directly or indirectly from the operation of, and otherwise pertaining to, the Airport System. Revenues are defined to exclude PFC revenues; receipts pursuant to a Letter of Intent (LOI) awarded to the Authority by the FAA on April 15, 2003; Airport Improvement Program (AIP) and Commonwealth grant receipts; other grants, including TSA grants and grants under the Transportation Equity Act for the 21st Century (TEA-21) or a successor program; any revenues (other than ground rentals) from properties and facilities classified as a Special Facility; and certain other items, including any investment income derived therefrom. (These items may be defined as Revenues as part of a future supplemental indenture.) Revenues are defined to include amounts on deposit in the Revenue Credit Account.

Maintenance and Operation Expenses of the Authority, as defined in the Master Indenture, include substantially all cash expenses of operating the Airport System. Maintenance and Operation Expenses do not include depreciation, which is a non-cash expense.

The proposed Senior Series 2004 Bonds and the Senior Series 2003 Bonds are limited obligations of the Authority. They do not constitute and are not an obligation or indebtedness of the Commonwealth of Pennsylvania; the counties of Dauphin, Cumberland, or York; the cities of Harrisburg or York; the townships of Fairview or

Lower Swatara; or any municipality, instrument, or political subdivision thereof other than the Authority.

3.3.1 Supplemental Indentures

Each series of bonds issued under the Master Indenture are to be issued under a supplemental indenture. The Senior Series 2003 Bonds were issued under the Master Indenture, as amended and supplemented by the First Supplemental Trust Indenture (First Supplemental Indenture), dated as of April 15, 2003. The Senior Series 2004 Bonds are to be issued under the Master Indenture as supplemented by the Second Supplemental Trust Indenture (Second Supplemental Indenture), dated as of August 1, 2004.

3.3.2 Senior Rate Covenant

In Section 5.04 of the Master Indenture, titled "Rate Covenant," the Authority covenants to fulfill the following requirements:

- (a) The Authority, so long as any [Senior] Bonds remain Outstanding, shall establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that Net Revenues in each Fiscal Year will be at least equal to the following amounts:
 - (i) the [Senior] Aggregate Annual Debt Service on any Outstanding [Senior] Bonds required to be funded by the Authority in such Fiscal Year as required by [the Master Indenture];
 - (ii) the required deposits to the [Senior] Debt Service Reserve Fund which may be established by a Supplemental Indenture;
 - (iii) the interest on and principal of any indebtedness required to be funded during such Fiscal Year other than Outstanding [Senior] Bonds, including Subordinated Obligations;
 - (iv) payments of any reserve requirement for debt service for any indebtedness other than Outstanding [Senior] Bonds, including Subordinated Obligations;
 - (v) the reimbursement owed to any Credit Provider as required by a Supplemental Indenture or the Master Subordinate Trust Indenture;

- (vi) transfers to the Maintenance and Operation Reserve Fund pursuant to Section 4.07 [of the Master Indenture]; and
 - (vii) transfers to the Renewal and Replacement Fund pursuant to Section 4.08 [of the Master Indenture].
- (b) The Authority further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues, together with the amount on deposit in the Coverage Account, will be equal to at least 125% of [Senior] Aggregate Annual Debt Service on the Outstanding [Senior] Bonds. For purposes of this subsection (b), the amount on deposit in the Coverage Account taken into account shall not exceed 25% of [Senior] Aggregate Annual Debt Service on the Outstanding [Senior] Bonds in such Fiscal Year.

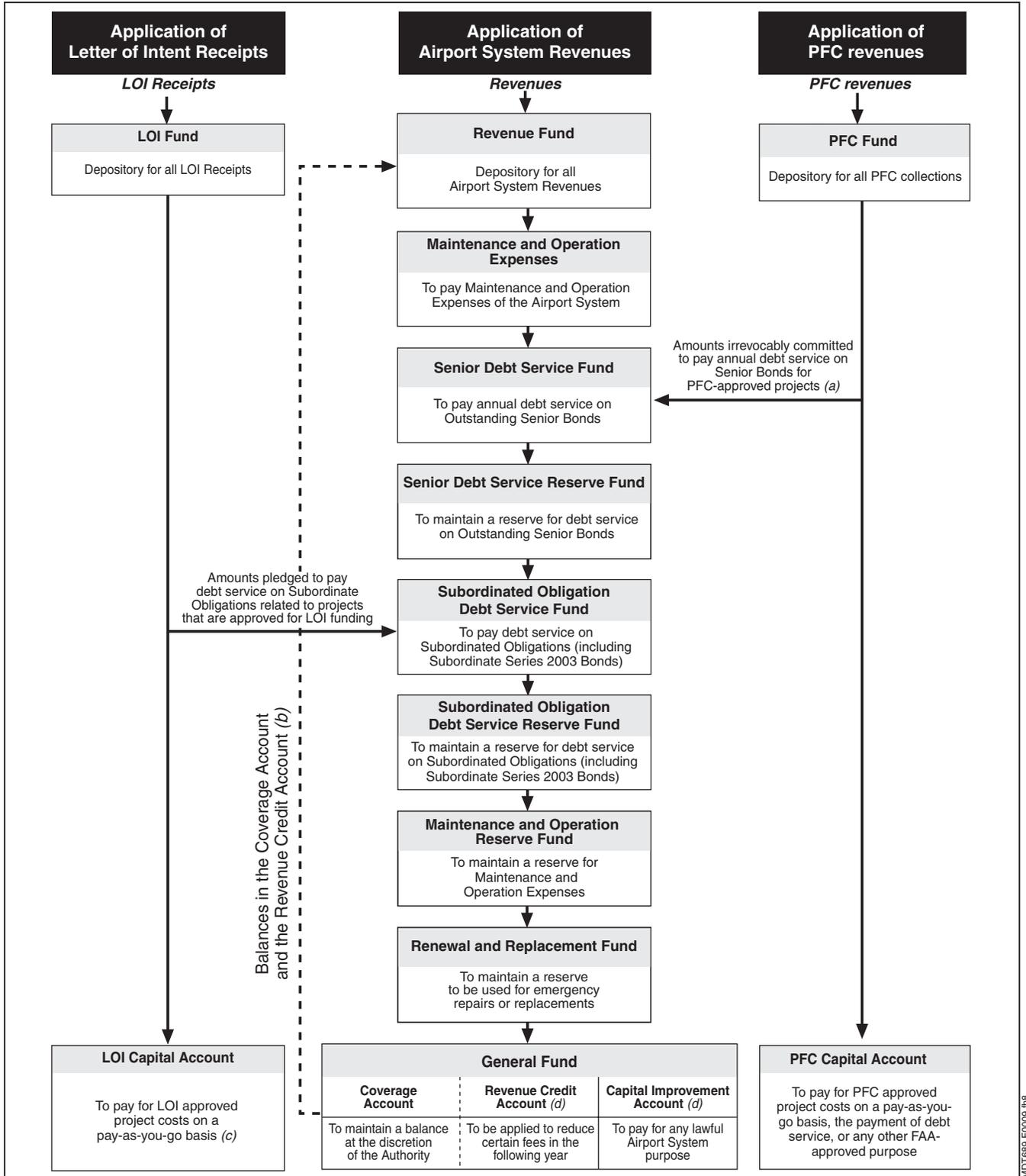
These provisions are known as the Senior Rate Covenant.

3.3.3 Application of Revenues to Funds and Accounts

Application of Airport System Revenues. The Master Indenture governs the application of Airport System Revenues to various funds and accounts.

All Airport System Revenues are deposited in the Revenue Fund, and are applied in the following order of priority (as shown on Figure 9, and described in Section 4.02 of the Master Indenture):

1. **Revenue Fund.** All Revenues of the Authority shall be deposited in the Revenue Fund.
2. **Maintenance and Operation Expenses.** An amount shall be transferred, from time to time, to pay the Maintenance and Operation Expenses of the Airport System.
3. **Senior Debt Service Fund.** So long as Senior Bonds (including the Senior Series 2004 Bonds and the Senior Series 2003 Bonds) issued under the Master Indenture are Outstanding, sufficient amounts shall be deposited each month to the Senior Debt Service Fund (established under the Master Indenture and a supplemental indenture) as required to pay principal, interest, and premium (if any) on those Senior Bonds.
4. **Senior Debt Service Reserve Fund.** So long as Senior Bonds issued under the Master Indenture are outstanding, amounts shall be credited as needed to replenish deficiencies in the Senior Debt Service Reserve Fund, if required under a Supplemental Indenture.



Note: PFC revenues and LOI Receipts are not included in the definition of Authority Revenues.

- (a) Pursuant to the First Supplemental Indenture and the Second Supplemental Indenture, this commitment is made by the Authority for the period through December 31, 2008.
- (b) Balances in the Revenue Credit Account are transferred to the Revenue Fund at the start of each Fiscal Year. Amounts on deposit in the Coverage Account (not to exceed 25% of Senior Aggregate Annual Debt Service) may be used to demonstrate compliance with the Senior Rate Covenant.
- (c) In the event that LOI Receipts are available after LOI-related debt service is paid.
- (d) Amounts remaining are allocated between the Revenue Credit Account and the Capital Improvement Account. Revenue Credit Account balances are applied to reducing the landing fee and terminal rental rate.

Source: Master Trust Indenture, by and between Susquehanna Area Regional Airport Authority and Manufacturers and Traders Trust Company as the Senior Trustee, April 15, 2003, as supplemented.

Figure 9
FLOW OF FUNDS UNDER THE MASTER INDENTURE

Susquehanna Area Regional Airport Authority
 July 2004

5. ***Subordinated Obligation Debt Service Fund.*** Revenues shall be deposited in the amount necessary to pay principal, interest, and premium on bonds (including the Subordinate Series 2003 Bonds), issued under the terms of the Subordinate Indenture.
6. ***Subordinated Obligation Debt Service Reserve Fund.*** Such amounts shall be deposited as necessary to replenish deficiencies in the Subordinated Obligation Debt Service Reserve Funds.
7. ***Maintenance and Operation Reserve Fund.*** Such amounts (if any) shall be deposited as required to maintain a balance in this fund in accordance with Section 4.07 of the Master Indenture, to be used for emergency or unforeseen Maintenance and Operation Expenses of the Authority.
8. ***Renewal and Replacement Fund.*** Such amounts (if any) shall be deposited as required to maintain a balance in this fund in accordance with Section 4.08 of the Master Indenture. Amounts in this fund are to be used by the Authority to pay for emergency or unforeseen capital projects of the Authority.
9. ***General Fund.*** Remaining Revenues are deposited in the General Fund.

The Master Indenture establishes three accounts in the General Fund: the Coverage Account, the Revenue Credit Account, and the Capital Improvement Account.

Amounts deposited in the General Fund are to be applied in the following order of priority:

1. An amount, as determined by the Authority, to the *Coverage Account*. As of June 30, 2004, the Coverage Account balance was \$240,295. The Authority intends to transfer additional funds to the Coverage Account upon completion of the 2003 Project, and liquidation of the Authority's Owner's Controlled Insurance Program (OCIP) Account, sufficient to bring the balance to \$802,000—equivalent to 25% of Senior Series 2003 Bond Debt Service. As of June 30, 2004, the balance in the OCIP Account was \$948,600.
2. The next \$750,000 to the *Capital Improvement Account*, to be used for any lawful Airport System purpose, including, at the Authority's discretion, payment of the costs of Airport System capital improvements. Capital improvements funded in this manner are to be amortized and included in the annual calculation of airline rentals and fees, as appropriate.
3. The next \$500,000 to the *Revenue Credit Account*. The balance in the Revenue Credit Account at the beginning of each year is to be transferred to the Revenue Fund and applied to reduce landing fees and terminal rentals for that year.

4. Any amounts remaining after deposits to the Revenue Credit Account have reached \$500,000 are to be divided as follows: (a) 50% to the Capital Improvement Account for use by the Authority for any lawful Airport System purpose and (b) 50% to the Revenue Credit Account.

The Authority proposes to adopt this methodology for splitting remaining Revenues (after any Coverage Account deposits have been made) between the Capital Improvement Account and the Revenue Credit Account as part of a new airline agreement to be effective as soon as possible after DBO of the new terminal building (or alternatively, under a rate resolution to be established by the Authority, as discussed in Section 3.6). This split of remaining Revenues is not set forth in the Master Indenture, the First Supplemental Indenture, the Second Supplemental Indenture, or the Subordinate Indenture as supplemented, and may be modified as part of the ongoing negotiations between the Authority and the airlines regarding a new airline agreement.

Application of PFC Revenues. Under the Master Indenture, all PFC revenues collected by the airlines and paid to the Authority are deposited in a PFC Fund, and applied in the following order of priority (as shown on Figure 9 and described in Section 5.1):

1. ***PFC-related debt service.*** Pursuant to the Master Indenture and the First Supplemental Indenture, for the period January 1, 2005, through December 31, 2008, an amount of PFC revenues (equivalent to a portion of the debt service attributed to PFC-eligible and FAA-approved Bond-funded elements of the 2003 Project—\$2,100,000 per year) shall be irrevocably set aside and deposited to the Senior Debt Service Fund to be used to pay a portion of the principal, interest, and premium (if any) on the Senior Series 2003 Bonds. Pursuant to the Second Supplemental Indenture, for the period January 1, 2005, through December 31, 2008, the Authority covenants to apply all remaining PFC revenues collected from the airlines (and interest income generated thereon) to the payment of debt service on the proposed Senior Series 2004 Bonds.
2. ***PFC Capital Account.*** All remaining amounts shall be retained in the PFC Capital Account, to be applied as needed to fund approved PFC project costs on a pay-as-you-go basis, to make scheduled future debt service payments, or to defease a portion of the Senior Series 2003 Bonds or the proposed Senior Series 2004 Bonds, at the discretion of the Authority, or for any other lawful purpose permitted by the PFC Regulations.

Application of LOI Receipts. Under the Master Indenture, grants received by the Authority pursuant to any LOI (LOI Receipts) issued by the FAA shall be deposited in the LOI Fund. As described in Section 3.9 of this report, the Authority

leveraged the LOI Receipts associated with the LOI received from the FAA, dated April 15, 2003, by issuing the Subordinate Series 2003C Bonds. The application of these LOI Receipts pursuant to the Subordinate Indenture is described in Section 3.4.

3.3.4 Conditions for Issuing Additional Senior Bonds under the Master Indenture

In accordance with Section 2.11 of the Master Indenture, the Authority may issue Additional Senior Bonds by means of a Supplemental Indenture only if certain conditions are met. These conditions require, among other things, delivery to the Senior Trustee of either:

- (a) A certificate of an Authorized Authority Representative stating that the Net Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of [Senior] Bonds or preceding the first issuance of the proposed [Senior] Program Bonds were at least equal to 110% of [Senior] Maximum Aggregate Annual Debt Service with respect to all Outstanding [Senior] Bonds, Unissued [Senior] Program Bonds and the proposed Series of [Senior] Bonds, calculated as if the proposed Series of [Senior] Bonds and the full Authorized Amount of such proposed [Senior] Program Bonds (as applicable) were then Outstanding; or
- (b) A certificate of a Consultant to the effect that the Annual Debt Service of the proposed Series of [Senior] Bonds or the full Authorized Amount of proposed [Senior] Program Bonds (as applicable) is payable out of Net Revenues and stating that the Authority will be in compliance with [the Senior Rate Covenant] during either (i) each of the first three Fiscal Years succeeding the date on which the Specified Project is expected to be completed, or (ii) during each of the first five Fiscal Years succeeding the date of issuance of such [Senior] Bonds, whichever is later.

For purposes of subparagraph (a) above, the Authorized Authority Representative shall be allowed to adjust Net Revenues for any increase in the rates, charges, and fees for the use for the Airport System which has become effective prior to the issuance of such proposed Series of [Senior] Bonds but which rates, charges and fees were not in effect for the 12-month period under consideration, in an amount equal to the sum by which the Net Revenues would have been increased if such increase in rates, charges and fees had been in effect during the whole of the such 12-month period provided, however, such increase is intended to continue to be effective following the issuance of such proposed Series of [Senior] Bonds.

The Authority does not currently expect to issue “new money” Additional Senior Bonds under the Master Indenture (above and beyond the Senior Series 2004 Bonds) through 2009, the end of the forecast period. The Authority may issue refunding Senior Bonds under the Master Indenture during that period. The Authority may also issue Additional Senior Bonds for the completion of a Project for which Senior Bonds have previously been issued (including the 2003 Project) in an amount not to exceed 15% of the principal amount of such previously issued Senior Bonds without performing the tests for meeting the conditions outlined in subparagraphs (a) and (b) above.

3.4 MASTER SUBORDINATE TRUST INDENTURE

The Subordinate Series 2003 Bonds were issued under the Authority’s Master Subordinate Trust Indenture (the Subordinate Indenture) dated as of April 15, 2003, with Manufacturers and Traders Trust Company as the Subordinate Trustee. The Subordinate Series 2003 Bonds are payable from and secured by a pledge of Subordinate Net Revenues of the Airport System (i.e., Revenues less Maintenance and Operation Expenses less Senior Aggregate Annual Debt Service and debt service reserve funding requirements on the Senior Series 2003 Bonds, the proposed Senior Series 2004 Bonds, and any other bonds issued in the future under the terms of the Master Indenture), and certain funds held under the Subordinate Indenture.

The Subordinate Series 2003 Bonds are limited obligations of the Authority. They do not constitute and are not an obligation or indebtedness of the Commonwealth of Pennsylvania; the counties of Dauphin, Cumberland, or York; the cities of Harrisburg or York; the townships of Fairview or Lower Swatara; or any municipality, instrument, or political subdivision thereof other than the Authority.

3.4.1 Supplemental Subordinate Trust Indentures

Each series of bonds issued under the Subordinate Indenture are to be issued under a supplemental subordinate indenture. The Subordinate Series 2003C Bonds were issued under the Subordinate Indenture as amended and supplemented by the First Supplemental Subordinate Trust Indenture (First Supplemental Subordinate Indenture) dated as of April 15, 2003. The Subordinate Series 2003D and Series 2003E Bonds were issued under the Subordinate Indenture as amended and supplemented by the Second Supplemental Subordinate Trust Indenture (Second Supplemental Subordinate Indenture) dated as of April 15, 2003.

3.4.2 Subordinate Rate Covenant

In Section 5.04 of the Subordinate Indenture, the Authority covenants as follows:

- (a) The Authority, so long as any Subordinate Bonds remain Outstanding, shall establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that Net Revenues in each Fiscal Year will be at least equal to the following amounts:
 - (i) the Senior Aggregate Annual Debt Service and Senior Debt Service Reserve Requirement required to be funded by the Authority in such Fiscal Year;
 - (ii) the Subordinate Aggregate Annual Debt Service on all Subordinate Bonds Outstanding and the Subordinate Debt Service Reserve Requirement with respect to Subordinate Bonds required to be funded by the Authority in such Fiscal Year;
 - (iii) the interest on and principal of any indebtedness required to be funded during such Fiscal Year other than Senior Bonds or Outstanding Subordinate Bonds, including Junior Obligations;
 - (iv) payments of any reserve requirement for debt service for any indebtedness other than Senior Bonds or Outstanding Subordinate Bonds, including Junior Obligations;
 - (v) the reimbursement owed to any Senior Credit Provider and Subordinate Credit Provider as required by the Senior Indenture or this [Subordinate] Indenture, respectively;
 - (vi) transfers to the Maintenance and Operation Reserve Fund pursuant to Section 4.07 [of the Master Indenture]; and
 - (vii) transfers to the Renewal and Replacement Fund pursuant to Section 4.08 [of the Master Indenture].

- (b) The Authority further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues, together with the amount on deposit in the Coverage Account, will be equal to at least 110% of Subordinate Aggregate Annual Debt Service on the Outstanding Subordinate Bonds and the Senior Aggregate Annual Debt Service on all Senior Bonds outstanding. For purposes of this subsection (b), the amount on deposit in the Coverage Account taken into account shall not exceed 25% of Senior Aggregate Annual Debt Service on Senior Bonds outstanding in such Fiscal Year.

These provisions are known as the Subordinate Rate Covenant.

3.4.3 Application of Revenues to Funds and Accounts

The priority for the application of Revenues under the Subordinate Indenture is identical to that under the Master Indenture, as described in Section 3.3.3.

Under the Subordinate Indenture as supplemented, LOI Receipts pursuant to the LOI dated April 15, 2003, shall be deposited in the LOI Fund. The Authority leveraged the LOI Receipts by issuing the Subordinate Series 2003C Bonds. The Authority intends to apply amounts in the LOI Fund in the following order of priority (as described in Section 3.9):

1. *LOI-related debt service.* During Federal Fiscal Year (FFY) 2005 and thereafter, LOI Receipts (equivalent to the debt service attributed to FAA-approved elements of the 2003 Project that are to be funded with the proceeds of the Subordinate Series 2003C Bonds) would be transferred to the Subordinate Debt Service Fund to pay principal, interest, and premium (if any) on the Subordinate Series 2003C Bonds.
2. *LOI Capital Account.* LOI Receipts received during FFY 2004 are to be retained in the LOI Capital Account to be applied to pay for approved LOI project costs on a pay-as-you-go basis.

3.4.4 Conditions for Issuing Additional Bonds under the Subordinate Indenture

In accordance with Section 2.11 of the Subordinate Indenture, the Authority may issue additional Subordinated Obligations by means of a Supplemental Subordinate Indenture only if certain conditions are met. These conditions require, among other things, delivery to the Subordinate Trustee of either:

- (a) A certificate of an Authorized Authority Representative stating that the Net Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Subordinate Bonds or preceding the first issuance of the proposed Subordinate Program Bonds, if applicable, were at least equal to 110% of the Combined Maximum Annual Debt Service; or
- (b) A certificate of a Consultant to the effect that the Annual Debt Service of the proposed Series of Subordinate Bonds or the full Authorized Amount of proposed Subordinate Program Bonds (as applicable) is payable out of Subordinate Net Revenues and stating that the Authority will be in compliance with [the Subordinate Rate Covenant] during either (i) each of the first three Fiscal Years succeeding the date on which the Specified Project is expected to be completed, or (ii) during each of the first five Fiscal Years succeeding the date of issuance of such Subordinate Bonds, whichever is later.

For purposes of subparagraph (a) above, the Authorized Authority Representative shall be allowed to adjust Net Revenues for any increase in the rates, charges and fees for the use for the Airport System which has become effective prior to the issuance of such proposed Series of Subordinate Bonds but which rates, charges and fees were not in effect for the 12-month period under consideration, in an amount equal to the sum by which the Net Revenues would have been increased if such increase in rates, charges and fees had been in effect during the whole of the such 12-month period provided, however, such increase is intended to continue to be effective following the issuance of such proposed Series of Subordinate Bonds.

The Authority does not currently intend to issue “new money” additional bonds under the Subordinate Indenture during the forecast period. The Authority may, however, issue refunding bonds under the Subordinate Indenture during that period.

3.5 RESERVE FUNDING

As discussed earlier, under both Section 5.04 of the Master Indenture and Section 5.04 of the Subordinate Indenture, the Authority is to maintain certain balances in both the Maintenance and Operation Reserve Fund and the Renewal and Replacement Fund.

The balance in the Maintenance and Operation Reserve Fund is to be maintained in an amount equivalent to 2 months of Maintenance and Operation Expenses of the Authority. As of June 30, 2004, the balance in this fund was \$1,478,551. Pursuant to the Indentures, the Authority intends to replenish this fund over a 12-month period to bring the balance to \$2.4 million by June 2005, equivalent to one-sixth of the Authority’s estimated Maintenance and Operation Expenses for 2005.

The balance in the Renewal and Replacement Fund is to be maintained at \$500,000, and may be drawn down for emergency and unexpected capital needs. During February 2004, the Authority used moneys in the Renewal and Replacement Fund to purchase snow removal equipment, which was needed for the continued safe operation of the Airport during the winter season. As of June 30, 2004, the balance in the Renewal and Replacement Fund was \$349,900. Pursuant to the Master and Subordinate Indentures, the Authority intends to replenish this fund over a 24-month period, to bring the balance to \$500,000 by June 2006.

In addition to the Maintenance and Operation Reserve Fund and the Renewal and Replacement Fund, the Authority maintains debt service reserve funds associated with the Series 2003 Bonds. Those bond-related reserve funds are currently funded in the amount required by the Master and Subordinate Indentures.

3.6 AIRLINE AGREEMENT

3.6.1 Current Airline Agreement

The Authority has entered into substantially similar Airline Operating Agreements and Terminal Building Leases with certain passenger airlines serving the Airport, and Airline Operating Agreements with certain cargo airlines serving the Airport. These agreements, as may be amended (collectively, the Airline Agreement) have been entered into with the following airlines; Airborne/DHL, Allegheny Airlines, American Airlines, American Eagle, Atlantic Coast Airlines, Comair, Continental Express, Emery Worldwide, FedEx, Mesaba Airlines, Northwest Airlines, United Airlines, UPS Air Cargo, and US Airways—collectively, the Signatory Airlines. The term of the Airline Agreement extends through December 31, 2004. Subsequent to that date, the Airline Agreement may be held over on a month-to-month basis until terminated by the Authority on 30-days written notice. The Signatory Airlines account for approximately 98% of airline traffic at the Airport.

The current Airline Agreement provides for a compensatory rate-making methodology to calculate terminal and commuter concourse rental rates. The airlines pay terminal and commuter concourse rentals calculated to recover the average cost of each square foot of space the airlines occupy and use.

A cost center residual rate-making methodology is used to calculate landing fee rates. Landing fees are paid on the basis of aircraft landed weight (in 1,000 pound units), and are calculated to recover the fully allocated operating and capital costs of the Airfield Area, after allowing credits for other Airfield Area revenues received (including non-signatory airline landing fees, ramp fees, and fuel flowage fees). Such net costs are allocated among the Signatory Airlines on the basis of landed weight.

As of January 1, 2002, the Authority, after informal consultation with the Signatory Airlines, modified and streamlined the airline rates and charges schedule described in the Airline Agreement. The new schedule of fees and charges reduces the number of individual airline fees at the Airport from 11 to 4, and includes the addition of a ramp fee (per square foot of terminal and cargo apron area occupied by the airlines). The seven miscellaneous fees eliminated include ticket counter and baggage claim surcharges, gate use fees, and loading bridge fees. The modifications made by the Authority did not involve changing the methodology used to calculate the landing fee or the terminal and commuter concourse rentals. (Airlines also pay fuel flowage fees and aircraft parking charges to the Authority for the use of apron space outside the airline's preferentially leased apron area.)

While a formal amendment to the Airline Agreement incorporating the addition of the ramp fee and elimination of the miscellaneous fees noted above has not been executed by the Authority and the Signatory Airlines, all Signatory Airlines have been paying rentals and fees under the new structure since January 1, 2002, and all

(except United Airlines as it relates to pre-bankruptcy petition amounts owed) are current in their payments.

Article 5 of the Airline Agreement states that the Authority has the obligation to notify the airlines of proposed capital improvements at the Airport. The Authority considers the comments of the Signatory Airlines, but implementation of capital projects is not contingent upon receiving any type of Signatory Airline approval. The Airline Agreement does not incorporate majority-in-interest (MII) provisions.

3.6.2 Proposed Airline Agreement

The Authority is currently in discussions with the Signatory Airlines regarding a new airline agreement for the period subsequent to substantial completion of the 2003 Project and DBO of the new terminal building (currently scheduled to be August 29, 2004). The Authority proposes to adopt an airline rate-making methodology substantially similar to that currently in place, except for the following:

- The terminal building rental rate would be calculated on a commercial compensatory basis, rather than a pure compensatory basis, as is currently the case. Under a commercial compensatory formula, total costs for the Terminal Building Area are divided by the amount of rentable space in the terminal (both airline rentable and other tenant rentable space) to obtain the rental rate per square foot. (Under a pure compensatory formula, usable space in the terminal is the divisor to obtain the rental rate.)
- Because the commuter concourse is being eliminated, there would be no commuter concourse subcost center or rental rate.
- Gate use fees and aircraft parking charges (levied on both Signatory Airlines for the use of non-preferentially leased space, and on nonsignatory airlines) would be instituted.
- A Revenue Credit Account would be established. A portion of the net operating cash flow of the Authority would be deposited in the Revenue Credit Account, balances in which would then be applied to reduce landing fee and terminal rental rates in the following Fiscal Year.

According to Authority management, the new airline agreement would not incorporate MII provisions.

The Authority intends to implement the new airline agreement as soon as possible after DBO of the new terminal building (currently scheduled to be August 29, 2004) to be applied retroactive to DBO., However, such implementation of the new airline agreement may be unsuccessful if the Signatory Airlines challenge the actions of the Authority to revise the current airline agreement before its expiration. If the new

airline agreement does not take effect after DBO of the new terminal building, the Authority intends to implement the new airline agreement as of January 1, 2005.

The Authority intends to implement the revised rental rate calculation methodology for the terminal (as described above), as well as the new gate use fees and aircraft parking charges, as of DBO of the new terminal building on the basis of a rate resolution to be adopted by the Authority. In the event that the Authority and the Signatory Airlines cannot reach agreement on implementation of the new airline agreement, the full revised airline rate-making methodology would then be implemented on January 1, 2005, also on the basis of a rate resolution to be adopted by the Authority.

While Authority management has already discussed its proposed rate implementation strategy with the airlines, in the event that the Authority and the airlines cannot reach a formal agreement on a new airline rate-making methodology or the timing of its introduction, the airlines could, potentially, challenge the reasonableness of the Authority's proposed airline rates and charges structure and methodology under the U.S. Department of Transportation's policy regarding airport rates and charges.

The Authority has covenanted in the Master Indenture that it will establish and collect rentals, fees, and charges from the airlines and other tenants and users of the Airport System so that Airport System Revenues, together with Coverage Account balances, will be at least sufficient to pay the principal of and interest on Bonds issued under the Master Indenture with 125% coverage, as well as meet all the other financial obligations of the Authority. See Section 3.3.2 regarding the Senior Rate Covenant.

The Authority has also covenanted in the Subordinate Indenture that it will establish and collect rentals, fees, and charges from the airlines and other tenants and users of the Airport System so that Airport System Revenues, together with Coverage Account balances, will be at least sufficient to pay the total combined principal of and interest on Bonds issued under the Master Indenture and the Subordinate Indenture with 110% coverage, as well as meet all the other financial obligations of the Authority. See Section 3.4.2 regarding the Subordinate Rate Covenant.

3.7 AUTHORITY COST CENTERS

In the current Airline Agreement, the Authority has established six cost centers to track revenues and expenses related to the Airport System, as follows:

Airfield Area. The Airfield Area cost center consists of all runways, taxiways, approach and runway protection zones, safety areas, infield areas, all noise mitigation facilities or costs, landing and navigational aids, and aviation easements, aircraft parking aprons for both cargo and passenger aircraft, fixed base operator facilities, airfield maintenance facilities, and aircraft maintenance facilities. Cargo

buildings, hangars, and remain overnight aircraft parking facilities are also included in this cost center.

Terminal Building Area. The Terminal Building Area cost center includes the passenger terminal building and associated frontage road, landscaped areas, and curbside entrance areas. This cost center currently consists of two subcost centers—the Main Terminal and the Commuter Concourse. Upon completion of the new terminal building, use of a separate commuter concourse will be discontinued, and all passenger aircraft operations will be processed in the new terminal building. The Authority intends to, at that time, redevelop a portion of the existing terminal building as an international passenger arrivals processing center (the International Arrivals Building).

Landside Area. The Landside Area cost center includes access and egress roads to and from the Airport, other circulation roads on Airport property, public and employee parking facilities, the SmartPark lots, rental car parking and service facilities, rental car ready/return areas and storage facilities, and taxicab service areas. The new Multimodal Transportation Center and the Amtrak Station will both be part of the Landside Area cost center.

Industrial Park. The Industrial Park at the Airport consists of a series of industrial and commercial buildings northwest of the current terminal building. Because several of these buildings were demolished to make way for the new terminal building, the Authority intends to eliminate the Industrial Park as a separate cost center, and include any remaining facilities in the Landside Area cost center upon expiration of the existing Airline Agreement.

Utilities Services. The Utilities Services cost center encompasses the facilities used to provide water and sewer services at the Airport.

Capital City Airport. All Revenues, Maintenance and Operation Expenses, and capital improvements associated with Capital City Airport (the designated reliever airport to the Airport) are included in this cost center.

The Authority established a new cost center for Franklin County Regional Airport upon acquisition of that facility on July 28, 2004.

3.8 PASSENGER FACILITY CHARGE (PFC) PROGRAM

3.8.1 PFC Program History

The Authority is currently authorized to impose a PFC and use a total of \$77,382,362 in PFC revenues, pursuant to four approvals by the FAA.

In 1996, the Commonwealth of Pennsylvania, which at the time operated the Airport, received approval from the FAA to impose a PFC of \$3 per eligible enplaned passenger at the Airport. PFC revenues of approximately \$4.1 million were approved to pay for the Runway 13-31 Overlay—Phase II project on a pay-as-you-go basis. In subsequent amendments to the original application, the impose and use approval amount was increased to \$4.8 million. The runway overlay project was completed in April 1998.

In 1999, under a second PFC application, the FAA approved the collection of an additional \$2.1 million in PFC revenues on an impose and use basis. This money was used to pay for 16 approved projects, all of which were completed by June 2000.

The third PFC application was approved on March 21, 2000. The Authority received impose and use approval for \$63,365 in PFC revenues to partially fund two projects—two Loading Bridge Replacements and PFC Application Development. The Authority also received impose-only approval for \$3.7 million in PFC revenues to fund two additional projects—Terminal Loop Roadway (\$3.3 million) and Enplaned/Deplaned Drive Expansion (\$0.4 million). The Loading Bridge Replacement project was completed in December 2001, and the PFC Application Development project was completed in May 2000. On September 26, 2002, the Authority received approval from the FAA for a 15% increase in the amount of PFC revenues allocated to the Terminal Loop Roadway project (from \$3.3 million to \$3.8 million). The Terminal Loop Roadway project is an element of the 2003 Project. The PFC charge expiration date under the third PFC application was extended to January 1, 2003.

The Authority intends to delete from its PFC program the Enplaned/Deplaned Drive Expansion project (\$0.4 million), which, as previously stated, received impose-only PFC approval from the FAA. This project is no longer needed under the Authority's current Capital Program.

3.8.2 Current PFC Authorization

On April 5, 2000, the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, known as AIR-21, was signed into law. AIR-21 increased the PFC amount that airport operators can charge, upon receiving FAA approval, from \$3.00 to \$4.00 or \$4.50, subject to compliance with certain conditions. On October 31, 2002, the Authority received approval from the FAA for the fourth PFC application, which includes approval to increase the PFC to \$4.50 per eligible enplaned passenger, effective January 1, 2003.

The FAA's Final Agency Decision (FAD) for the fourth PFC application includes consideration of leveraging the Authority's PFC revenues, and authorizes PFC revenues to be applied to bond financing, interest, and issuance costs associated with FAA-approved projects. The FAD allows the Authority to impose a PFC and use a total of \$70.1 million in PFC revenues for the payment of (1) debt service on the Series 2003 Bonds used to fund PFC-approved project costs, and (2) PFC-approved project costs associated with the 2003 Project on a pay-as-you-go basis. The expiration date for PFC collections was expected to be August 1, 2020.

As stated in its FAD, the FAA approved the imposition of a \$4.50 PFC and use of \$70.1 million in PFC revenues for the following 2003 Project elements: (1) Construct Terminal and Related Work (\$54.4 million), (2) Construct Terminal Loop Roadway (\$3.8 million), (3) Install Nav aids and Runway Lighting (\$10.9 million), and (4) Construct Parallel Taxiway and Related Work (\$1.0 million). These amounts include bond financing and interest costs as calculated by the Authority when it prepared the PFC application.

PFC revenues are excluded from the definition of Revenues in the Master Indenture. After January 1, 2005, the Authority's PFC revenues are to be applied to debt service on the Senior Bonds to reduce the amount of required Senior Aggregate Annual Debt Service that would otherwise be payable from Net Revenues for that year, thereby reducing the amount of Revenues required to meet the Senior Rate Covenant.

3.8.3 Proposed Amendment to Current PFC Authorization

The Authority has initiated the process of preparing an amendment to its fourth PFC application to encompass certain changes, as described below, to its PFC program. The Authority expects to file the application amendment with the FAA no later than August 31, 2004, and to receive a Final Agency Decision regarding the amendment no later than December 31, 2004.

Subsequent to the filing of the fourth PFC application with the FAA, and on an ongoing basis throughout implementation of the 2003 Project, the original budgets for the PFC-funded projects are being modified and updated. Additionally, the Authority has approved the addition of 4 jet aircraft gates to the new terminal building, increasing the total number of multi-use jet gates in the facility from 8 to 12.

Further, the Authority now covenants, as part of the Second Supplemental Indenture, to apply all PFC revenues collected from the airlines, plus interest earnings thereon between January 1, 2005, and December 31, 2008, to the payment of debt service on the Senior Series 2003 Bonds and the proposed Senior Series 2004 Bonds.

The Authority expects to request that total PFC authorization be increased to approximately \$120 million under this proposed amendment.

3.8.4 PFC Collections

The PFC Regulations require airlines to remit PFC collections (net of an \$0.11 collection fee per PFC collected and any investment earnings) to airport operators no later than the last day of the calendar month following the month in which the PFC collections are recorded in the airline's accounting system.

The Authority has instituted accounting and management procedures to maximize PFC revenue collections and to ensure compliance with FAA regulations and policies. If an airline's PFC payment is 30 days overdue, the Authority calls the airline as a reminder to make the payment. If a payment is 60 days overdue, the Authority sends a letter to the airline, stating that nonpayment will result in sanctions by the U.S. Department of Transportation (DOT) and attaching a U.S. DOT notice that failure to remit collected PFCs monthly to airport operators may result in criminal prosecution. If a payment is 90 days overdue, a second letter is sent to the airline, stating that if payment is not received within 10 days, the Authority will contact the U.S. DOT for assistance, which could lead to sanctions on the airline.

To date, the airlines have remitted PFC collections to the Authority on a timely basis, so delinquencies have not had to be addressed.

The Authority determines whether airlines are remitting the correct amount of PFC revenues by:

- Comparing monthly PFC payments with monthly air carrier operations reports, which may show discrepancies that trigger further investigation.
- Comparing airline PFC payments to quarterly reports that the airlines must submit to the FAA and to annual PFC audits conducted by the airlines.

The Authority and its auditors also review PFC revenues and expenditures and PFC Fund balances when preparing the Authority's annual financial statements.

3.8.5 History of PFC Collections

PFC collections were initiated at the Airport on February 1, 1997. Through June 30, 2004, PFC revenues received by the Authority (including interest income) totaled \$14,820,829, all of which has been expended on PFC-approved projects.

3.9 AIP GRANTS AND LETTER OF INTENT RECEIPTS

On April 15, 2003, the Authority received an LOI from the FAA for costs related to the airfield elements of the 2003 Project. The LOI is for a total of \$44.3 million in discretionary AIP funding, to be received by the Authority over a period of 6 years (FFY 2004 through FFY 2009).

The Authority leveraged the LOI Receipts by issuing the Subordinate Series 2003C Bonds. LOI Receipts of the Authority to be received in FFY 2005 and thereafter are pledged to the payment of debt service (interest plus principal) on the Subordinate Series 2003C Bonds.

The LOI Receipts are to be applied to eligible projects on both a pay-as-you-go basis and toward debt service (principal and interest) on the Subordinate Series 2003C Bonds, as shown in Table 22. Of the total LOI Receipts, \$37.6 million is to be allocated to pay debt service and \$6.7 million is allocated to pay project costs on a pay-as-you-go basis for eligible and FAA-approved elements of the 2003 Project.

The Authority received its first payment under the LOI (the FFY 2004 payment, in the amount of \$6.7 million) on May 27, 2004.

Year	LOI funding			Use of LOI Receipts	
	Entitlement	Discretionary	Total	Current debt service	Pay-as-you-go
2003	\$ --	\$ --	\$ --	\$ --	\$ --
2004	--	6,680,000	6,680,000	--	6,680,000
2005	--	6,660,000	6,660,000	6,660,000	--
2006	--	8,340,000	8,340,000	8,340,000	--
2007	--	9,130,000	9,130,000	9,130,000	--
2008	--	11,300,000	11,300,000	11,300,000	--
2009	--	<u>2,170,000</u>	<u>2,170,000</u>	<u>2,170,000</u>	<u>--</u>
Total	\$ --	\$44,280,000	\$44,280,000	\$37,600,000	\$6,680,000

LOI Receipts are excluded from the definition of Revenues under the Master Indenture. As shown in the flow of funds on Figure 9, the Authority pledged LOI Receipts to be received in FFY 2005 and thereafter to pay debt service on the Subordinate Series 2003C Bonds. Applying LOI Receipts to debt service on the Subordinate Series 2003C Bonds would reduce the amount of required Subordinate Aggregate Annual Debt Service that would otherwise be payable from Net Reve-

nues for that year, thereby reducing the amount of Revenues required to meet the Subordinate Rate Covenant.

The Authority has already received, or expects to receive, AIP entitlement grants in addition to amounts received under the LOI, totaling about \$21 million through the first quarter of 2005. This total includes (1) \$9.6 million in AIP entitlement carry-forward balances available to the Authority as of October 1, 2001 (i.e., the start of FFY 2002), including the Authority's FFY 2002 entitlement award; (2) the Authority's FFY 2003 AIP entitlement grants, totaling \$3,567,434; (3) the Authority's FFY 2004 AIP entitlement grants (totaling \$3,827,112); and (4) the Authority's anticipated FFY 2005 AIP entitlement grants (totaling an estimated \$3,825,000).

The Authority has already received, or expects to receive, AIP discretionary grants totaling \$15.9 million, in addition to amounts received under the LOI.

The AIP entitlement amount for FFY 2005 was estimated using the FAA's enplanement-based formula, and the amount will vary based on the actual number of enplaned passengers and the total appropriation for the Airport Improvement Program by the U.S. Congress.

Annual entitlement funding at medium- and large-hub airports is reduced by 50% where a \$3.00 PFC is imposed and by 75% where a \$4.00 or \$4.50 PFC is imposed. Entitlement funding for sponsors of small-hub airports is not reduced if a PFC is imposed. The FAA classifies Harrisburg as a small hub, so entitlement funding will not be reduced as a result of imposing a \$4.50 PFC at the Airport.

3.10 TRANSPORTATION SECURITY ADMINISTRATION GRANTS

In July 2004, the Authority was awarded a Transportation Security Administration (TSA) grant for \$4 million, to be applied to the cost of security-related elements of the new terminal building. Based on discussions with TSA representatives, Authority management considers it probable that it will receive additional grants from the TSA for up to \$8.5 million to be applied to the same project element. As of the date of this report, however, the TSA has made no formal written commitment to provide this additional grant funding to the Authority. For purposes of this report, it was assumed that these grants would be available to fund the terminal project.

3.11 COMMONWEALTH OF PENNSYLVANIA AND OTHER GRANTS

The Authority is eligible for, and receives, several forms of grant funding from the Commonwealth of Pennsylvania.

3.11.1 Department of Transportation, Bureau of Aviation Grants

On May 20, 2003, the Authority received a grant for \$1,341,000 from the Pennsylvania Department of Transportation, Bureau of Aviation, to fund costs associated with airfield elements of the 2003 Project (grant number 810567). This grant was applied to the costs of the projects titled Install Nav aids and Runway Lighting and Construct Parallel Taxiway and Related Work.

On April 20, 2004, the Authority received a grant for \$1,425,000 from the same source for the Construct Terminal and Related Work project (grant number 810370).

Additionally, in June 2003, the Authority filed an application with the Bureau of Aviation for an additional grant of \$1,321,000 for work associated with the Construct Aircraft Parking Apron project. This grant application has not yet been approved by the Bureau of Aviation, but was assumed to be approved for purposes of this analysis.

3.11.2 State Capital Grants

Each fiscal year, the Commonwealth adopts a capital budget to provide funds for public improvement projects, transportation assistance projects, and redevelopment projects, in addition to various other projects within the Commonwealth. Subsequently, legislation is enacted that itemizes the projects eligible for funding (the Commonwealth Capital Budget Act). To qualify for the funds, a construction contract for the eligible project must be executed within 4 years of the effective date of the Commonwealth Capital Budget Act. Under the Commonwealth Capital Budget Acts for fiscal years 2001 and 2002, a combined total of \$23 million was approved for elements of the 2003 Project, other capital improvements at the Airport, and capital improvements at Capital City Airport.

While approved and itemized under Commonwealth Capital Budget Acts, these grant amounts are not binding upon the Commonwealth, and are subject to disbursement by the Governor of the Commonwealth.

On April 20, 2004, the Authority received a grant from the Commonwealth under this legislation for \$2,720,000 (grant number 810075) to be applied to the costs of the terminal project.

The Authority also intends to apply for an additional \$10 million in grant funding under this legislation, to be applied to the terminal project and the Multimodal Transportation Center project. While Authority management considers it probable that such grant funding will be available for these projects, there is no assurance that any such grants will be received. This grant funding was assumed to be available to the Authority for purposes of this analysis.

3.11.3 Federal Surface Transportation Grants

As part of the federal budget appropriations for FFY 2003 and FFY 2004, the Authority has been awarded a total of approximately \$2.5 million in grant funding to be applied to the Multimodal Transportation Center—\$1.5 million as part of the Federal Highway Administration appropriation for FFY 2003, and \$1.0 million as part of the Federal Transit Administration appropriation for FFY 2004. This grant funding was assumed to be available to the Authority for purposes of this analysis.

3.11.4 Grant Funding Summary

The status of all grant sources noted above—federal and Commonwealth—is summarized in Table 23.

3.12 OPERATION OF PUBLIC PARKING FACILITIES

Prior to May 15, 2003, public automobile parking facilities at the Airport were operated by the Dauphin County General Authority (DCGA) under a contract with the Authority. Since May 15, 2003, the Authority has undertaken full responsibility for the management and operation of all automobile parking facilities at the Airport. The Authority contracts with Central Parking for operation of the parking facilities under a management contract, with a management fee of \$60,000 per year. All automobile parking revenues are included in the Revenues of the Authority.

Table 23
SUMMARY OF GRANT FUNDING
 2003 Project

Grant source	Grant number	Amount	Project application
AIP ENTITLEMENT GRANTS			
Already awarded	#32-02	\$ 1,450,910	Terminal/Loop Road
	#34-02	8,367,195	Terminal
	#38-03	3,786,899	Terminal/Apron
	#39-04 (a)	<u>3,827,110</u>	Terminal/Apron
		\$17,432,114	
Expected	FFY 2005 grant (b)	<u>3,825,000</u>	Terminal/Apron
		\$21,257,114	
AIP DISCRETIONARY GRANTS			
Already awarded	#35-02	\$ 5,000,000	Terminal (Security)
	#36-02	<u>10,885,321</u>	Apron/Taxiway
		\$15,885,321	
FAA LETTER OF INTENT (c)			
Already awarded	#40	\$ 6,680,000	Apron/Nav aids/Taxiway
TSA GRANTS			
Grant awarded (d)		\$ 4,000,000	Terminal (Security)
Application to be filed by the Authority		<u>8,500,000</u>	Terminal (Security)
		\$12,500,000	
FEDERAL SURFACE TRANSPORTATION GRANTS			
Awarded but not yet disbursed			
Federal Highway Administration	0-INMOD-0-7-HIA-0850-375	\$ 1,490,250	MTC
Federal Transit Administration (e)		<u>982,260</u>	MTC
		\$ 2,472,510	
COMMONWEALTH BUREAU OF AVIATION			
Already awarded	#810567	\$ 1,341,000	Nav aids/Taxiway
	#810370	<u>1,425,000</u>	Terminal
		\$ 2,766,000	
Application filed in June 2003		<u>1,321,000</u>	Apron
		\$ 4,087,000	
STATE CAPITAL GRANTS			
Already awarded (f)	#810075	\$ 2,720,000	Terminal
Application to be filed by the Authority		<u>10,000,000</u>	Terminal/MTC
		\$12,720,000	
TOTAL—all grant funding sources		<u>\$75,601,945</u>	

MTC = Multimodal Transportation Center.

- (a) FFY 2004 AIP entitlement grant.
- (b) FFY 2005 AIP entitlement grant.
- (c) The first payment under the LOI awarded by the FAA on April 15, 2003. Subsequent payments under the LOI will be used to pay debt service on the Subordinate Series 2003C Bonds.
- (d) This grant was publicly announced by the TSA on July 23, 2004.
- (e) FFY 2004 Section 5309 bus and bus-related allocations.
- (f) Pursuant to Pennsylvania Act 27 of 2000.

Source: Susquehanna Area Regional Airport Authority, except for the Federal Surface Transportation grants, the source for which was the individual federal agencies.

4. AIRPORT SYSTEM CAPITAL IMPROVEMENTS

4.1 THE AUTHORITY'S CAPITAL PROGRAM

The Authority has developed a Capital Program to provide needed improvements at the Airport, Capital City Airport, and Franklin County Regional Airport through 2007, as summarized in Table 24. The Authority's total expected capital expenditures over this period (including costs associated with the 2003 Project that have already been incurred) are \$252.4 million, excluding financing costs, capitalized interest, and reserve funding associated with the Series 2003 Bonds and the proposed Series 2004 Bonds. Of this total, the 2003 Project represents expenditures of \$232.7 million (or 92% of the total expenditure). Also, see Exhibits A-1 and A-2.

4.1.1 Harrisburg International Airport

In addition to the 2003 Project, which is described in detail in Section 4.2, the primary capital improvements related to the Airport are the demolition and environmental remediation of Airport property known as Crawford Station (totaling approximately \$4 million), expected to be funded primarily with Commonwealth grants. Additionally, the Authority expects to construct a new sewage treatment plant for \$3 million, subject to the availability of funding.

Upon DBO of the new terminal, the existing passenger terminal will no longer be used for passenger processing, and will be redeveloped for commercial uses. (A portion of the building will also be used as a federal inspection services [FIS] facility.) Also, apart from a small section of the building to be used for FIS, most of the commuter concourse will no longer be used for processing passengers, and will be demolished.

The Authority is currently in the process of seeking third-party developers to:

- Redevelop the existing terminal building for commercial uses after DBO of the new terminal building
- Develop a hotel with a four-star or better rating (on the standard industry rating schedule) on a site adjacent to the Multimodal Transportation Center
- Develop a hotel with a two-star or better rating on an Authority-owned site approximately 1 mile from the new terminal building

Because, according to Authority management, these projects are to be developed by third-party developers with minimal investment by the Authority, the costs of these projects are not included in Exhibit A-2. The Authority received proposals from

Table 24

PLANNED CAPITAL IMPROVEMENTS: 2004 TO 2007

	<u>Estimated project cost</u>
HARRISBURG INTERNATIONAL AIRPORT	
2003 Project elements <i>(a)</i>	
Construct Terminal and Related Work	\$105,036,000
Construct Terminal Loop Roadway	7,805,000
Construct Aircraft Parking Apron	32,535,000
Install Nav aids and Runway Lighting	15,059,000
Construct Parallel Taxiway and Related Work	18,679,000
Construct Multimodal Transportation Center	51,763,000
Construct Amtrak Station <i>(b)</i>	<u>1,818,000</u>
	<u>\$232,695,000</u>
Other projects	
Demolish and remediate Crawford Station	\$ 4,000,000
Construct sewage treatment plant	3,000,000
Other miscellaneous projects	<u>6,906,000</u>
	<u>\$ 13,906,000</u>
Subtotal—Harrisburg International Airport	<u>\$246,601,000</u>
CAPITAL CITY AIRPORT	
Improve runway safety areas and install MALSR	\$ 1,050,000
Rehabilitate Runway 8-26 (overlay)	712,000
Other miscellaneous projects	<u>2,906,000</u>
Subtotal—Capital City Airport	<u>\$ 4,668,000</u>
FRANKLIN COUNTY REGIONAL AIRPORT	
Acquire airport	\$ 790,000
Other miscellaneous projects	<u>318,000</u>
Subtotal—Franklin County Regional Airport	<u>\$ 1,108,000</u>
TOTAL	<u><u>\$252,377,000</u></u>

Note: Costs exclude financing costs, capitalized interest, and reserve funding associated with the Series 2003 Bonds and the proposed Series 2004 Bonds.

- (a)* Reflects the full estimated cost of the 2003 Project, including amounts already incurred. **These costs do not include potential future Change Orders for 2003 Project elements that the Authority may approve. These Change Orders, if approved, could increase the cost of the 2003 Project.**
- (b)* Amounts shown reflect planning and design costs only. Construction of this project will be undertaken in the future subject to grant funding availability.

Source: Susquehanna Area Regional Airport Authority.

developers for the existing terminal redevelopment project in June 2004, and expects to receive proposals from hotel developers in October 2004. The Authority expects to let contracts for these developments before the end of 2004. (Associated Authority Revenues of \$325,000 per year from these facilities were assumed and included in the financial analysis, as discussed in Section 5.)

4.1.2 Capital City Airport

The Authority expects to expend approximately \$4.7 million on capital improvements at Capital City Airport between 2004 and 2007, funded primarily with federal block grants and Commonwealth grants. These projects are to be undertaken subject to the availability of grant funding.

4.1.3 Franklin County Regional Airport

On July 28, 2004, the Authority acquired Chambersburg Municipal Airport, a general aviation airport located in Franklin County, approximately 45 miles from the Airport, for a purchase price of \$790,000. A federal grant for \$750,000 (95% of the acquisition cost), and a Commonwealth grant for \$20,000 (2.5% of the acquisition cost) were the primary funding sources for the acquisition.

Subsequent to the acquisition, Chambersburg Municipal Airport was renamed Franklin County Regional Airport, and is now part of the Authority's Airport System. The Authority expects to fund improvements at Franklin County Regional Airport primarily with federal and Commonwealth grants, with the Authority providing a 2.5% local matching share of the cost.

Revenues generated, and Maintenance and Operation Expenses incurred, at Franklin County Regional Airport are Revenues and Maintenance and Operation Expenses of the Authority. For purposes of this report, such Revenues and Maintenance and Operation Expenses were not included in the financial analysis presented in Section 5. (Over the past 10 years, this airport has operated close to a financial break-even basis.)

4.2 THE 2003 PROJECT

The 2003 Project reflects comprehensive redevelopment of the landside facilities at the Airport, and the provision of key necessary improvements to the airside facilities, all with the goal of enhancing the safety, security, and capacity of the Airport, and positioning the Airport to accommodate expected increases in airline traffic demand in southcentral Pennsylvania in the future.

The Authority estimates that the 2003 Project will cost approximately \$232.7 million (including design, construction, program management, and construction management costs, as applicable). All elements of the 2003 Project are expected by the Authority to

be substantially complete by August 29, 2004. The new terminal building and Multimodal Transportation Center are scheduled to open for service on August 29, 2004.

Another project that had originally been part of the 2003 Project—Construct Amtrak Station—has been deferred by the Authority, and will only be undertaken in the future subject to the availability of funding from the Pennsylvania Department of Transportation and federal Congestion Mitigation and Air Quality (CMAQ) grants.

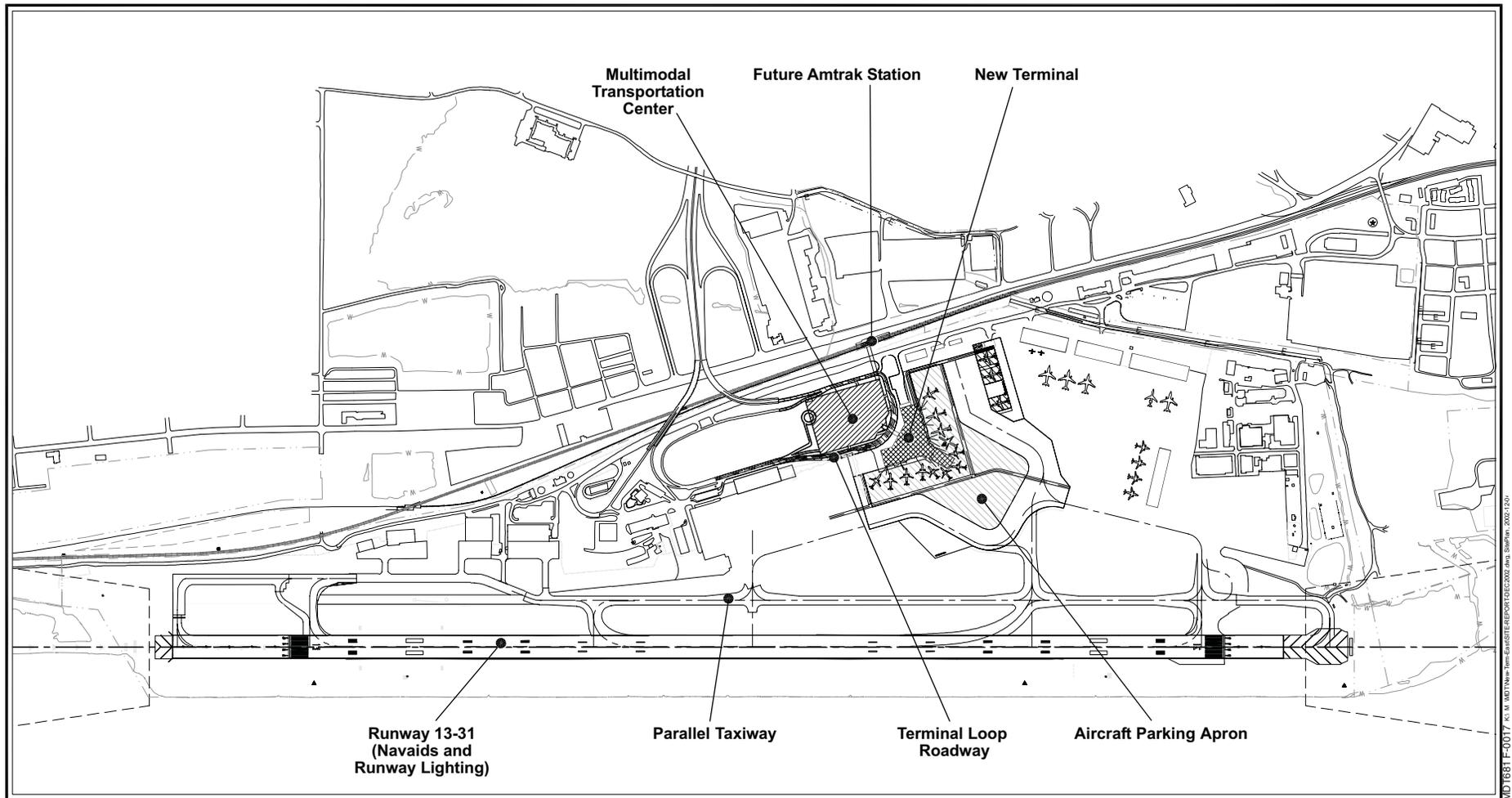
It is anticipated that the 2003 Project will be fully funded with a combination of the proceeds of the Series 2003 Bonds and the proposed Series 2004 Bonds, federal AIP grants (including grants awarded under an LOI), Commonwealth of Pennsylvania grants, TSA grants, other federal grants, PFC revenues on a pay-as-you-go basis, and Authority funds.

The 2003 Project is shown on Figure 10, and detailed costs and funding sources for the 2003 Project elements are provided in Exhibit A-1.

The 2003 Project elements are described below:

- **Construct Terminal and Related Work (\$105.0 million).** This project consists of design and construction of a new 380,000-square-foot terminal building. The new terminal encompasses 48 ticket counter positions, 12 multi-use jet aircraft gates with 15 aircraft parking positions, and 4 baggage claim devices. The new terminal provides for 100% in-line baggage screening, using explosives detection systems (EDS) equipment, in an approximately 60,000-square-foot basement area that will meet or exceed all current Aviation and Transportation Security Act (ATSA) requirements. The terminal is scheduled to open for service on August 29, 2004.

Construct Terminal Loop Roadway (\$7.8 million). This project consists of design and construction of 3,400 linear feet of roadway, starting at a point east of the existing loop road at the end of the existing terminal curbside, terminating at the Airport connector roadway (PA 3032), and merging into the existing terminal return access road and the ramp to the new Multimodal Transportation Center. The new loop roadway would provide two drop-off lanes and three through lanes in front of the new terminal building. This road serves as the major connection between the Airport, Airport Drive, and Highway 283. The loop roadway is scheduled to be substantially complete and open for service on August 29, 2004, and to be entirely complete by November 2004.



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Figure 10
2003 PROJECT DIAGRAM
 Harrisburg International Airport
 July 2004

- **Construct Aircraft Parking Apron (\$32.5 million).** This project provides an aircraft parking apron adjacent to the new terminal and an associated taxiway. The project consists of approximately 103,000 square yards of concrete, 108,500 square yards of asphalt, and 44,000 square yards of graded, seeded, and mulched area. The new apron is needed because of the relocation of the terminal building and is critical to the efficient operation of the new terminal. The new apron also provides five additional spaces for aircraft remaining overnight. This project is being constructed for full buildout of the terminal building. Also included in this project is the development and preparation of a site for future expansion of the aircraft parking apron adjacent to the air cargo facilities, the demolition of several buildings, and the leveling and grading of the site to the existing surrounding ground level. The Authority expects the apron to be substantially complete and open for service on August 29, 2004. Construction is expected to be fully complete by October 2004.
- **Install Nav aids and Runway Lighting (\$15.1 million).** As described in the Airport Master Plan dated December 1999, the Category I instrument landing system (ILS) at the western end of Runway 13-31 was upgraded to a Category III system, allowing the accommodation of aircraft during periods of limited visibility resulting from adverse weather conditions. The project also includes lighting vault construction, regulators, other associated electrical equipment, and direct buried cable to provide electrical power to all airfield lighting systems related to this project and the provision of a surface movement guidance and control system (SMGCS). This project is expected to be complete in August 2004.
- **Construct Parallel Taxiway and Related Work (\$18.7 million).** This project involves the development of a 10,000-foot-long, 75-foot-wide taxiway parallel to Runway 13-31, providing (1) two filleted high-speed exit taxiways, (2) modification, replacement, or elimination of connector Taxiways B, C, D, and E, and (3) connectors to the new terminal apron. The parallel taxiway extends to the end of the full-strength pavement at both runway ends. This project was completed and placed in-service in April 2004.
- **Construct Multimodal Transportation Center (\$51.8 million).** The Multimodal Transportation Center is a four-level structure with one double-threaded helix, vertical circulation, and a pedestrian bridge (including a moving sidewalk) to the new terminal building. Each floor consists of approximately 288,000 square feet. The Multimodal Transportation Center has a total parking capacity of 3,400 spaces—2,700 spaces for public use and 700 spaces for the rental car companies serving the Airport. The Multimodal Transportation Center is scheduled to open for service on August 29, 2004.

A further element—construction of a new Amtrak railroad station adjacent to the Airport—had originally been part of the 2003 Project. This project element has been deferred by the Authority, and will only be undertaken in the future subject to the availability of funding from Commonwealth and CMAQ grants.

The Authority expects the following sources to be available to fund these projects:

- Proceeds of the Series 2003 Bonds and the proposed Series 2004 Bonds
- AIP entitlement and discretionary funds, including the proceeds of an LOI awarded by the FAA
- Pennsylvania Department of Transportation grants and other grants disbursed through the Commonwealth
- PFC revenues on a pay-as-you-go basis
- TSA grants
- Federal surface transportation grants
- Internal Authority funds (including moneys from the Capital Improvement Account in the General Fund)

Bond debt service, incremental Maintenance and Operation Expenses, and incremental Revenues associated with these projects are reflected in the financial analysis presented in Section 5 of this report.

4.3 FUTURE AIRPORT CAPITAL IMPROVEMENTS

Currently, the Authority has no specific plans for additional capital improvements after 2007, beyond those routinely necessary to ensure that the Airport continues to be a safe, secure, and efficient aviation facility (e.g., equipment replacement and major facility maintenance as needed). Upon completion of the 2003 Project and the other capital improvements discussed in Sections 4.1 and 4.2, the Authority does not anticipate the need for additional significant capital improvements at the Airport for several years, unless a new airline or an airline currently serving the Airport initiates significantly higher levels of service from the Airport.

Beyond the forecast period, the Authority contemplates expanding the new terminal building to 26 jet gates—the ultimate capacity of the building. This expanded facility would accommodate up to 7 million annual enplaned passengers, which, according to the Authority, is also the capacity of the existing single runway at the Airport, in conjunction with the new parallel taxiway that is part of the 2003 Project.

The Authority plans to undertake any future capital improvements at the Airport, at Capital City Airport, and at Franklin County Regional Airport as such improvements are economically justified by increases in aviation activity at these facilities. The financial effects of the projects that may be initiated after 2007 (including anticipated incremental Maintenance and Operation Expenses and incremental Revenues) are not reflected in the financial analysis presented in Section 5 of this report.

The Authority currently anticipates no need to issue “new money” Additional Bonds under the Master Indenture or the Subordinate Indenture through 2009, the end of the forecast period considered in this report.

4.4 SERIES 2004 BOND FINANCING

Exhibit B presents a summary of estimated sources and uses of funds for the Series 2004 Bonds. The estimated sources and uses of funds were provided by Goldman Sachs, underwriter for the Senior Series 2004 Bonds, based on certain data and information provided by the Authority on the cost and timing of the 2003 Project elements.

The Senior Series 2004 Bonds are being issued as variable rate auction rate securities. For purposes of this report, these bonds were assumed to have a yield of 3.5%. A capitalized interest period through April 1, 2005, was also assumed. The Senior Series 2004 Bonds are expected to have a term to final maturity of 30 years.

5. FINANCIAL ANALYSIS

5.1 PASSENGER FACILITY CHARGE REVENUES

Exhibit C shows the estimated annual PFC collections during the forecast period. The Authority received authorization from the FAA to impose a \$4.50 PFC per eligible enplaned passenger at the Airport, beginning January 1, 2003. On average, more than 90% of enplaned passengers at the Airport pay a PFC; for purposes of this analysis, it was assumed that 90% of enplaned passengers would pay a PFC in the future. As of May 1, 2004, the airline collection fee was increased to \$0.11 per passenger paying a PFC (previously it had been \$0.08). PFC revenues (including interest income on balances in the PFC Fund and the PFC Capital Account) are forecast to increase from \$2.8 million in 2004 to \$3.1 million in 2009.

PFC revenues collected during 2004 are to be applied to the costs of PFC-eligible elements of the 2003 Project on a pay-as-you-go basis. PFC revenues collected during the period January 1, 2005, to December 31, 2008, are to be applied as follows pursuant to an irrevocable commitment of the Authority:

- To pay debt service in the amount of \$2.1 million per year on a portion of the Senior Series 2003 Bonds, thereby reducing the amount of Senior Aggregate Annual Debt Service that would otherwise be payable from Net Revenues for a given year, and reducing the amount of Revenues required to meet the Senior Rate Covenant.
- Any additional PFC revenues collected would be applied to pay debt service on a portion of the Senior Series 2004 Bonds, thereby further reducing the amount of Senior Aggregate Annual Debt Service that would otherwise be payable from Net Revenues for a given year, and reducing the amount of Revenues required to meet the Senior Rate Covenant.

After January 1, 2009, the Authority (while not covenanting to do so) currently intends to continue to apply PFC revenues in the manner noted above to minimize the amount of debt service included in the airline rate base, and thereby reduce airline payments to the Authority. PFC revenues collected in excess of those used to pay debt service on the Series 2003 Bonds and the proposed Series 2004 Bonds would be held in the PFC Capital Account or used for any other lawful purpose permitted by the PFC Regulations.

The Authority may, in the future (but does not currently plan to), apply to the FAA for approval to use PFC revenues on a pay-as-you-go basis for additional capital improvements at the Airport, beyond those discussed in this report. Alternatively, the Authority may pay scheduled future debt service, or initiate an early call on a portion of the Senior Series 2003 Bonds or the proposed Senior Series 2004 Bonds using balances in the PFC Capital Account.

5.2 LOI RECEIPTS AND USE

As noted in Section 3.9, the Authority was awarded an LOI by the FAA on April 15, 2003. Under the terms of the LOI, the Authority is to receive \$44.3 million in LOI Receipts from the FAA during the 6-year period 2004 to 2009. As shown in Table 22, the Authority would apply these LOI Receipts to the payment of (1) debt service on the Subordinate Series 2003C Bonds (\$37.6 million), and (2) FAA-approved project costs on a pay-as-you-go basis (\$6.7 million). The Authority received its first payment under the LOI on May 27, 2004.

LOI Receipts used to pay debt service on the Subordinate Series 2003C Bonds reduce the amount of required subordinate debt service that would otherwise be payable from Net Revenues in a given year, thereby reducing the amount of Revenues required to meet the Subordinate Rate Covenant.

Exhibit D shows the annual LOI Receipts through the entire term of the LOI, and the disposition of those Receipts.

5.3 ANNUAL DEBT SERVICE REQUIREMENTS

5.3.1 Series 2003 Bonds and Proposed Series 2004 Bonds

Exhibit E shows the estimated annual debt service requirements throughout the forecast period for the Senior Series 2003 Bonds, the proposed Senior Series 2004 Bonds, and the Subordinate Series 2003 Bonds.

The estimated annual debt service requirements for the proposed Series 2004 Bonds were provided by Goldman Sachs, underwriter for the Series 2004 Bonds, based on certain data and information provided by the Authority on the costs and construction schedule of the 2003 Project elements.

As noted previously, the Authority has received approval from the FAA to use PFC revenues to pay for the PFC-eligible portions of debt service on debt associated with certain 2003 Project elements.

The Senior Aggregate Annual Debt Service requirement on the Senior Series 2003 Bonds and the proposed Senior Series 2004 Bonds is forecast to increase from approximately \$3.3 million in 2005 to approximately \$4.0 million in 2009 (net of the PFC-related direct debt service offset).

The Subordinate Aggregate Annual Debt Service requirement on the Subordinate Series 2003 Bonds is forecast to be approximately \$4.1 million in 2005, and between approximately \$4.5 million and \$4.7 million each year between 2006 and 2009 (net of the LOI-related direct debt service offset). Beyond the forecast period, upon final maturity of the Subordinate Series 2003 Bonds in 2017, Senior Aggregate Annual Debt Service is to increase to approximately \$11.5 million (approximately

\$8.5 million net of the PFC-related direct debt service offset, if such an offset were to be applied at that time).

The 2003 Project is expected to be substantially completed and open for service on August 29, 2004.

5.3.2 Outstanding Bonds

Upon issuance of the proposed Series 2004 Bonds, the only Outstanding Senior or Subordinate Bonds of the Authority will be the Series 2004 Bonds and the Series 2003 Bonds. The Authority does not currently expect to issue any “new money” additional debt under the terms of the Master Indenture or the Subordinate Indenture throughout the forecast period.

5.3.3 Special Facility Obligations

Special Facility Obligations are permitted under the terms of the Master Indenture. Rentals, fees, and charges generated from the operation of Special Facilities are excluded from the definition of Revenues under the Master Indenture. The Authority does not currently classify any Airport System facilities as Special Facilities.

5.4 RECONCILIATION OF HISTORICAL FINANCIAL RESULTS

The Authority maintains its accounting records on an accrual basis, in conformance with generally accepted accounting principles for governmental entities. Table 25 presents a summary and reconciliation of the historical operating results of the Authority for 2002 and 2003, as obtained from the Authority’s audited financial statements.

5.5 MAINTENANCE AND OPERATION EXPENSES

Exhibit F presents Maintenance and Operation (M&O) Expenses of the Airport System by expense category for 2003 through 2009. Expenses for 2003 were obtained from the financial records of the Authority, which were reconciled to the Authority’s annual audited financial statements, as discussed above. Estimated M&O Expenses for 2004 were provided by the Authority based on its budget for the year.

The forecast M&O Expenses for 2005 through 2009 were based on the Authority’s plan for operating facilities at the Airport and Capital City Airport, including development of the 2003 Project.

Table 25

HISTORICAL OPERATING RESULTS
Susquehanna Area Regional Airport Authority
(For Fiscal Years Ended December 31)

	2002	2003
Statement of Net Income (GAAP) (a)		
Operating revenues	\$13,886,153	\$14,092,869
Operating expenses		
All expenses except depreciation	\$11,802,601	\$12,909,524
Depreciation	<u>6,213,296</u>	<u>4,664,919</u>
Total operating expenses	<u>\$18,015,897</u>	<u>\$17,574,443</u>
Operating income (loss)	(\$ 4,129,744)	(\$ 3,481,574)
Nonoperating revenues (expenses)		
Investment income	\$ 119,437	\$ 30,851
Interest expense	(623,165)	(1,183,206)
PFC revenues (including interest) (b)	1,967,140	2,694,238
Grants (b)	11,811,361	22,677,244
Other miscellaneous (c)	<u>(11,346)</u>	<u>1,652</u>
	<u>\$13,263,427</u>	<u>\$24,220,779</u>
Net income	<u>\$ 9,133,683</u>	<u>\$20,739,205</u>
Net Revenues per Master Indenture		
Operating revenues	\$13,886,153	\$14,092,869
Investment income	<u>119,437</u>	<u>30,851</u>
Revenues	\$14,005,590	\$14,123,720
Less: M&O Expenses	<u>(11,802,601)</u>	<u>(12,909,524)</u>
Net Revenues	<u>\$ 2,202,989</u>	<u>\$ 1,214,196</u>
Reconciliation		
Net income (GAAP)	\$ 9,133,683	\$20,739,205
Add:		
Depreciation	\$ 6,213,296	\$ 4,664,919
Interest expense	623,165	1,183,206
Other miscellaneous	<u>11,346</u>	<u>(1,652)</u>
	\$ 6,847,807	\$ 5,846,473
Less:		
PFC revenues (including interest) (b)	(\$ 1,967,140)	(\$ 2,694,238)
Grants (b)	<u>(11,811,361)</u>	<u>(22,677,244)</u>
	<u>(\$13,778,501)</u>	<u>(\$25,371,482)</u>
Net Revenues per Master Indenture	<u>\$ 2,202,989</u>	<u>\$ 1,214,196</u>

GAAP = Generally accepted accounting principles.

(a) Source: Financial Statements of the Authority, 12/31/02 and 12/31/03.

(b) PFC revenues and federal and Commonwealth grant receipts are not included in Authority Revenues pursuant to the Master Indenture (unless included in Revenues as part of a Supplemental Indenture).

(c) Gain(loss) on disposal of fixed assets.

To ensure the availability of sufficient Net Revenues to meet the requirements of the Senior and Subordinate Rate Covenants in each year of the forecast period, Authority management has indicated that it intends to limit M&O Expenses for 2005 to the budgeted level for 2004 (approximately \$14.6 million). The Authority plans to manage its operations so as to accommodate a full year of operation of both the new terminal and the Multimodal Transportation Center within this M&O Expense total.

Further, Authority management has indicated that it intends to limit the growth in M&O Expenses to a level equivalent to inflation in the local economy (herein assumed to be 2.5% per year) from 2006 through 2009 (i.e., through the end of the forecast period).

Specifically, the forecast of M&O Expenses incorporates the following assumptions:

- An incremental increase of approximately \$1.6 million in annual M&O Expenses in the passenger terminal, to reflect the expanded area and amenities in the new terminal (which will be offset by M&O Expense reductions as a result of the closure of the existing terminal and commuter concourse). It is expected that M&O Expenses in the new terminal building, when measured on a per-square-foot basis, will be lower than those in the existing terminal because new facilities require less maintenance, and certain facilities and equipment will be under warranty for an initial period.
- An increase of \$100,000 in annual M&O Expenses in the Airfield Area, resulting from a new parallel taxiway, new air navigation systems, and other airfield improvements.
- An increase of \$225,000 in annual M&O Expenses associated with the new Multimodal Transportation Center and other improvements in the Landside Area (including any operating costs associated with the existing passenger terminal building, which is expected to be converted for alternative uses, including, in part, an FIS facility).
- A baseline increase of 2.5% per year due to inflation for the period 2006 through 2009.

Offsetting M&O Expense increases would be reductions in certain expense items, including:

- The Authority currently incurs an expense of approximately \$454,000 per year associated with security-related baggage handling in the terminal. This expense would be eliminated upon DBO of the new terminal and the initiation of a fully in-line security screening system for checked baggage.
- A reduction of approximately \$750,000 in marketing expenses associated with the opening of the new terminal, which is being incurred on a one-time basis in 2004.

- A reduction in parking shuttle bus expenses. It was assumed that the utilization rate of the SmartPark economy lot will decrease when the new Multimodal Transportation Center opens, with a higher proportion of travelers who park their cars at the Airport using the new facility. Accordingly, the Authority expects to reduce shuttle bus headways.
- A reduction in contracted repair and services costs, given the comprehensive nature of the new facilities throughout the Airport (including the terminal, parking facilities, apron, and other airside facilities).

No additional material increases in M&O Expenses for future capital improvements (beyond those noted above) were assumed during the forecast period. No incremental M&O Expenses associated with the inclusion of Franklin County Regional Airport in the Airport System were included in the financial analysis.

Total Airport System M&O Expenses are forecast to increase from a budgeted \$14.6 million in 2004 to \$16.1 million in 2009—an average increase of 2.5% per year.

5.6 REVENUES

Airport System Revenues consist of substantially all Airport airline revenues and nonairline revenues, as well as revenues generated at Capital City Airport. Revenues generated at Franklin County Regional Airport are also Revenues of the Authority, but those moneys are not included in this financial analysis. (As noted earlier, Franklin County Regional Airport has operated at close to a financially break-even basis over the past several years.) Exhibit G presents Revenues of the Authority for 2003 through 2009. Revenues are summarized in Table 26 for 2004 and 2009.

5.6.1 Airline Revenues

The current calculation of airline rentals and fees is based on the methodologies described in Article 7, “Recalculation of Rentals, Charges, and Fees,” of the current Airline Agreement for the period through expiration of the Agreement (December 31, 2004). As noted in Section 3.6.2 of this report, the Authority intends to implement a revised airline rate-making methodology as of DBO of the new terminal, currently scheduled by the Authority to be August 29, 2004. For purposes of developing these financial forecasts, the terminal rental rate calculated under the revised rate-making methodology was assumed to be applied as of DBO, and the complete revised rate-making methodology was assumed to be adopted as of January 1, 2005.

Table 26
AIRPORT SYSTEM REVENUES

	Estimated 2004 (a)		Forecast 2009 (b)	
	Total (thousands)	Percent of Airport Revenues	Total (thousands)	Percent of Airport Revenues
Signatory Airline revenues				
Terminal rentals and gate use fees (c)	\$ 3,573	21.1%	\$ 6,443	25.3%
Landing fees	2,432	14.4	4,072	16.0
Ramp fees	1,008	6.0	1,040	4.1
Fuel flowage fees	<u>232</u>	<u>1.4</u>	<u>256</u>	<u>1.0</u>
	\$ 7,245	42.9%	\$11,811	46.4%
Nonairline revenues				
Terminal concessions	\$ 180	1.1%	\$ 523	2.1%
TSA rentals	78	0.5	215	0.8
Automobile parking	4,865	28.7	6,445	25.4
Rental car fees and charges	2,228	13.2	2,822	11.1
Building and ground rentals	948	5.6	1,348	5.3
Capital City Airport	292	1.7	319	1.2
Interest income	64	0.4	851	3.3
Other	<u>997</u>	<u>5.9</u>	<u>1,133</u>	<u>4.4</u>
	\$ 9,652	57.1%	\$13,656	53.6 %
	<u>\$16,897</u>	100.0%	<u>\$25,467</u>	100.0%

Notes: The Authority's Fiscal Year is the same as the calendar year.

This table excludes Revenue Credit Account balances, which are also a component of Revenues pursuant to the Master Indenture.

Columns may not add to totals shown because of rounding.

(a) Source: Susquehanna Area Regional Airport Authority.

(b) See Exhibit G.

(c) Including commuter concourse rentals for January to August 2004.

Airline Terminal Building Rents. Terminal rental rates for the period through August 28, 2004, are calculated in accordance with the current Airline Agreement on a cost center compensatory basis, as shown in Exhibit G-1. Terminal rental rates are determined by taking the M&O Expenses allocated to the passenger terminal and adding allocable equipment and capital outlay expenditures, debt service, and amortization on a yearly basis. This amount is then divided by "usable space" to determine the average rental rate per square foot. The rental rate derived is

multiplied by the actual number of square feet rented by the airlines to determine the airline rental requirement. Currently, two separate rental rates are in effect—one for the main terminal building and one for the commuter concourse.

For the period beginning August 29, 2004, a similar methodology was assumed to be used to calculate terminal rental rates, except that total terminal costs would be divided by “rentable space” rather than “usable space.” (This methodology is referred to as “commercial compensatory.”) The revised terminal rate calculation would be in effect pursuant to a new airline agreement or rates adopted by resolution of the Authority. As described earlier, the Authority intends to charge a terminal rental rate calculated in accordance with this revised methodology as of DBO of the new terminal, even though the existing Airline Agreement (which encompasses a different terminal rental rate calculation methodology) does not expire until December 31, 2004.

In developing the terminal rental forecasts included in this report, it was assumed that the terminal-related costs would increase from \$4.3 million in 2003 to approximately \$9.1 million in 2009, reflecting an increase in M&O Expenses and terminal-related debt service associated with development of the new terminal.

Terminal building rental revenue (plus gate use fees and aircraft parking charges for the use of non-preferentially leased areas) collected from the airlines is forecast to increase from approximately \$2.4 million in 2003 (for the main terminal and commuter concourse in total) to \$6.4 million in 2009. These revenues were calculated assuming that 10 of the 12 jet gates in the new terminal will be used. The holdrooms associated with 7 of these 10 jet gates would be rented to passenger airlines, which would pay the per-square-foot terminal rental rate for those holdrooms. Two further gates would be paid for by Signatory Airlines on a per-use basis. (It was assumed that the tenth gate would be used by charter and other itinerant airlines, and the Authority would collect a fee of \$237.50 per turn from the airlines using this gate.) Two gates were assumed to be unoccupied and unused through the forecast period.

None of the passenger airlines serving the Airport has, as of the date of this report, formally entered into an agreement with the Authority for the rental or use of a specific number of gates in the new terminal. If fewer gates are rented or occupied by the airlines than assumed in this report, then terminal rental revenues would be commensurately lower.

Airline Landing Fees. Exhibit G-2 shows the calculation of Signatory Airline landing fees and landing fee revenue for 2002 through 2009. The current Airline Agreement sets forth the basis for calculating Signatory Airline landing fees. Airline landing fees are calculated to recover the Airfield Area cost following a cost center residual formula. The annual Airfield Area cost base is determined by adding to the M&O Expenses allocated to the Airfield Area, allocated debt service and

amortization. Airfield Area related nonairline revenue is deducted to determine the Signatory Airline landing fee requirement. The Signatory Airline landing fee requirement is divided by Signatory Airline landed weight (in 1,000-pound units) to calculate the Signatory Airline landing fee rate per 1,000-pound unit of landed weight.

For the period beginning January 1, 2005, pursuant to a new Airline Agreement or rates adopted by resolution of the Authority, the landing fee calculation methodology would be substantially the same. The sole material difference would be that a portion of the deposits made to the Revenue Credit Account during any given year (if any) would be applied to reduce landing fees in the following year, as discussed in Section 3.3.3.

As shown in Exhibit G-2, the Signatory Airline landing fee rate per 1,000 pounds of landed weight is forecast to increase from \$1.85 in 2004 to \$2.81 in 2009. Revenues from Signatory Airline landing fees are forecast to increase from an estimated \$2.0 million in 2003 to an estimated \$4.1 million in 2009.

Ramp Fees and Other Charges. Since January 1, 2002, the Authority has levied ramp fees on airline occupancy of ramp areas adjacent to both the passenger terminal and the cargo facilities. Ramp fees are forecast to increase from \$1.30 per square foot of ramp area rented in 2004 to \$1.58 per square foot of ramp area rented in 2009. The increase in the ramp fee reflects amortization of the Authority-funded portion of the new apron project, plus incremental M&O Expenses associated with the apron.

Revenues from ramp fees are forecast to range from \$0.9 million to \$1.0 million between 2004 and 2009. Revenues collected from ramp fees are credited to the Airfield Area cost base for calculation of the landing fee.

The Authority also levies fuel flowage fees on fuel purchases at the Airport. These fees are applied on a graduated scale, and are different for the passenger and cargo airlines, and for general aviation users of the Airport. Fuel flowage fees are forecast to increase from an estimated \$203,000 in 2003 to \$256,000 in 2009 (see Exhibit G).

Nonsignatory Airline Fees and Charges. Nonsignatory airlines serving the Airport pay fees and charges, including landing fees, fuel flowage fees, turnaround fees, and other miscellaneous charges for services provided by the Authority. Nonsignatory airlines do not currently occupy space in the terminal building. Nonsignatory airlines pay fees and charges at 1.25 times the Signatory Airlines rates.

As noted above, the Authority intends to reserve 1 of the 12 jet gates in the new terminal for use by charter airlines and other nonsignatory itinerant airlines. The Authority intends to collect a fee of \$237.50 per turn from the airlines using this gate.

Nonsignatory airline revenues are forecast to increase from approximately \$105,000 in 2003 to \$172,000 in 2009 (see Exhibit G).

Airline Payments per Enplaned Passenger. In 2003, rentals, fees, and charges paid to the Authority by the Signatory Airlines totaled approximately \$5.7 million. In 2009, Signatory Airline rentals, fees, and charges are forecast to be approximately \$11.8 million, which reflects landing fees, rental revenues and gate use fees in the terminal, ramp fees, and fuel flowage fees. Table 27 presents actual and forecast airline payments per enplaned passenger in 2003 and 2009, respectively.

Table 27

AIRLINE RENTALS AND FEES AND AIRLINE PAYMENTS PER ENPLANED PASSENGER
Harrisburg International Airport

	Actual 2003 (a)	Forecast 2009
Landing fee (per 1,000 lb unit of landed weight)	\$1.49	\$2.81
Terminal rental rate (per square foot) (b)	\$42.05	\$65.24
Ramp fee (per square foot of ramp rented)	\$1.26	\$1.58
Airline revenues attributable to passenger airlines	\$4,700,000	\$10,296,000
Enplaned passengers	670,269	789,000
Airline payments per enplaned passenger (average)	\$7.01	\$13.05

(a) Airline rentals and fees shown were levied by the Authority in 2003.
(b) The 2003 rental rate for commuter concourse space was \$20.38 per square foot.

5.6.2 Nonairline Revenues

Major sources of nonairline revenues include terminal building concessions, TSA rentals, public automobile parking, rental car company privilege fees and space rentals, a customer facility charge (CFC) for automobile rentals at the Airport, Airfield Area revenues, building and ground rentals, and revenues generated from Capital City Airport. Nonairline revenues for 2003 were obtained from the financial records of the Authority, and are based on audited data. The Authority also expects to collect rental revenues from the TSA for certain categories of space that the TSA is to occupy in the new terminal.

Forecasts of nonairline revenues are based on the provisions of existing agreements and allowances for inflation, forecast increases in enplaned passengers, and other factors. The nonairline revenue forecasts are shown in Exhibit G.

Revenues generated at Franklin County Regional Airport are also Revenues of the Authority. Such revenues are not included in this financial analysis.

Terminal Building Concessions. The most significant sources of terminal building concession revenues to the Authority are food and beverage and news and gifts. As part of the development of the new terminal, the Authority is significantly upgrading and enhancing terminal concession services. The new terminal encompasses approximately 14,000 square feet of concession space.

In January 2002, the Authority entered into separate agreements with Hudson Group and Air Terminal Services, Inc. (doing business as CAOne) for the provision of concession services in the terminal. Hudson Group operates and manages the news and gift concession under a 15-year agreement that expires on January 6, 2017. Hudson Group pays the Authority 10% of the first \$1.5 million in gross sales, with higher percentages on a sliding scale (up to 15%) on amounts above that level. Hudson Group will also operate a Hershey's Chocolate World store in the new terminal.

CAOne's contract to manage and operate food and beverage services in the terminal was for a term of 27 months through March 1, 2004, which was subsequently amended to extend through June 27, 2004. The agreement called for CAOne to remit to the Authority an amount equivalent to the net income from operation of the food and beverage concession, less a service fee equivalent to 10% of gross sales for managing the concession. The Authority was responsible for any losses in the food and beverage concession operations. This concession operated at a loss in 2003.

In accordance with an agreement expected to be executed by the Authority, on June 27, 2004, Anton Airfood, Inc. took over the operation of the food and beverage facilities in the existing terminal for a 2-month period. Upon DBO of the new terminal (scheduled to be August 29, 2004) Anton Airfood will operate certain food and beverage concessions in the new terminal, including two full service restaurants. The Authority also expects to contract with McDonald's Corporation for the operation of a McDonald's restaurant as well as a Hershey Ice Cream outlet and a Bucks County Coffee outlet; and with a local company for the operation of a Pennsylvania Perfect store (involving the sale of Pennsylvania-themed gifts and wine).

TSA Rentals. According to federal law, the TSA is to pay rentals to airport operators nationwide for all the space it occupies, except for passenger and baggage security checkpoints.

In August 2002, the Authority executed a lease with the TSA for 550 square feet of space in the commuter concourse at the then-prevailing rate (\$18.49 per square foot), as well as approximately 5,500 square feet of space in Building 517 at a basic rate of \$10 per square foot plus a surcharge of \$6.40 per square foot to cover maintenance expenses and the amortization of tenant finishes.

The Authority entered into an agreement with the U.S. General Services Administration (representing the TSA) to rent 3,314 square feet of space in the new terminal building, at a rental rate of \$65 per square foot (yielding \$215,000 per year in revenue). The Authority does not intend to levy a charge on the TSA for baggage security processing activities to be undertaken in the basement of the new terminal building.

Public Automobile Parking. Automobile parking is the largest source of nonairline revenues to the Authority. Parking facilities at the Airport currently encompass 4,102 surface public parking spaces—522 spaces in the contiguous short-term and daily parking lots adjacent to the existing terminal and 3,580 spaces in the long-term economy lot known as “SmartPark.”

The daily parking rate in the SmartPark lot is \$5. The daily rate is \$48 in the short-term lot (to discourage overnight and long-term parking in the short-term lot), and \$17 in the daily lot.

Upon completion of the Multimodal Transportation Center (which encompasses 2,700 public parking spaces), approximately 6,780 public parking spaces will be available at the Airport, as shown in Table 28. The Authority currently intends to set daily rates of \$15 in the new parking structure and \$8 in the adjacent surface lot, and to maintain the daily SmartPark rate at \$5.

On November 26, 2003, the Authority Board approved the imposition of a privilege fee (equal to 10% of gross revenues) on the operator of an off-Airport parking facility—Cramer Auto Parking, Inc.—located adjacent to Airport property, approximately 1 mile from the new terminal building. At the same time, the Authority Board approved a resolution indicating that a privilege fee equivalent to 20% of gross revenues would be imposed on any new operators of off-Airport automobile parking facilities.

Based on the parking rate and parking space availability assumptions, and the assumed growth in airline traffic at the Airport, automobile parking revenues are forecast to increase from \$4.6 million in 2003 to approximately \$6.4 million in 2009. The Multimodal Transportation Center is scheduled to open for service on August 29, 2004, coincident with DBO of the new terminal building.

Table 28

SUMMARY OF PARKING FACILITIES AND PARKING RATES

Facility	Current		Post-DBO (8/29/04)	
	Spaces	Daily rate	Spaces	Daily rate
Short-term lot	265	\$48.00	--	--
Daily lot	257	17.00	--	--
SmartPark (a)	3,580	5.00	3,580	\$5.00
Multimodal Transportation Center (b)	--	--	2,700	15.00
Adjacent surface lot (c)	--	--	<u>500</u>	8.00
	4,102		6,780	

- (a) Currently, the seventh day of parking at SmartPark is free.
- (b) The number of spaces reflects public parking spaces. An additional 700 rental car spaces will be available in the facility.
- (c) Some of these spaces will be eliminated when construction of the new hotel adjacent to the Multimodal Transportation Center is initiated.

Automobile Rentals. The Authority had agreements—which expired on December 31, 2002—with seven rental car companies. The Authority has entered into letter agreements with the seven companies to extend those agreements through DBO of the Multimodal Transportation Center. Avis, Hertz, National, and Thrifty currently operate on-Airport and pay a privilege fee of 10% of gross revenues. Alamo, Budget, and Enterprise currently operate from off-Airport facilities, and also pay a privilege fee of 10% of gross revenues.

On May 27, 2004, the Authority Board approved agreements with six rental car companies (Avis, Budget, Hertz, Enterprise, National, and Thrifty) to operate on-Airport and rent space on the ground floor of the Multimodal Transportation Center, subsequent to its DBO (currently expected to be August 29, 2004). Rental car company operations at the Airport (encompassing ready/return spaces, customer service counters, and office space) are to be accommodated on the ground floor of the new facility. In all, the six rental car companies operating on-Airport are expected to rent approximately 164,000 square feet of ready/return space at an

annual rental rate of \$1.20 per square foot, plus approximately 1,477 square feet of office space at an annual rental rate of \$60 per square foot.

These six companies (as well as Dollar and Alamo, which will operate from off-Airport locations) will continue to pay a privilege fee of 10% of gross revenues to the Authority. Rental car privilege fees are forecast to increase in line with the forecast increase in the number of enplaned passengers and expected price increases, from \$1.4 million in 2003 to \$1.9 million in 2009.

The Authority instituted a CFC of \$2.00 per transaction-day for rental car customers on January 1, 2004, to pay the costs of that portion of the Multimodal Transportation Center allocated to rental car operations. Customers of rental car companies operating both on-Airport and off-Airport pay the CFC. While the Authority intends to maintain the CFC at this rate for as long as possible, if needed to generate additional revenues, the Authority will increase the CFC.

CFC revenues and rental car company space rentals are forecast to increase from \$0.9 million in 2005 to \$1.0 million in 2009.

Nonairline Airfield Area Revenues. The Authority generates nonairline revenues from Airfield Area activities—primarily fuel flowage fees from nonsignatory airlines and general aviation users of the Airport, building and ground rentals, and utilities. Nonairline Airfield Area revenues are forecast to be about \$1.0 million to \$1.1 million per year during the forecast period. Nonairline Airfield Area revenues are credited to the Airfield Area rate base to calculate the landing fee.

Building and Ground Rentals. The Authority collects building and ground rentals for a range of property rented to third parties around the Airport (hangars, cargo facilities, and properties used for industrial and commercial purposes). The rental car companies also pay the Authority ground rentals for areas used to provide rental car service facilities.

It was assumed that the Authority would generate a total of \$325,000 per year in building and ground rentals, commencing in mid-2006, from the reuse of most of the existing terminal building for commercial or light industrial purposes, and from the new hotel developments the Authority is proposing. Building and ground rentals are forecast to increase from \$1.1 million in 2003 to \$1.4 million in 2009.

Capital City Airport. Revenues from Capital City Airport primarily encompass ground rentals and commissions (including fixed base operator commissions). Revenues to the Authority from activities at Capital City Airport are forecast to increase from approximately \$297,000 in 2003 to \$319,000 in 2009. (As noted earlier, revenues from Franklin County Regional Airport are not included for purposes of this analysis.)

Nonairline Revenue Summary. Total nonairline revenues of the Authority (including interest income) are forecast to increase from \$8.4 million in 2003 to approximately \$13.7 million in 2009.

5.6.3 Revenue Summary

Total Revenues (excluding any Revenue Credit Account balances) are forecast to increase from approximately \$14.1 million in 2003 to approximately \$25.5 million in 2009.

5.7 APPLICATION OF REVENUES

Exhibit H presents the forecast application of Revenues for 2004 through 2009.

After all deposits required by the Master Indenture and the Subordinate Indenture are made, all moneys remaining are to be allocated in the following manner, as discussed in Section 3.3.3:

- An amount up to 25% of the Aggregate Annual Debt Service on the Senior Bonds (net of debt service paid with PFC revenues) as determined by the Authority is allocated to the Coverage Account.
- The next \$750,000 is allocated to the Capital Improvement Account in the General Fund to be used at the discretion of the Authority for (1) replenishing any of the Funds and Accounts under the Master Indenture, (2) Airport System capital improvements, (3) redeeming or defeasing Outstanding Bonds, or (4) any lawful purpose of the Authority.
- The next \$500,000 is allocated to the Revenue Credit Account of the General Fund. Balances in the Revenue Credit Account are to be applied to reduce landing fees and terminal rentals in the following Fiscal Year.
- All remaining amounts after deposits to the Revenue Credit Account have reached \$500,000 are to be divided as follows: (1) 50% to the Capital Improvement Account for use by the Authority for any lawful purpose, and (2) 50% to the Revenue Credit Account.

As noted in Section 3.3.3, the specifics of this allocation methodology may be modified as part of the negotiation of a new airline agreement.

The amounts to be deposited to the Capital Improvement Account under this allocation methodology are forecast to be about \$0.4 million to \$0.8 million per year during the period 2004 through 2009.

5.8 DEBT SERVICE COVERAGE

Exhibit I presents Revenues; M&O Expenses; debt service requirements for the Senior Series 2003 Bonds, the Subordinate Series 2003 Bonds, and the proposed Senior Series 2004 Bonds; and debt service coverage through 2009. In each year of the forecast period, Net Revenues available for the payment of debt service are forecast to exceed the sum of Aggregate Annual Debt Service on the Senior Series 2003 Bonds and the proposed Senior Series 2004 Bonds, debt service on the Subordinate Series 2003 Bonds, plus deposits as required by the Master Indenture. Debt service coverage (Net Revenues plus Coverage Account balances divided by Aggregate Annual Debt Service on the Senior Series 2003 Bonds and the Senior Series 2004 Bonds, net of credits for debt service paid from PFC revenues) is forecast to be at least 125% in each year of the forecast period, as required by the Master Indenture. Thus, the Senior Rate Covenant provisions of the Master Indenture are forecast to be met in each year of the forecast period.

Additionally, coverage on the total combined debt service on the Senior Series 2003 Bonds, the Subordinate Series 2003 Bonds plus the proposed Senior Series 2004 Bonds (Net Revenues plus Coverage Account balances, divided by total Series 2003 Bond and Series 2004 Bond debt service, net of credits for debt service paid from PFC revenues and LOI Receipts) is forecast to be at least 110% in each year of the forecast period, as required by the Subordinate Indenture. Therefore, the Subordinate Rate Covenant provision of the Subordinate Indenture is forecast to be met in each year of the forecast period.

It should be noted that the Authority faces a range of challenges as discussed in this report. For example:

- ***The initiation of new low-fare airline service at Philadelphia and Washington Dulles international airports.*** Southwest Airlines initiated service at Philadelphia International Airport on May 9, 2004. Frontier Airlines initiated service at the same airport on May 23, 2004. Independence Air, a new low-fare airline, initiated service at Washington Dulles International Airport on June 16, 2004.
- ***The uncertainty regarding US Airways' ability to continue operating as a going concern.*** US Airways (together with its regional/commuter affiliates) is the busiest airline serving the Airport, with 36.8% of total enplaned passengers in 2003. US Airways has continued to experience significant financial challenges since emerging from bankruptcy in March 2003. US Airways' senior management has indicated that a second Chapter 11 bankruptcy filing is a possibility. Additionally, US Airways has announced a significant restructuring of its operations, to be implemented over the next few months, including the discontinuation of hubbing operations at Pittsburgh International Airport. Because the Airport serves predominantly as an origin and destination facility with minimal connecting activity, any

potential significant reduction or cessation of operations by US Airways at the Airport would likely have little or no effect on passenger traffic in the long-term because one or more airlines would be expected to replace the service offered by US Airways. However, such eventualities could be expected to have a negative effect on enplaned passenger numbers at the Airport in the short-term.

- ***The continued provision by United Airlines of significant levels of service at the Airport.*** United Airlines (together with its regional/commuter affiliates) is the second-busiest airline serving the Airport, with 19.9% of total enplaned passengers in 2003. United Airlines filed for Chapter 11 bankruptcy in December 2002, and continues to operate under bankruptcy court protection.
- ***The Authority's success in implementing airline and nonairline rate increases without negatively affecting Airport activity levels and Authority Revenues.*** The ability of the Authority to meet its Bond covenants is a function of its ability to increase certain fees and charges levied on users of the Airport, including landing fees and terminal rental rates. If such fee and charge increases result in a reduction in the use of Airport facilities (e.g., if an airline serving the Airport were to reduce or eliminate service because of the increase in fees and charges), then Authority Revenues would be lower than those presented in this report.
- ***The Authority's ability to limit increases in Maintenance and Operation Expenses.*** While the Authority is expected to incur additional M&O Expenses associated with operation of the new terminal (to be offset by closure of the existing terminal) and the Multimodal Transportation Center, the Authority has indicated that it plans to manage its operations so as to limit its overall M&O Expenses in 2005 to the 2004 budgeted level (\$14.6 million), and hold increases in 2006 and beyond to the equivalent of inflationary increases in the local economy. If M&O Expenses exceed these amounts, then Authority Net Revenues would be lower than those presented in this report.
- ***The Authority's ability to obtain significant additional grant funding from federal and Commonwealth sources.*** The Authority expects to receive \$19.8 million in additional TSA and Commonwealth grant funding, beyond what has already been awarded or received, for elements of the 2003 Project. In the event that such grant funding is not received, then the Authority may need to issue additional debt secured by Authority Net Revenues to fund certain costs of the 2003 Project.

Consequently, there can be no assurance that the forecast financial results documented in this report will be realized. Any eventuality that leads to lower than expected Revenues, higher than anticipated M&O Expenses, or lower than expected

grant receipts could result in the Rate Covenants of the Master Indenture and the Subordinate Indenture not being met during the forecast period.

5.9 SUMMARY OF FINANCIAL FORECASTS

Exhibit J-1 summarizes forecast financial data presented in Exhibits A through I, as discussed in the preceding sections, and includes the calculation of airline payments per enplaned passenger based on such data. Revenues and M&O Expenses were forecast using the base case forecasts of enplaned passengers and aircraft landed weight presented in Table 21 and Section 2.5.

5.10 LOW FORECAST SCENARIO

Exhibit J-2 presents an identical summary of projected financial results in which the estimated revenues and M&O Expenses reflect the low forecasts of enplaned passengers and aircraft landed weight, as discussed in Section 2.5. The assumptions for this sensitivity scenario are the same as those for the base case airline traffic forecasts except that Revenues related to passenger activity, such as terminal concessions, automobile parking, and rental car activity, are reduced. Airline payments per enplaned passenger would be higher, and PFC revenues would be lower than under the base forecast.

Under the low forecast scenario, debt service coverage ratios would be lower. Nevertheless, projected debt service coverage ratios would meet or exceed the requirements of the Senior Rate Covenant in the Master Indenture and the Subordinate Rate Covenant in the Subordinate Indenture.

Exhibit A-1

2003 PROJECT COSTS AND SOURCES OF FUNDING
Harrisburg International Airport

	AIP (a) Entitlement	AIP (b) Discretionary	TSA grants	Federal surface transport grants (c)	LOI Pay Go (b)	Common- wealth BoA grants (d)	State capital grants (e)	Series 2003 Bonds			Senior Series 2004 Bonds	PFC Pay Go	Authority funds	Total cost/ funding	
								Senior Bonds	Subordinate Bonds	Total					
2003 Project															
Construct Terminal & Related Work	\$ 19,977,000	\$ 5,000,000	\$ 12,500,000	\$ -	\$ -	\$ 1,425,000	\$ 6,720,000	\$ 34,250,000	\$ 5,766,000	\$ 40,016,000	\$ 1,923,000	\$ 5,194,000	\$ 4,202,000	\$ 96,957,000	
Aircraft Support Systems (f)	-	-	-	-	-	-	-	-	47,000	47,000	8,032,000	-	-	8,079,000	
	\$ 19,977,000	\$ 5,000,000	\$ 12,500,000	\$ -	\$ -	\$ 1,425,000	\$ 6,720,000	\$ 34,250,000	\$ 5,813,000	\$ 40,063,000	\$ 9,955,000	\$ 5,194,000	\$ 4,202,000	\$ 105,036,000	
Construct Terminal Loop Road	527,000	-	-	-	-	-	-	-	870,000	870,000	2,295,000	4,113,000	-	7,805,000	
Subtotal (Terminal/Loop Road)	\$ 20,504,000	\$ 5,000,000	\$ 12,500,000	\$ -	\$ -	\$ 1,425,000	\$ 6,720,000	\$ 34,250,000	\$ 6,683,000	\$ 40,933,000	\$ 12,250,000	\$ 9,307,000	\$ 4,202,000	\$ 112,841,000	
Construct Aircraft Parking Apron	753,000	5,220,000	-	-	3,681,000	1,321,000	-	1,912,000	18,924,000	20,836,000	724,000	-	-	32,535,000	
Install Nav aids & Runway Lighting	-	-	-	-	1,499,000	477,000	-	5,672,000	6,133,000	11,805,000	1,278,000	-	-	15,059,000	
Construct Parallel Taxiway and Related Work	-	5,665,000	-	-	1,500,000	864,000	-	1,002,000	9,648,000	10,650,000	-	-	-	18,679,000	
Construct Multimodal Transportation Center	-	-	-	2,473,000	-	-	6,000,000	13,974,000	18,568,000	32,542,000	10,748,000	-	-	51,763,000	
Construct Amtrak Station (g)	-	-	-	-	-	-	-	-	-	-	-	-	1,818,000	1,818,000	
Total -- 2003 Project	\$ 21,257,000	\$ 15,885,000	\$ 12,500,000	\$ 2,473,000	\$ 6,680,000	\$ 4,087,000	\$ 12,720,000	\$ 56,810,000	\$ 59,956,000	\$ 116,766,000	\$ 25,000,000	\$ 9,307,000	\$ 6,020,000	\$ 232,695,000	

Note: Total estimated costs do not include potential future Change Orders that the Authority may approve. These Change Orders, if approved, could increase the cost of the 2003 Project.

- (a) Including estimated AIP entitlement grants for FFY 2005.
- (b) Project costs that are funded through the LOI are also AIP discretionary funded.
- (c) Approved Federal Highway Administration grant (\$1,490,250) plus a Federal Transit Administration grant (\$982,260) for the Multimodal Transportation Center.
- (d) Commonwealth Bureau of Aviation (BoA) grants. These are matching grants funded from the State aviation fuel tax. The program is administered through the Commonwealth of Pennsylvania, Bureau of Aviation.
- (e) These grants have been included in approved State Capital Budgets, but (except for a grant for \$2,720,000 applied to the terminal project) have not yet approved for disbursement by the Governor of the Commonwealth.
- (f) Including 12 passenger boarding bridges, preconditioned air, and 400 Hz power systems.
- (g) Cost of planning and design only. Construction is expected by the Authority to be undertaken in the future subject to grant funding availability.

Source: Susquehanna Area Regional Airport Authority.

Exhibit A-2 (Page 1 of 2)

2004 - 2007 CAPITAL PROGRAM COSTS AND SOURCES OF FUNDING
Susquehanna Area Regional Airport Authority

	AIP Entitlement Grants	AIP Discretionary Grants	LOI Pay Go	Federal Block Grants	Common- wealth BoA Grants (a)	State Capital Grants	TSA Grants	Federal surface transport grants	Series 2003 Bonds	Series 2004 Bonds	PFC Pay Go	Authority funds	Total cost/ funding
HARRISBURG INTERNATIONAL AIRPORT													
2003 Project (b)	\$21,257,000	\$15,885,000	\$6,680,000	\$ -	\$4,087,000	\$12,720,000	\$12,500,000	\$2,473,000	\$116,766,000	\$25,000,000	\$9,307,000	\$6,020,000	\$232,695,000
Other projects													
Demolish/remediate Crawford Station	-	-	-	-	1,875,000	1,500,000	-	-	-	-	-	625,000	4,000,000
Acquire snow blowers (2) (c)	-	-	-	-	-	-	-	-	-	-	-	600,000	600,000
Acquire anti-ice spray truck (c)	-	-	-	-	-	-	-	-	-	-	-	250,000	250,000
Acquire 2 loader/pusher veh. w/plows (c)	-	-	-	-	-	-	-	-	-	-	-	670,000	670,000
Acquire runway broom (c)	-	-	-	-	-	-	-	-	-	-	-	330,000	330,000
Acquire truck snow plow (c)	-	-	-	-	-	-	-	-	-	-	-	640,000	640,000
Acquire snow blower (c)	-	-	-	-	-	-	-	-	-	-	-	335,000	335,000
Acquire loader, pusher/plow (c)	-	-	-	-	-	-	-	-	-	-	-	670,000	670,000
Construct sewage treatment plant (c)	-	-	-	-	-	-	-	-	-	-	-	3,000,000	3,000,000
Replace snow broom #14	297,000	-	-	-	17,000	-	-	-	-	-	-	17,000	331,000
Convert Building 515 to SRE storage	1,440,000	-	-	-	80,000	-	-	-	-	-	-	80,000	1,600,000
Replace snow blower #11	414,000	-	-	-	23,000	-	-	-	-	-	-	23,000	460,000
Rehabilitate Airport Drive (5,500 LF)	-	-	-	-	-	-	-	-	-	-	-	478,000	478,000
Other miscellaneous projects	130,000	-	-	-	7,000	-	-	-	-	-	-	405,000	542,000
	2,281,000	-	-	-	2,002,000	1,500,000	-	-	-	-	-	8,123,000	13,906,000
Subtotal	\$23,538,000	\$15,885,000	\$6,680,000	\$ -	\$6,089,000	\$14,220,000	\$12,500,000	\$2,473,000	\$116,766,000	\$25,000,000	\$9,307,000	\$14,143,000	\$246,601,000
CAPITAL CITY AIRPORT (d)													
Improve RSA and Install MALSR, Phase 1	\$ -	\$ -	\$ -	\$620,000	\$34,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$34,000	\$688,000
Hangar 204 abatement & remediation-design	-	-	-	-	100,000	200,000	-	-	-	-	-	100,000	400,000
Improve RSA and Install MALSR, Phase 2	-	-	-	326,000	18,000	-	-	-	-	-	-	18,000	362,000
Acquire land, Runway 8 RSA - Phase 3	-	-	-	270,000	15,000	-	-	-	-	-	-	15,000	300,000
Extend sewer line - Phase 2, construction	-	-	-	-	338,000	-	-	-	-	-	-	113,000	451,000
Acquire land, Runway 8 RSA - Phase 4	-	-	-	340,000	19,000	-	-	-	-	-	-	19,000	378,000
Rehab Runway 8/26 (overlay)	-	-	-	640,000	36,000	-	-	-	-	-	-	36,000	712,000
Other miscellaneous projects	-	-	-	1,008,000	138,000	-	-	-	-	-	-	231,000	1,377,000
Subtotal	\$ -	\$ -	\$ -	\$3,204,000	\$698,000	\$200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$566,000	\$4,668,000

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2004 - 2007 CAPITAL PROGRAM COSTS AND SOURCES OF FUNDING
Susquehanna Area Regional Airport Authority

	AIP Entitlement Grants	AIP Discretionary Grants	LOI Pay Go	Federal Block Grants	Common- wealth BoA Grants (a)	State Capital Grants	TSA Grants	Federal surface transport grants	Series 2003 Bonds	Series 2004 Bonds	PFC Pay Go	Authority funds	Total cost/ funding
FRANKLIN COUNTY REGIONAL AIRPORT													
Acquire Airport	\$ -	\$ -	\$ -	\$750,000	\$20,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$20,000	\$790,000
Remove foliage obstructions	-	-	-	18,000	1,000	-	-	-	-	-	-	1,000	20,000
Rehabilitate runway	-	-	-	225,000	12,500	-	-	-	-	-	-	12,500	250,000
Improve runway safety area (grading)	-	-	-	43,200	2,400	-	-	-	-	-	-	2,400	48,000
Subtotal	\$ -	\$ -	\$ -	\$1,036,200	\$35,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$35,900	\$1,108,000
AUTHORITY TOTAL	\$23,538,000	\$15,885,000	\$6,680,000	\$4,240,200	\$6,822,900	\$14,420,000	\$12,500,000	\$2,473,000	\$116,766,000	\$25,000,000	\$9,307,000	\$14,744,900	\$252,377,000

Note: On July 28, 2004, the Authority acquired Chambersburg Municipal Airport, and renamed it Franklin County Regional Airport. Franklin County Regional Airport is now part of the Airport System.

- (a) Commonwealth Bureau of Aviation (BoA) grants.
- (b) See Exhibit A-1. Reflects full 2003 Project costs (including costs incurred prior to 2004).
- (c) Specific funding sources for these projects have not yet been identified. These projects will be undertaken subject to funding availability.
- (d) In addition to the projects shown here, the Authority has identified another \$1.9 million in project costs for Capital City Airport projects that would be undertaken on a third-party basis, without the use of Authority funds. In the event that some or all of the federal block grants, State grants, and third-party funding courses are not available as expected by the Authority, then these projects could be deferred.

Source: Susquehanna Area Regional Airport Authority.

Exhibit B

SERIES 2004 BONDS
SOURCES AND USES OF FUNDS
Susquehanna Area Regional Airport Authority

	Series 2004A (AMT)	Series 2004B (Taxable)	Total
Sources of Funds			
Bond proceeds (par amount)	\$27,800,000	\$1,875,000	\$29,675,000
Uses of Funds			
Construction Fund deposits	\$25,000,000	\$ -	\$25,000,000
Capitalized Interest Fund	-	658,602	658,602
Debt Service Reserve Fund	1,504,907	813,641	2,318,548
Costs of issuance and insurance	1,292,578	382,713	1,675,291
Contingency	2,515	20,044	22,559
Total uses of funds	\$27,800,000	\$1,875,000	\$29,675,000

Source: Goldman Sachs, underwriter of the Series 2004 Bonds, July 30, 2004.

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Exhibit C

PASSENGER FACILITY CHARGE REVENUES AND APPLICATION OF PFC REVENUES
Harrisburg International Airport
For Fiscal Years Ending December 31

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Authority management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Estimated	Forecast				
	2004	2005	2006	2007	2008	2009
PFC REVENUES						
Enplaned passengers	698,000	715,000	733,000	751,000	770,000	789,000
Percent change from prior year	4.1%	2.4%	2.5%	2.5%	2.5%	2.5%
PFC level per passenger (a)	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50
Airline administration fee per passenger (b)	0.10	0.11	0.11	0.11	0.11	0.11
Percentage of passengers paying a PFC (c)	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
PFC collections from the airlines	\$2,764,000	\$2,825,000	\$2,896,000	\$2,967,000	\$3,042,000	\$3,117,000
Estimated PFC interest earnings	5,000	5,000	5,000	5,000	5,000	5,000
PFC revenues	\$2,769,000	\$2,830,000	\$2,901,000	\$2,972,000	\$3,047,000	\$3,122,000
Application of PFC revenues						
Debt Service Fund (for Senior Bond debt service)	-	\$2,830,000	\$2,901,000	\$2,972,000	\$3,047,000	\$3,122,000
Subordinate Obligation Debt Service	-	-	-	-	-	-
PFC Capital Account (d)	\$2,769,000	-	-	-	-	-
	\$2,769,000	\$2,830,000	\$2,901,000	\$2,972,000	\$3,047,000	\$3,122,000

Note: While the Authority is irrevocably committing PFCs to Senior Bond debt service until 12/31/08, it is the Authority's current intent to apply PFC revenues in this manner after that date. For purposes of this analysis, it was assumed that Senior Bond debt service would be offset with PFC revenues in 2009.

- (a) The \$4.50 PFC went into effect on January 1, 2003.
- (b) The airline administration fee was increased from \$0.08 to \$0.11 on May 1, 2004.
- (c) Estimated based on actual collection rates for 1998 to 2003.
- (d) To pay for PFC-approved costs on a pay-as-you-go basis, to be held to pay scheduled debt service on a portion of the Senior Bonds in future years, or to make an early call on a portion of the Senior Bonds.

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Exhibit D

**LETTER OF INTENT RECEIPTS AND APPLICATION
Harrisburg International Airport
For Fiscal Years Ending December 31**

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Authority management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual	Forecast					
	2004	2005	2006	2007	2008	2009	Total
LETTER OF INTENT RECEIPTS (a)							
Entitlement (b)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Discretionary	6,680,000	6,660,000	8,340,000	9,130,000	11,300,000	2,170,000	44,280,000
LOI Receipts	<u>\$ 6,680,000</u>	<u>\$ 6,660,000</u>	<u>\$ 8,340,000</u>	<u>\$ 9,130,000</u>	<u>\$ 11,300,000</u>	<u>\$ 2,170,000</u>	<u>\$ 44,280,000</u>
Application of LOI Receipts							
Subordinated Obligation Debt Service Fund (c)	\$ -	\$ 6,660,000	\$ 8,340,000	\$ 9,130,000	\$ 11,300,000	\$ 2,170,000	\$ 37,600,000
LOI Capital Account (d)	6,680,000	-	-	-	-	-	6,680,000
	<u>\$ 6,680,000</u>	<u>\$ 6,660,000</u>	<u>\$ 8,340,000</u>	<u>\$ 9,130,000</u>	<u>\$ 11,300,000</u>	<u>\$ 2,170,000</u>	<u>\$ 44,280,000</u>

(a) A 6-year Letter of Intent (LOI) was awarded by the FAA on April 15, 2003.

(b) The Authority expects to receive annual AIP entitlement grants in addition to receipts under the LOI. Because Harrisburg International Airport is a small-hub airport, there is no reduction in AIP entitlement grants because a \$4.50 PFC is levied.

(c) To pay debt service (principal and interest) on the Subordinate Series 2003C Bonds.

(d) To pay for LOI-approved project costs on a pay-as-you-go basis.

Source: Letter of Intent (LOI) from the FAA to the Authority, dated April 15, 2003.

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Exhibit E (Page 1 of 2)

ANNUAL DEBT SERVICE REQUIREMENTS
Harrisburg International Airport
For Fiscal Years Ending December 31

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Authority management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Historical	Estimated	Forecast				
	2003	2004	2005	2006	2007	2008	2009
ANNUAL DEBT SERVICE							
Senior Series 2003 Bonds	\$ 3,434,893	\$ 5,307,131	\$ 5,307,131	\$ 5,307,131	\$ 5,307,131	\$ 5,307,131	\$ 5,307,131
Senior Series 2004 Bonds (a)	-	439,184	1,129,463	1,129,463	1,129,463	1,857,348	1,851,869
Less: amounts funded with capitalized interest							
Senior Series 2003 Bonds	(2,903,362)	(4,648,970)	-	-	-	-	-
Senior Series 2004 Bonds (b)	-	(439,184)	(278,760)				
	<u>\$ 531,531</u>	<u>\$ 658,161</u>	<u>\$ 6,157,834</u>	<u>\$ 6,436,594</u>	<u>\$ 6,436,594</u>	<u>\$ 7,164,479</u>	<u>\$ 7,159,000</u>
Less: Direct Debt Service Offset							
PFC revenues transfered to Debt Service Fund (c)	-	-	(2,830,000)	(2,901,000)	(2,972,000)	(3,047,000)	(3,122,000)
Debt Service on Senior Bonds payable from Net Revenues	<u>\$ 531,531</u>	<u>\$ 658,161</u>	<u>\$ 3,327,834</u>	<u>\$ 3,535,594</u>	<u>\$ 3,464,594</u>	<u>\$ 4,117,479</u>	<u>\$ 4,037,000</u>
Subordinate Series 2003 Bond debt service (a)	\$ 2,331,002	\$ 3,690,550	\$ 11,497,313	\$ 12,953,950	\$ 13,750,991	\$ 15,964,870	\$ 6,681,424
Less: amounts funded with capitalized interest	(2,058,334)	(3,099,314)	(697,726)	-	-	-	-
	<u>\$ 272,668</u>	<u>\$ 591,236</u>	<u>\$ 10,799,587</u>	<u>\$ 12,953,950</u>	<u>\$ 13,750,991</u>	<u>\$ 15,964,870</u>	<u>\$ 6,681,424</u>
Less: Direct Debt Service Offset							
LOI Receipts transfered to the Subordinated Obligation Debt Service Fund (d)	\$ -	\$ -	\$ (6,660,000)	\$ (8,340,000)	\$ (9,130,000)	\$ (11,300,000)	\$ (2,170,000)
Debt Service on Subordinate Bonds payable from Net Revenues	<u>\$ 272,668</u>	<u>\$ 591,236</u>	<u>\$ 4,139,587</u>	<u>\$ 4,613,950</u>	<u>\$ 4,620,991</u>	<u>\$ 4,664,870</u>	<u>\$ 4,511,424</u>
Total debt service payable from Net Revenues	<u>\$ 804,199</u>	<u>\$ 1,249,397</u>	<u>\$ 7,467,421</u>	<u>\$ 8,149,544</u>	<u>\$ 8,085,585</u>	<u>\$ 8,782,349</u>	<u>\$ 8,548,424</u>

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Exhibit E (Page 2 of 2)

ANNUAL DEBT SERVICE REQUIREMENTS
Harrisburg International Airport
For Fiscal Years Ending December 31

	Estimated		Forecast			
	2004	2005	2006	2007	2008	2009
COST CENTER ALLOCATION OF DEBT SERVICE						
Senior and Subordinate Bonds						
Terminal Building Area	\$ 385,000	\$ 2,177,000	\$ 2,436,000	\$ 2,390,000	\$ 2,654,000	\$ 2,537,000
Commuter Concourse	46,400	-	-	-	-	-
Airfield Area	149,000	921,000	1,036,000	1,015,000	1,132,000	1,080,000
Landside Area	634,000	4,343,000	4,651,000	4,654,000	4,969,000	4,904,000
Industrial Park	7,503	-	-	-	-	-
Water and Sewer	-	-	-	-	-	-
Capital City Airport	27,000	27,000	27,000	27,000	27,000	27,000
Total debt service payable from						
Net Revenues	\$ 1,248,903	\$ 7,468,000	\$ 8,150,000	\$ 8,086,000	\$ 8,782,000	\$ 8,548,000

- (a) Ongoing expenses associated with remarketing the variable rate securities are added to annual debt service.
- (b) Variable rate auction rate securities with an assumed interest rate of 3.5%.
- (c) See Exhibit C. Although the Authority irrevocably commits to apply PFC revenues to Senior Bond debt service through 12/31/08, it is the Authority's current intention to apply PFCs in this same manner beyond that date. For purposes of this analysis, it was assumed that the Authority will apply PFC revenues to Senior Bond debt service in 2009.
- (d) See Exhibit D.

Source for annual debt service and amounts paid from capitalized interest: Goldman Sachs, underwriter for the Series 2003 Bonds and the proposed Series 2004 Bonds.
 Source for allocation of annual debt service by cost center: Susquehanna Area Regional Airport Authority.

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Exhibit F

**AIRPORT SYSTEM MAINTENANCE AND OPERATION EXPENSES
Susquehanna Area Regional Airport Authority
For Fiscal Years Ending December 31**

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Authority management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Historical (a)	Budget	Forecast				
	2003	2004	2005	2006	2007	2008	2009
M&O EXPENSES BY EXPENSE CATEGORY							
Personnel	\$ 5,217,068	\$ 4,676,255	\$ 5,500,000	\$ 5,638,000	\$ 5,779,000	\$ 5,923,000	\$ 6,071,000
Employee benefits	1,734,816	1,672,242	1,823,000	1,869,000	1,916,000	1,964,000	2,013,000
Parking operation	-	1,779,097	1,900,000	1,948,000	1,997,000	2,047,000	2,098,000
Legal and professional	379,826	299,974	277,000	284,000	291,000	298,000	305,000
Marketing	1,125,972	1,529,200	720,000	738,000	756,000	775,000	794,000
Insurance and bonds	566,537	461,648	473,000	485,000	497,000	509,000	522,000
Utilities	973,998	735,658	800,000	820,000	841,000	862,000	884,000
Contracted repair and services (b)	756,513	1,005,944	900,000	923,000	946,000	970,000	994,000
Other expenses	2,075,726	2,337,428	2,147,000	2,199,000	2,254,000	2,311,000	2,371,000
Management fees	79,068	63,236	60,000	62,000	64,000	66,000	68,000
Total M&O Expenses	\$ 12,909,524	\$ 14,560,682	\$ 14,600,000	\$ 14,966,000	\$ 15,341,000	\$ 15,725,000	\$ 16,120,000
Annual percentage change	8.4%	12.8%	0.3%	2.5%	2.5%	2.5%	2.5%
M&O EXPENSES BY COST CENTER (c)							
Terminal Building Area (d)	\$ 3,622,447	\$ 4,450,000	\$ 5,181,000	\$ 5,311,000	\$ 5,444,000	\$ 5,580,000	\$ 5,720,000
Airfield Area	4,129,657	4,538,000	4,327,000	4,435,000	4,546,000	4,660,000	4,777,000
Landside Area	4,254,131	4,600,000	4,479,000	4,591,000	4,706,000	4,824,000	4,945,000
Industrial Park	291,422	309,000	-	-	-	-	-
Water and Sewer	118,670	120,000	111,000	114,000	117,000	120,000	123,000
Capital City Airport	493,197	544,000	502,000	515,000	528,000	541,000	555,000
Total M&O Expenses	\$ 12,909,524	\$ 14,561,000	\$ 14,600,000	\$ 14,966,000	\$ 15,341,000	\$ 15,725,000	\$ 16,120,000

(a) From the financial statements of the Authority, 12/31/02 and 12/31/03.

(b) Including expenses associated with a security-related baggage handling contract. These services will not be needed after the opening of the new terminal.

(c) As of January 1, 2005, the Industrial Park cost center is expected to be eliminated, and associated M&O Expenses are included in the Landside Area cost center.

(d) Includes the commuter concourse for the period through DBO of the new terminal (August 29, 2004).

Source for historical and budgeted M&O Expenses by Expense Category: Susquehanna Area Regional Airport Authority.

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Exhibit G (Page 1 of 2)

AIRPORT SYSTEM REVENUES
Susquehanna Area Regional Airport Authority

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by Authority management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Historical	Estimated	Forecast				
	2003	2004	2005	2006	2007	2008	2009
SIGNATORY AIRLINE REVENUES							
Terminal rentals and gate use fees	\$2,355,591	\$3,573,000	\$5,898,000	\$6,070,000	\$6,123,000	\$6,422,000	\$6,443,000
Landing fees	2,046,336	2,432,000	3,715,000	3,889,000	3,914,000	4,073,000	4,072,000
Ramp fees	1,050,034	1,008,000	924,000	952,000	980,000	1,010,000	1,040,000
Fuel flowage fees	202,506	232,000	236,000	241,000	246,000	251,000	256,000
Adjustments for credits (a)	27,678	-	-	-	-	-	-
Total Signatory Airline Revenues	\$5,682,145	\$7,245,000	\$10,773,000	\$11,152,000	\$11,263,000	\$11,756,000	\$11,811,000
Annual percentage change		27.5%	48.7%	3.5%	1.0%	4.4%	0.5%
NONAIRLINE REVENUE							
Terminal Building Area							
(including Commuter Concourse)							
Restaurant, news/gift	(\$68,204)	\$180,000	\$429,000	\$451,000	\$473,000	\$498,000	\$523,000
Advertising	91,000	108,000	175,000	175,000	175,000	175,000	175,000
Rentals							
TSA	12,425	78,000	215,000	215,000	215,000	215,000	215,000
Other nonairline tenants	26,156	19,000	6,000	6,000	6,000	6,000	6,000
Utilities	15,084	23,000	40,000	40,000	40,000	40,000	41,000
Miscellaneous	21,595	12,000	12,000	13,000	13,000	13,000	14,000
Subtotal -- Terminal Building Area	\$98,056	\$420,000	\$877,000	\$900,000	\$922,000	\$947,000	\$974,000
Airfield Area							
Landing fees -- Non-Signatory	\$104,978	\$107,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Ramp fees -- Non-Signatory	438	62,000	81,000	83,000	86,000	88,000	91,000
Turnaround charges (b)	-	10,000	30,000	41,000	51,000	61,000	71,000
Commissions	150,714	154,000	157,000	160,000	163,000	166,000	169,000
Rentals	592,717	444,000	455,000	467,000	478,000	490,000	503,000
Utilities	186,253	197,000	202,000	207,000	212,000	217,000	223,000
Other	50,040	37,000	38,000	39,000	40,000	41,000	42,000
Subtotal -- Airfield Area	\$1,085,140	\$1,011,000	\$973,000	\$1,007,000	\$1,040,000	\$1,073,000	\$1,109,000

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Exhibit G (Page 2 of 2)
AIRPORT SYSTEM REVENUES
 Susquehanna Area Regional Airport Authority
 For Fiscal Years Ending December 31

NONAIRLINE REVENUE (continued)	Historical	Estimated	Forecast				
	2003	2004	2005	2006	2007	2008	2009
Landside Area (c)							
Rental car privilege fees	\$1,430,120	\$1,487,000	\$1,554,000	\$1,625,000	\$1,698,000	\$1,776,000	\$1,856,000
Rental car space rentals	64,326	138,000	285,000	285,000	285,000	285,000	285,000
CFC revenues	-	603,000	617,000	633,000	648,000	664,000	681,000
Automobile parking	4,591,328	4,865,000	5,859,000	5,987,000	6,134,000	6,289,000	6,445,000
Taxicab and ground transportation	54,455	60,000	61,000	63,000	64,000	66,000	67,000
Utilities	2,073	2,000	38,000	38,000	38,000	38,000	38,000
Rentals	152,359	104,000	504,000	666,000	829,000	837,000	845,000
Other	38,199	50,000	54,000	54,000	54,000	54,000	55,000
Subtotal -- Landside Area	\$6,332,860	\$7,309,000	\$8,972,000	\$9,351,000	\$9,750,000	\$10,009,000	\$10,272,000
Industrial Park (c)							
Utilities	\$52,260	\$36,000	\$ -	\$ -	\$ -	\$ -	\$ -
Land and building rents	433,192	400,000	-	-	-	-	-
Miscellaneous	-	4,000	-	-	-	-	-
Subtotal -- Industrial Park	\$485,452	\$440,000	\$ -				
Capital City Airport							
Utilities	\$14,376	\$15,000	\$15,000	\$16,000	\$16,000	\$16,000	\$17,000
Rent	200,691	188,000	184,000	196,000	196,000	200,000	200,000
Commissions	71,272	87,000	90,000	92,000	94,000	96,000	99,000
Miscellaneous	10,499	2,000	2,000	2,000	3,000	3,000	3,000
Subtotal -- Capital City Airport	\$296,838	\$292,000	\$291,000	\$306,000	\$309,000	\$315,000	\$319,000
Water and Sewer	\$112,378	\$116,000	\$119,000	\$122,000	\$125,000	\$128,000	\$131,000
Interest Income (d)							
Debt Service Fund	\$ -	\$ -	\$57,000	\$61,000	\$60,000	\$65,000	\$63,000
Debt Service Reserve Fund	-	-	650,000	700,000	700,000	700,000	700,000
Other funds and accounts	30,851	64,000	79,000	81,000	83,000	86,000	88,000
Subtotal -- Interest Income	\$30,851	\$64,000	\$786,000	\$842,000	\$843,000	\$851,000	\$851,000
Total Nonairline Revenues	\$8,441,575	\$9,652,000	\$12,018,000	\$12,528,000	\$12,989,000	\$13,323,000	\$13,656,000
Annual percentage change		14.3%	24.5%	4.2%	3.7%	2.6%	2.5%
Total Revenues	\$14,123,720	\$16,897,000	\$22,791,000	\$23,680,000	\$24,252,000	\$25,079,000	\$25,467,000

Note: Revenue totals in this exhibit exclude balances (if any) in the Revenue Credit Account, which are also a component of Revenues pursuant to the Master Indenture.
 (a) Pursuant to the current Airline Agreement, through 2003 the Authority credited airline revenues for PFCs funded projects that were originally funded with Authority debt and cash. In the Authority's financial statements, those amounts are treated as revenues.
 (b) \$237.50 per turn at gates assigned for charter airline use -- assuming 3 flights per week in 2004 and 2005, with one additional flight per week each year thereafter.
 (c) As of January 1, 2005, the Industrial Park cost center is expected to be eliminated. Associated revenues are included in the Landside Area.
 (d) Assuming a 4.0% investment earnings rate for the Debt Service Reserve Funds, and 2.0% investment earnings rate for other funds and accounts.
 Source for historical and estimated information: Susquehanna Area Regional Airport Authority.

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Exhibit G-1 (Page 1 of 2)

AIRLINE TERMINAL RENTALS
Harrisburg International Airport
For Fiscal Years Ending December 31

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Authority management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual (a)		Estimated		Forecast				
	2002	2003	2004 (1/1-8/28/04)	2004 (b) (8/29-12/31/04)	2005	2006	2007	2008	2009
MAIN TERMINAL -- Cost Base									
M&O expenses	\$2,679,000	\$2,953,000	\$2,024,000	\$2,101,000	\$5,181,000	\$5,311,000	\$5,444,000	\$5,580,000	\$5,720,000
M&O expense reserve funding	-	51,000	-	186,000	165,000	22,000	22,000	23,000	23,000
Equipment & capital outlays	-	7,000	33,000	17,000	-	-	-	-	-
Bad debt expense	-	-	-	-	-	-	-	-	-
Debt service on Senior and Subordinate Bonds	743,000	495,000	256,667	128,333	2,177,000	2,436,000	2,390,000	2,654,000	2,537,000
Amortization of Authority cash funded assets	216,000	220,000	143,000	251,000	753,000	759,000	750,000	794,000	794,000
Less:									
Special credit (c)	(36,000)	(36,000)	-	-	-	-	-	-	-
Revenue Credit Account transfer	-	-	-	-	-	-	-	(8,000)	-
Total Main Terminal costs	\$3,602,000	\$3,690,000	\$2,456,667	\$2,683,333	\$8,276,000	\$8,528,000	\$8,606,000	\$9,043,000	\$9,074,000
Space (square feet) (d)									
Usable space	87,752	87,752	87,752	-	-	-	-	-	-
Rentable space	-	-	-	139,085	139,085	139,085	139,085	139,085	139,085
Terminal rental rate (per square foot)	\$41.05	\$42.05	\$42.00	\$59.50	\$59.50	\$61.32	\$61.88	\$65.02	\$65.24
			(annualized rates)						
Airline rentable space (square feet)				119,015	119,015	119,015	119,015	119,015	119,015
Occupancy factor				79.9%	79.9%	79.9%	79.9%	79.9%	79.9%
Airline rented space (square feet)	48,228	49,778	49,778	95,079	95,079	95,079	95,079	95,079	95,079
Airline terminal rentals (Main Terminal)	\$2,091,000	\$2,021,591	\$1,394,000	\$1,886,000	\$5,658,000	\$5,830,000	\$5,883,000	\$6,182,000	\$6,203,000
Plus: Gate use fees (e)	-	-	-	80,000	240,000	240,000	240,000	240,000	240,000
Total terminal charges (Signatory Airlines)	\$2,091,000	\$2,021,591	\$1,394,000	\$1,966,000	\$5,898,000	\$6,070,000	\$6,123,000	\$6,422,000	\$6,443,000

2004 total: \$3,360,000

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AIRLINE TERMINAL RENTALS
Harrisburg International Airport
For Fiscal Years Ending December 31

	Actual (a)		Estimated		Forecast				
	2002	2003	2004 (1/1-8/28/04)	2004 (b) (8/29-12/31/04)	2005	2006	2007	2008	2009
COMMUTER CONCOURSE -- Cost Base									
M&O expenses	\$467,000	\$486,000	\$325,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
M&O expense reserve funding	-	-	-	-	-	-	-	-	-
Equipment & capital outlays	-	2,620	13,000	-	-	-	-	-	-
Bad debt expense	-	-	-	-	-	-	-	-	-
Debt service on Senior Bonds	98,000	72,000	46,400	-	-	-	-	-	-
Debt service on Subordinate Bonds	-	-	-	-	-	-	-	-	-
Amortization of Authority cash funded assets	7,000	7,000	4,000	-	-	-	-	-	-
Less:									
Special credit (c)	(6,000)	6,000	-	-	-	-	-	-	-
Total Commuter Concourse costs	\$566,000	\$573,620	\$388,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Space (square feet)									
Usable space	30,604	27,561	27,561	-	-	-	-	-	-
Terminal rental rate (per square foot)	\$18.49	\$20.38	\$20.25	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
			(annualized rate)						
Airline rented space (square feet)	27,256	15,755	15,755	-	-	-	-	-	-
Airline Terminal rentals (Commuter Concourse)	\$417,000	\$334,000	\$213,000	-	-	-	-	-	-
Total Airline Terminal Rentals	\$2,508,000	\$2,355,591	\$1,607,000	\$1,966,000	\$5,898,000	\$6,070,000	\$6,123,000	\$6,422,000	\$6,443,000

2004 total: \$3,573,000

- (a) Figures for 2002 and 2003 reflect the Authority's budgeted amounts, except for terminal rental rates (which reflect rates actually charged), and revenues (which reflect amounts actually collected).
- (b) The new terminal building is scheduled to have a DBO of August 29, 2004. The commuter concourse was assumed to close on August 28, 2004.
- (c) In accordance with the current Airline Agreement, through December 31, 2003, the airlines receive an annual credit of up to \$35,752 and \$5,981 in the main terminal and commuter concourse, respectively, associated with the PFC funding of historical projects originally funded with Authority cash and debt.
- (d) For purposes of this analysis, through August 28, 2004, Usable Space is used to calculate the terminal rental rate. The Authority intends to implement the adjusted terminal rental rate methodology on DBO of the new terminal (where Rentable Space is used to calculate the rental rate), pursuant to a new Airline Agreement or by a Rate Resolution of the Authority.
- (e) Remain overnight parking at gates and apron parking positions, and fees for use by the Signatory Airlines of gates they do not lease.
 Fees range from \$210 per night for the use of a vacant gate (2 per night were assumed) to \$75 per night for parking on the old terminal apron

Exhibit G-2

AIRLINE LANDING FEES AND RAMP FEES
Harrisburg International Airport
For Fiscal Years Ending December 31

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Authority management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual (a)		Estimate	Forecast				
	2002	2003	2004	2005	2006	2007	2008	2009
RAMP FEES								
Ramp area rented (square feet)	822,921	835,377	777,000	660,000	660,000	660,000	660,000	660,000
Ramp fee (per square foot)	\$1.22	\$1.26	\$1.30	\$1.40	\$1.44	\$1.49	\$1.53	\$1.58
Subtotal -- Ramp fee revenues	\$955,000	\$1,050,034	\$1,008,000	\$924,000	\$952,000	\$980,000	\$1,010,000	\$1,040,000
LANDING FEES								
Airfield Area cost base								
M&O expenses	\$4,451,833	\$4,382,000	\$4,482,000	\$4,327,000	\$4,435,000	\$4,546,000	\$4,660,000	\$4,777,000
M&O expense reserve funding	-	15,000	65,000	-	18,000	19,000	19,000	20,000
Equipment & capital outlays	108,000	67,000	63,000	-	-	-	-	-
Debt service on Senior and Subordinate Bonds	217,315	-	149,000	921,000	1,036,000	1,015,000	1,132,000	1,080,000
Amortization of Authority cash funded assets	-	131,000	437,000	600,000	600,000	600,000	600,000	600,000
Total Airfield Area cost	\$4,777,148	\$4,595,000	\$5,196,000	\$5,848,000	\$6,089,000	\$6,180,000	\$6,411,000	\$6,477,000
Less: Ramp fee revenues	(1,245,450)	(1,050,000)	(1,008,000)	(924,000)	(952,000)	(980,000)	(1,010,000)	(1,040,000)
Less:								
Signatory Airline fuel flowage fees	(241,250)	(227,000)	(232,000)	(236,000)	(241,000)	(246,000)	(251,000)	(256,000)
Airfield Area nonairline revenues	(1,323,697)	(1,085,140)	(1,011,000)	(973,000)	(1,007,000)	(1,040,000)	(1,073,000)	(1,109,000)
Revenue Credit Account transfer	-	-	-	-	-	-	(4,000)	-
Special credits (b)	(111,000)	(111,000)	-	-	-	-	-	-
Airline Landing Fee Requirement	\$1,855,751	\$2,121,860	\$2,945,000	\$3,715,000	\$3,889,000	\$3,914,000	\$4,073,000	\$4,072,000
Landed weight								
Passenger airlines	1,050,000	987,105	1,015,000	1,029,000	1,053,000	1,068,000	1,092,000	1,103,000
Cargo airlines	325,000	315,193	315,000	321,000	327,000	334,000	341,000	348,000
	1,375,000	1,302,298	1,330,000	1,350,000	1,380,000	1,402,000	1,433,000	1,451,000
Landing fee (per 1,000 pounds of landed weight)(c)	\$1.35	\$1.49	\$1.85	\$2.75	\$2.82	\$2.79	\$2.84	\$2.81
Signatory Airline landing fees (d)	\$1,896,000	\$2,046,336	\$2,432,000	\$3,715,000	\$3,889,000	\$3,914,000	\$4,073,000	\$4,072,000

(a) The landing fee calculation for 2002 and 2003 reflects budgeted costs. These rates were not recalculated at year-end based on actual data.

(b) In accordance with the Airline Agreement, through 12/31/03, the airlines received an annual credit of \$111,341 associated with PFC funding of projects that were originally funded with Authority cash and debt.

(c) Rate shown for 2004 reflects the landing fee actually charged.

(d) The figures for 2002 and 2003 reflect Signatory Airline landing fee revenues actually collected by the Authority.

Exhibit H

FORECAST APPLICATION OF REVENUES
Susquehanna Area Regional Airport Authority
For Fiscal Years Ending December 31

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Authority management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Priority for application	Estimated	Forecast				
		2004	2005	2006	2007	2008	2009
Airport System Revenues		\$16,897,000	\$22,791,000	\$23,680,000	\$24,252,000	\$25,079,000	\$25,467,000
Plus: Balance in the Revenue Credit Account (a)		-	-	-	-	12,000	-
		<u>\$16,897,000</u>	<u>\$22,791,000</u>	<u>\$23,680,000</u>	<u>\$24,252,000</u>	<u>\$25,091,000</u>	<u>\$25,467,000</u>
Plus: Coverage Account balances (b)		165,000	802,000	802,000	802,000	802,000	802,000
		<u>\$17,062,000</u>	<u>\$23,593,000</u>	<u>\$24,482,000</u>	<u>\$25,054,000</u>	<u>\$25,893,000</u>	<u>\$26,269,000</u>
Application of Revenues							
Maintenance and Operation Expenses	1	\$14,560,682	\$14,600,000	\$14,966,000	\$15,341,000	\$15,725,000	\$16,120,000
Senior Debt Service Fund	2	658,000	3,328,000	3,536,000	3,465,000	4,117,000	4,037,000
Senior Debt Service Reserve Fund	3	-	-	-	-	-	-
Subordinated Obligation Debt Service Fund	4	591,000	4,140,000	4,614,000	4,621,000	4,665,000	4,511,000
Subordinated Obligation Debt Service Reserve Fund	5	-	-	-	-	-	-
Maintenance and Operation Reserve Fund (c)	6	500,000	150,000	61,000	63,000	64,000	66,000
Renewal and Replacement Fund	7	150,000	-	-	-	-	-
General Fund	8						
Coverage Account		165,000	802,000	802,000	802,000	802,000	802,000
Revenue Credit Account (a)		-	-	-	12,000	-	-
Capital Improvement Account (d)		437,000	573,000	503,000	750,000	520,000	733,000
		<u>\$17,061,682</u>	<u>\$23,593,000</u>	<u>\$24,482,000</u>	<u>\$25,054,000</u>	<u>\$25,893,000</u>	<u>\$26,269,000</u>

(a) The airlines' share of net operating cash flow.

(b) Equivalent to 25% of the Aggregate Annual Debt Service on the Senior Series 2003 Bonds, net of the direct debt service offsets.

(c) Equivalent to the incremental amount needed to maintain a balance equivalent to 2 months of M&O Expenses in the M&O Reserve Fund.

(d) Available for any lawful Airport System purpose, at the discretion of the Authority.

Exhibit I

FORECAST DEBT SERVICE COVERAGE
Susquehanna Area Regional Airport Authority
For Fiscal Years Ending December 31

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Authority management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual 2003	Forecast					2009
		2004	2005	2006	2007	2008	
SENIOR BOND DEBT SERVICE COVERAGE							
Revenues (a)	\$14,123,720	\$16,897,000	\$22,791,000	\$23,680,000	\$24,252,000	\$25,079,000	\$25,467,000
Plus: Revenue Credit Account balances	-	-	-	-	-	12,000	-
	[A]	\$14,123,720	\$16,897,000	\$22,791,000	\$23,680,000	\$24,252,000	\$25,467,000
Less: M&O Expenses (b)	[B]	(12,909,524)	(14,561,000)	(14,600,000)	(14,966,000)	(15,341,000)	(16,120,000)
Airport System Net Revenues	[C=A-B]	\$1,214,196	\$2,336,000	\$8,191,000	\$8,714,000	\$8,911,000	\$9,347,000
Plus: Coverage Account balances (c)	[D]	133,000	165,000	802,000	802,000	802,000	802,000
Net Revenues plus Coverage Account balances	[E=C+D]	\$1,347,196	\$2,501,000	\$8,993,000	\$9,516,000	\$9,713,000	\$10,149,000
Annual Senior Bond net debt service (d)	[F]	531,531	658,161	3,327,834	3,535,594	3,464,594	4,037,000
Senior Bond debt service coverage	[G=E/F]	2.53	3.80	2.70	2.69	2.80	2.51
Debt service coverage requirement per Master Indenture		1.25	1.25	1.25	1.25	1.25	1.25
SUBORDINATE BOND DEBT SERVICE COVERAGE							
Airport System Net Revenues	[C]	\$1,214,196	\$2,336,000	\$8,191,000	\$8,714,000	\$8,911,000	\$9,347,000
Plus: Coverage Account balances (b)	[D]	133,000	165,000	802,000	802,000	802,000	802,000
Net Revenues plus Coverage Account balances	[E]	\$1,347,196	\$2,501,000	\$8,993,000	\$9,516,000	\$9,713,000	\$10,149,000
Total net debt service (d)							
Senior Bond debt service		\$531,531	\$658,161	\$3,327,834	\$3,535,594	\$3,464,594	\$4,037,000
Subordinate Bond debt service		272,668	591,236	4,139,587	4,613,950	4,620,991	4,511,424
	[H]	\$804,199	\$1,249,397	\$7,467,421	\$8,149,544	\$8,085,585	\$8,548,424
Overall debt service coverage (Senior plus Subordinate Bond debt)	[I=E/H]	1.68	2.00	1.20	1.17	1.20	1.19
Debt service coverage requirement per Subordinate Indenture		1.10	1.10	1.10	1.10	1.10	1.10

- (a) See Exhibit G.
(b) See Exhibit F.
(c) See Exhibit H.
(d) See Exhibit E. Net of direct debt service offsets.

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Exhibit J-1 (Page 1 of 2)

SUMMARY OF FINANCIAL RESULTS -- BASE FORECAST
Susquehanna Area Regional Airport Authority
For Fiscal Years Ending December 31

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Authority management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual	Forecast					
	2003	2004	2005	2006	2007	2008	2009
Revenues							
Airline revenues	\$5,682,145	\$7,245,000	\$10,773,000	\$11,152,000	\$11,263,000	\$11,756,000	\$11,811,000
Nonairline revenues	8,441,575	9,652,000	12,018,000	12,528,000	12,989,000	13,323,000	13,656,000
	\$14,123,720	\$16,897,000	\$22,791,000	\$23,680,000	\$24,252,000	\$25,079,000	\$25,467,000
Revenue Credit Account balances	-	-	-	-	-	12,000	-
M&O Expenses	(12,909,524)	(14,561,000)	(14,600,000)	(14,966,000)	(15,341,000)	(15,725,000)	(16,120,000)
Coverage Account balances	133,000	165,000	802,000	802,000	802,000	802,000	802,000
Net Revenues plus Coverage Account balances	\$1,347,196	\$2,501,000	\$8,993,000	\$9,516,000	\$9,713,000	\$10,168,000	\$10,149,000
Senior Bond net debt service (a)	531,531	658,161	3,327,834	3,535,594	3,464,594	4,117,479	4,037,000
Senior Bond debt service coverage (b)	2.53	3.80	2.70	2.69	2.80	2.47	2.51
Debt service coverage requirement (Master Indenture)	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Senior plus Subordinate Bond net debt service (a)	\$804,199	\$1,249,397	\$7,467,421	\$8,149,544	\$8,085,585	\$8,782,349	\$8,548,424
Subordinate debt service coverage							
(Senior plus Subordinate Bond debt) (b)	1.68	2.00	1.20	1.17	1.20	1.16	1.19
Debt service coverage requirement (Subordinate Indenture)	1.10	1.10	1.10	1.10	1.10	1.10	1.10

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SUMMARY OF FINANCIAL RESULTS -- BASE FORECAST
Susquehanna Area Regional Airport Authority
For Fiscal Years Ending December 31

	Actual	Forecast					
	2003	2004	2005	2006	2007	2008	2009
Airline fees and charges							
Landing fee (per 1,000 pounds of landed weight) (c)	\$1.49	\$1.85	\$2.75	\$2.82	\$2.79	\$2.84	\$2.81
Terminal rental (per square foot)							
Main Terminal (d)	\$42.05	\$59.50	\$59.50	\$61.32	\$61.88	\$65.02	\$65.24
Commuter Concourse (d)	20.38	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ramp fee (per square foot) (c)	1.26	1.30	1.40	1.44	1.49	1.53	1.58
Enplaned passengers	670,269	698,000	715,000	733,000	751,000	770,000	789,000
Percentage change		4.1%	2.4%	2.5%	2.5%	2.5%	2.5%
Landed weight (1,000 pound units)	1,302,298	1,330,000	1,350,000	1,380,000	1,402,000	1,433,000	1,451,000
Deposit to Capital Improvement Account		\$437,000	\$573,000	\$503,000	\$750,000	\$520,000	\$733,000
Passenger airline payments per enplaned passenger	\$7.01	\$9.01	\$13.16	\$13.28	\$13.08	\$13.33	\$13.05
Airline payments per enplaned passenger net of Authority-funded tenant fitouts (e)			\$11.75	\$11.90	\$11.73	\$12.02	\$11.74

n.a. = Not applicable.

- (a) Net of direct debt service offsets (see Exhibit E).
- (b) Coverage ratios shown for 2003 reflect Series 2003 Bond debt service (net of capitalized interest). Additionally, the Authority made debt service payments totaling \$256,505 on March 15, 2003, and April 15, 2003, on Notes that were refunded with the Series 2003 Bonds.
- (c) The same rate is paid by cargo and passenger airlines.
- (d) The rate shown for 2004 reflects the rate to be adopted by the Authority in the new terminal as of August 29, 2004. The current rates are \$42.00 per square foot in the main terminal and \$20.25 per square foot in the commuter concourse.
- (e) Airline payments per enplaned passenger net of Authority-funded fitouts (including the local share of aircraft support systems; ATO, operations, and baggage office fitouts; holdroom podiums and seating) that are generally directly paid for by the airlines.

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Exhibit J-2 (Page 1 of 2)

SUMMARY OF FINANCIAL RESULTS -- LOW FORECAST
Susquehanna Area Regional Airport Authority
For Fiscal Years Ending December 31

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Authority management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual	Forecast					
	2003	2004	2005	2006	2007	2008	2009
Revenues							
Airline revenues	\$5,682,145	\$7,245,000	\$10,780,000	\$11,194,000	\$11,328,000	\$11,854,000	\$11,925,000
Nonairline revenues	8,441,575	9,651,000	11,933,000	12,358,000	12,737,000	12,971,000	13,204,000
	\$14,123,720	\$16,896,000	\$22,713,000	\$23,552,000	\$24,065,000	\$24,825,000	\$25,129,000
Revenue Credit Account balances	-	-	-	-	-	-	-
M&O Expenses	(12,909,524)	(14,561,000)	(14,600,000)	(14,966,000)	(15,341,000)	(15,725,000)	(16,120,000)
Coverage Account balances	133,000	165,000	802,000	802,000	802,000	802,000	802,000
Net Revenues plus Coverage Account balances	\$1,347,196	\$2,500,000	\$8,915,000	\$9,388,000	\$9,526,000	\$9,902,000	\$9,811,000
Senior Bond net debt service (a)	531,531	658,161	3,355,834	3,590,594	3,547,594	4,231,479	4,183,000
Senior Bond debt service coverage (b)	2.53	3.80	2.66	2.61	2.69	2.34	2.35
Debt service coverage requirement (Master Indenture)	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Senior plus Subordinate Bond net debt service (a)	\$804,199	\$1,249,397	\$7,495,421	\$8,204,544	\$8,168,585	\$8,896,349	\$8,694,424
Subordinate debt service coverage							
(Senior plus Subordinate Bond debt) (b)	1.68	2.00	1.19	1.14	1.17	1.11	1.13
Debt service coverage requirement (Subordinate Indenture)	1.10	1.10	1.10	1.10	1.10	1.10	1.10

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SUMMARY OF FINANCIAL RESULTS -- LOW FORECAST
Susquehanna Area Regional Airport Authority
For Fiscal Years Ending December 31

	Actual	Forecast					
	2003	2004	2005	2006	2007	2008	2009
Airline fees and charges							
Landing fee (per 1,000 pounds of landed weight) (c)	\$1.49	\$1.85	\$2.78	\$2.89	\$2.90	\$2.98	\$2.97
Terminal rental (per square foot)							
Main Terminal (d)	\$42.05	\$59.50	\$59.50	\$61.60	\$62.29	\$65.64	\$65.97
Commuter Concourse (d)	20.38	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ramp fee (per square foot) (c)	1.26	1.30	1.40	1.44	1.49	1.53	1.58
Enplaned passengers	670,269	698,000	708,000	719,000	730,000	741,000	752,000
Percentage change		4.1%	1.4%	1.6%	1.5%	1.5%	1.5%
Landed weight (1,000 pound units)	1,302,298	1,330,000	1,340,000	1,350,000	1,360,000	1,379,000	1,386,000
Deposit to Capital Improvement Account		\$436,000	\$467,000	\$320,000	\$492,000	\$140,000	\$249,000
Passenger airline payments per enplaned passenger	\$7.01	\$9.01	\$13.29	\$13.56	\$13.50	\$13.92	\$13.77
Airline payments per enplaned passenger net of Authority-funded tenant fitouts (e)			\$11.86	\$12.16	\$12.11	\$12.56	\$12.40

n.a. = Not applicable.

(a) Net of direct debt service offsets (see Exhibit E).

(b) Coverage ratios shown for 2003 reflect Series 2003 Bond debt service (net of capitalized interest). Additionally, the Authority made debt service payments totaling \$256,505 on March 15, 2003, and April 15, 2003, on Notes that were refunded with the Series 2003 Bonds.

(c) The same rate is paid by cargo and passenger airlines.

(d) The rate shown for 2004 reflects the rate to be adopted by the Authority in the new terminal as of August 29, 2004. The current rates are \$42.00 per square foot in the main terminal and \$20.25 per square foot in the commuter concourse.

(e) Airline payments per enplaned passenger net of Authority-funded fitouts (including the local share of aircraft support systems; ATO, operations, and baggage office fitouts; holdroom podiums and seating) that are generally directly paid for by the airlines.

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APPENDIX B
AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY

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**SUSQUEHANNA AREA REGIONAL
AIRPORT AUTHORITY**

Basic Financial Statements

December 31, 2003 with Partial Financial Information
for the Year ended December 31, 2002

(With Independent Auditors' Report Thereon)

**SUSQUEHANNA AREA REGIONAL
AIRPORT AUTHORITY**

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KPMG LLP
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Independent Auditors' Report

Susquehanna Area Regional Airport Authority
Board of Directors
Middletown, Pennsylvania

We have audited the accompanying basic financial statements of the Susquehanna Area Regional Airport Authority (SARAA) as of and for the year then ended December 31, 2003 as listed in the table of contents. These basic financial statements are the responsibility of SARAA's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year partial comparative information has been derived from SARAA's 2002 financial statements and, in our report dated March 28, 2003, we expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SARAA, as of December 31, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the basic financial statements, SARAA adopted Governmental Accounting Standard No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures* as of January 1, 2003.

The management's discussion and analysis on pages 3 through 8 and the information about infrastructure assets reported using the modified approach on page 28 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries and management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the Schedule of Capital and Non-capital Revenues and



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.



Expenses on page 29 is presented for purposes of additional analysis 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.

KPMG LLP

March 26, 2004

Susquehanna Area Regional Airport Authority

Management's Discussion and Analysis

December 31, 2003

This Management's Discussion & Analysis (MD&A) is a section of the annual report required by Government Accounting Standards Board Statement No. 34 (GASB 34). This section is intended to make the financial statements more understandable to the average reader not familiar with traditional accounting terminology.

The following MD&A of the Susquehanna Area Regional Airport Authority (SARAA) includes the activities and financial performance of the Harrisburg International Airport (HIA) and the Capital City Airport (CXY) and provides the reader with an introduction to SARAA's basic financial statements as of and for the year ended December 31, 2003. The information contained in the basic financial statements, including the notes, are essential to a full understanding of the financial statement data.

SARAA is a joint municipal authority created under the Pennsylvania Municipality Authorities Act of 1945. SARAA consists of representatives from the counties of Dauphin, Cumberland and York, the cities of Harrisburg and York, and the townships of Lower Swatara (Dauphin County) and Fairview (York County). These representatives are the governing body of SARAA.

SARAA's Activities and Highlights

In 2003, the traffic gains of 2002 were flat despite the war in Iraq, the SARS outbreak in Asia, numerous changes in the National Threat Level, the bankruptcies of US Airways and United Airlines and a decrease of nearly 6% of the available seats out of HIA. Throughout the year, United Airlines added flights to Chicago, Northwest Airlines added a new daily nonstop flight to Minneapolis/St. Paul, and in December, TransMeridian Airlines announced new low fare nonstop service from HIA to Orlando Sanford Airport beginning in February 2004.

The following table shows a summary of various activities.

	2003	2002	% +/-
Enplanements	670,269	676,738	(0.96 %)
Air Carrier Operations	43,725	48,354	(9.57 %)
Landed Weight	992,574,182	1,050,335,492	(5.50 %)
Cargo Tons	47,135.62	46,309.79	1.78 %
Parking (Transactions)	415,162	425,542	(2.44 %)

The airline industry faced a challenging business environment throughout 2003. Despite all of the challenges, HIA's enplanements decreased only .96% comparing 2003 and 2002. Air carrier operations were negatively impacted by schedule changes throughout 2003 which resulted in a decrease of 9.57%. Landed weights were also negatively impacted due to replacement of mainline jets with regional jets which resulted in a 5.50% decrease from 2002. Cargo Tons increased for the year. Parking transactions were affected by reduction of space availability in the short-term hourly lot and long-term daily lot located directly across from the main terminal which resulted in a decrease of 2.44% from 2002.

Financial Highlights

On May 8, 2003, SARAA issued Airport System Revenue Bonds, Series 2003A and Series 2003B (collectively, the Senior Series 2003 Bonds) in the aggregate principal amount of approximately \$105 million; and Subordinate Airport System Revenue Bonds, Series 2003C-1, Series C-2, Series 2003D, and Series 2003E (collectively, the Subordinate Series 2003 Bonds) in the aggregate principal amount of approximately \$73 million. The Senior Series 2003 Bonds and the Subordinate Series 2003 Bonds are collectively referred to in this report as the Series 2003 Bonds. The Series 2003 Bonds were issued to:

- Partially fund certain capital improvements at HIA, referred to in this report as the 2003 Project.
- Refund the entire outstanding balance of approximately \$15.6 million in Airport Revenue Notes, held by the Commerce Bank.
- Defease the entire outstanding balance of approximately \$9.1 million in bonds issued by the Dauphin County General Authority (DCGA) in order to finance automobile parking improvements at the Airport during the 1990s (the Public Parking Bonds)
- Pay the issuance and financing costs (including the establishment of reserves) associated with the Series 2003 Bonds

The Capital Program

SARAA has developed a Capital Program for the period 2002 to 2006 to provide needed improvements at HIA and CXY, to accommodate future passenger and aircraft activity levels, and to comply with expanded federal security requirements. The Capital Program encompasses: (1) the 2003 Project (including construction of a new terminal building and airside and landside improvements at HIA); (2) other projects at HIA (including demolition and remediation of Crawford Station); and (3) miscellaneous projects at CXY. The estimated cost of the Capital Program is \$233,395,000, not including costs of issuance, bond reserves and capitalized interest. Of this total, the 2003 Project represents estimated expenditures of \$223,341,000 (or 96% of the total expenditures).

The following table sets forth the budgeted costs of the Capital Program and its individual components. SARAA believes such budgeted costs include a reasonable contingency for completing the Capital Program.

Planned Capital Improvements: 2002 To 2006

	<u>Estimated Project Cost</u>
Harrisburg International Airport	
2003 Project	
Construct New Terminal and Related Work	\$90,693,000
Construct Terminal Loop Roadway	6,058,000
Construct Aircraft Parking Apron	31,101,000
Install Nav aids and Runway Lighting	9,147,000
Construct Parallel Taxiway, Taxilanes, Lighting, and Related Work	19,587,000
Construct Multimodal Transportation Center	54,619,000
Expand SmartPark	1,836,000
Construct Amtrak Station	<u>10,300,000</u>
	223,341,000
Other Projects	
Demolish and Remediate Crawford Station	4,000,000
Rehabilitate Flood Dike	500,000
Other Miscellaneous Projects	<u>2,165,000</u>
	6,665,000
Subtotal-Harrisburg International Airport	<u>\$230,006,000</u>
Capital City Airport	
Miscellaneous Projects	<u>\$ 3,389,000</u>
TOTAL Capital Program	<u>\$233,395,000</u>

Note: Excluding costs of bond issuance, bond reserves, and capitalized interest
Source: SARAA's Records

Financial Operation Highlights

While the events of September 11, 2001 continue to affect some operating revenues and expenses, the overall financial position actually improved as we had excess operating revenues over operating expenses (excluding depreciation expense) of \$1.2 million and increased net assets by \$20.8 million. Financial impacts are highlighted as follows:

- Operating revenues increased 1.5%, to almost \$14.1 million. Contributing to the change were increases in fees for landing aircraft and the parking of automobiles at HIA. The increased landing fee more than offset the decrease in landed weight. Also, parking rate increases boosted parking revenues by \$537 thousand even though there were less parking transactions. The Capital Program limited SARAA's rentals with old buildings that were being demolished. In addition, airfield ramp areas were being reconfigured to accommodate construction. In 2002, as the result of the events of September 11, 2001, SARAA received reimbursements to offset the costs of extra security expenses and additional security services that SARAA's police department performed as required by the Federal Aviation Authority (FAA) and the Transportation Security Administration (TSA). Similar reimbursements were not received in 2003.
- Operating expenses increased by 2.5% to \$17.6 million. The single largest factor (\$449 thousand) is the additional baggage handling services provided to passengers as all checked baggage is required to be screened by electronic detection machines (EDS) prior to being loaded into an aircraft. Utility and insurance also experienced large increases. Industry-wide insurance premiums have risen due the events of September 11, 2001. In addition, the frequent snows of the winter of 2003, culminated by a recordsetting President's Day snowstorm, also increased expenses.
- Passenger facility charges (PFC) increased as the rate per enplaned passenger increased to \$4.50 effective January 1, 2003 from \$3.00. This, along with additional grants received for the Capital Program, accounted for the increase in Non-operating revenues.
- Total net assets increased 37% or \$20.7 million due to the receipt of grants for the Capital Program.

Summary of Revenues and Expenses	2003	2002	Percent Increase (Decrease) from 2002
Operating revenues:			
Landing fees	\$ 2,151,314	2,031,809	5.9%
Concession fees	31,477	38,578	(18.4%)
Parking fees	4,591,329	4,054,319	13.2%
Car rental fees	1,430,120	1,475,936	(3.1%)
Facilities rental	3,837,458	4,027,443	(4.7%)
Other income	2,051,171	2,258,068	(9.2%)
Total operating revenues	14,092,869	13,886,153	1.5%
Operating expenses:			
Salaries, wages, payroll taxes and benefits	6,951,884	6,739,007	3.2%
Professional and consulting fees	379,826	321,481	18.1%
Marketing	1,125,972	1,166,234	(3.5%)
Insurance	566,537	469,732	20.6%
Utilities	973,998	853,532	14.1%
Repairs and maintenance	756,513	583,469	29.7%
Supplies, parts and other	2,075,726	1,609,146	29.0%
Management fees	79,068	60,000	31.8%
Depreciation	4,664,919	6,213,296	(24.9%)
Total operating expenses	17,574,443	18,015,897	(2.5%)
Operating loss	(3,481,574)	(4,129,744)	(15.7%)
Other non-operating revenues and expenses	1,543,535	1,452,066	6.2%
Capital contributions	22,677,244	11,811,361	91.9%
Increase in net assets	20,739,205	9,133,683	127.1%
Net assets at beginning of year	56,638,574	47,504,891	19.2%
Net assets at end of year	77,377,779	56,638,574	36.6%

Financial Position Summary

Over time, net assets may serve as a useful indicator of SARAA's financial position. SARAA's total assets exceeded total liabilities by \$77.4 million at December 31, 2003, a \$20.8 million increase. A condensed summary of SARAA's net assets at year end is shown below:

	<u>2003</u>	<u>2002</u>
Assets:		
Current and other assets	\$ 95,416,845	\$ 10,721,701
Capital assets, net	<u>187,528,142</u>	<u>80,278,203</u>
Total assets	<u>282,944,987</u>	<u>90,999,904</u>
Liabilities:		
Current liabilities	24,827,762	10,387,244
Long-term liabilities	<u>180,739,446</u>	<u>23,974,086</u>
Total liabilities	<u>205,567,208</u>	<u>34,361,330</u>
Net assets:		
Invested in capital assets, net of related debt	68,084,017	49,659,892
Restricted	5,570,794	3,794,486
Unrestricted	<u>3,722,968</u>	<u>3,184,196</u>
Total net assets	<u>\$ 77,377,779</u>	<u>\$ 56,638,574</u>

The largest component of SARAA's net assets (88% at December 31, 2003) represents its investments in capital assets (e.g., land, infrastructure, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets. Although SARAA's investment in its capital assets is reported net of the related debt, it should be noted that the resources required to repay this debt must be provided annually from operations, since it is unlikely that the capital assets themselves will be liquidated to pay liabilities.

The components of restricted net assets are limited to their use by external sources as described below:

- The Bond Resolution requires funds put aside to ensure the continued operation of the airports.
- The FAA requires the use of passenger facility charges collected from passengers by the airlines only for approved capital projects.

Unrestricted net assets may be used for any lawful airport system purpose.

Modified Approach Accounting for Infrastructure Assets

As allowed by GASB 34, SARAA has adopted, an alternative method to recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, SARAA expenses certain maintenance and preservation costs and does not report depreciation expense for the selected assets. Assets accounted for under the modified approach include approximately 6.7 million square feet of airfield pavement at HIA that SARAA is responsible to maintain. This includes one runway, six taxiways, and three ramps at HIA. SARAA has not adopted the modified approach for the runway and related infrastructure at CXY. SARAA will continue to depreciate these assets over their useful lives.

It is SARAA's policy to maintain all airfield pavement at HIA at a "good" or better condition level. SARAA will perform condition assessments of eligible infrastructure assets at least every three years. Airfield pavement assessments are conducted every year.

All airfield pavement at HIA was rated as "very good" in the last three condition assessments performed in the last two years. Only a minor amount of maintenance was necessary in the last few years with the largest expenditure being a runway rubber removal project in 2002 costing \$15,922.

Further information on the "Modified Approach" use on airfield infrastructure can be found in the Required Supplementary Information to the financial statements.

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Statement of Net Assets

December 31, 2003 with Partial Financial Information for
the Year ended December 31, 2002

Assets	<u>2003</u>	<u>2002</u>
Current assets:		
Cash (see Note 5)	\$ 1,181,025	576,445
Accounts receivable, less allowance for possible uncollectibles of \$129,350 in 2003 and in 2002	392,794	417,103
Due from governmental units	853,130	1,905,513
Prepays and other assets	107,363	125,971
Inventory	417,077	410,290
Land held for resale	478,500	507,492
Restricted investments, current portion (See Note 8)	<u>26,899,456</u>	<u>4,703,589</u>
Total current assets	<u>30,329,345</u>	<u>8,646,403</u>
Noncurrent assets:		
Restricted investments, less current portion (see Note 8)	<u>53,174,688</u>	<u>1,527,897</u>
Capital assets:		
Cost of capital assets	241,036,039	132,938,676
Less accumulated depreciation	<u>(53,507,897)</u>	<u>(52,660,473)</u>
Net capital assets (see Note 6)	187,528,142	80,278,203
Other assets:		
Notes receivable	100,561	114,255
Other assets	<u>11,812,251</u>	<u>433,146</u>
Total noncurrent assets	<u>252,615,642</u>	<u>82,353,501</u>
Total assets	<u>\$ 282,944,987</u>	<u>90,999,904</u>

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Statement of Net Assets

December 31, 2003 with Partial Financial Information for
the Year ended December 31, 2002

Liabilities and Equity	<u>2003</u>	<u>2002</u>
Current liabilities:		
Accounts payable	\$ 453,437	561,734
Accrued expenses	405,442	565,314
Accounts payable – construction	23,630,626	6,988,624
Amounts currently payable to airlines	—	153,074
Deferred revenue	—	410,322
Current portion of estimated costs of remediation	215,000	359,000
Current portion of long-term debt	123,257	1,349,176
Total current liabilities	<u>24,827,762</u>	<u>10,387,244</u>
Non-current liabilities:		
Estimated costs of remediation, less current portion	1,285,000	1,499,000
Long-term debt, less current portion (see Note 7)	179,390,507	22,448,966
Security deposits	63,939	26,120
Total non-current liabilities	<u>180,739,446</u>	<u>23,974,086</u>
Total liabilities	<u>205,567,208</u>	<u>34,361,330</u>
Net assets:		
Invested in capital assets, net of related debt	68,084,017	49,659,892
Restricted net assets	5,570,794	3,794,486
Unrestricted net assets	3,722,968	3,184,196
Total net assets	<u>77,377,779</u>	<u>56,638,574</u>
Total liabilities and net assets	<u>\$ 282,944,987</u>	<u>90,999,904</u>

See accompanying notes to financial statements.

**SUSQUEHANNA AREA REGIONAL
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Statement of Revenues, Expenses, and Changes in Fund Net Assets

December 31, 2003 with Partial Financial Information for
the Year ended December 31, 2002

	2003	2002
Operating revenues:		
Landing fees	\$ 2,151,314	2,031,809
Concession fees	31,477	38,578
Parking fees	4,591,329	4,054,319
Car rental fees	1,430,120	1,475,936
Facilities rental	3,837,458	4,027,443
Other income	2,051,171	2,258,068
Total operating revenues	14,092,869	13,886,153
Operating expenses:		
Salaries, wages, payroll taxes and benefits	6,951,884	6,739,007
Professional and consulting fees	379,826	321,481
Marketing	1,125,972	1,166,234
Insurance	566,537	469,732
Utilities	973,998	853,532
Repairs and maintenance	756,513	583,469
Supplies, parts and other	2,075,726	1,609,146
Management fees	79,068	60,000
Depreciation	4,664,919	6,213,296
Total operating expenses	17,574,443	18,015,897
Operating loss	(3,481,574)	(4,129,744)
Nonoperating revenues (expenses):		
Passenger facility charges	2,694,238	1,967,140
Investment income	19,515	29,850
Restricted investment income	11,336	89,587
Interest expense	(1,183,206)	(623,165)
Gain/(loss) on disposal of fixed assets	1,652	(11,346)
Total nonoperating expenses	1,543,535	1,452,066
Capital contributions		
Airport improvement grants	22,677,244	11,811,361
Increase in net assets	20,739,205	9,133,683
Net assets – beginning of year	56,638,574	47,504,891
Net assets – end of year	\$ 77,377,779	56,638,574

See accompanying notes to financial statements.

**SUSQUEHANNA AREA REGIONAL
AIRPORT AUTHORITY**

Statements of Cash Flows

December 31, 2003 with Partial Financial Information for
the Year ended December 31, 2002

	2003	2002
Cash flow from operating activities:	\$	
Cash received from customers	13,964,112	13,666,088
Cash paid to employees for services	(7,036,636)	(6,643,200)
Cash paid to suppliers for goods and services	(6,077,731)	(5,168,368)
Net cash provided by operating activities	849,745	1,854,520
Cash flows from capital and related financing activities:		
Proceeds from bond issuance	179,030,000	—
Deposits in bond trust funds	(143,868,110)	—
Net draws from bond trust funds	70,566,969	—
Bond issuance costs	(11,379,105)	—
Proceeds from loan for parking construction	917,723	836,762
Proceeds from loan for Smart Park buses	483,767	—
Proceeds from passenger facility charges	2,694,238	1,968,025
Debt service paid on bonds and bank debt	(30,035,578)	(2,116,696)
Additional investment in facilities and capital construction	(91,561,794)	(21,429,335)
Payments received from Federal and State agencies	23,319,298	11,172,450
Net cash provided (expended) for capital and related financing activities	167,408	(9,568,794)
Cash flows from investing activities:		
Non-restricted and restricted interest income	63,421	178,552
Proceeds on sale of land and equipment	1,652	(11,346)
Net sale (purchase) of investment securities	(477,646)	6,858,494
Net cash (used) provided by investing activities	(412,573)	7,025,700
Net increase (decrease) in cash	604,580	(688,574)
Cash at beginning of year - January 1	576,445	1,265,019
Cash at end of period - December 31	\$ 1,181,025	576,445
Reconciliation of operating income to net cash provided by operating activities:		
Net operating loss	\$ (3,481,574)	(4,129,744)
Depreciation expense	4,664,919	6,213,296
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	24,309	(83,625)
(Increase) decrease in inventory	(6,787)	(14,024)
(Increase) decrease in prepaids	18,608	19,629
(Increase) decrease in assets and liabilities	51,513	(327,062)
Increase (decrease) in accounts payable and accrued expenses	(268,169)	312,500
Decrease in amounts payable to airlines	(153,074)	(136,440)
Net cash provided by operating activities	\$ 849,745	1,854,530
Supplemental disclosure of cash flow information:		
Interest paid	\$ 4,988,968	731,601
Interest capitalized	4,165,400	164,355

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2003 with Partial Financial Information
for the Year ended December 31, 2002

(1) Reporting Entity

On January 2, 1998, the Commonwealth of Pennsylvania (Commonwealth), acting through the Pennsylvania Department of Transportation (PennDOT), transferred operation and ownership of the Harrisburg International Airport (HIA), located in Lower Swatara Township, Dauphin County, Pennsylvania, and Capital City Airport (CXY), located in Fairview Township, York County, Pennsylvania (Airports), to the Susquehanna Regional Airport Authority (SARAA), a joint municipal authority duly created under the Pennsylvania Municipality Authorities Act of 1945. The assets and obligations of the Airports, as well as the assignment of all leases, agreements, permits and approvals were transferred to SARAA in consideration of a one-dollar payment to the Commonwealth.

SARAA was organized as a joint authority by the Counties of Dauphin, Cumberland, and York; the Cities of Harrisburg and York; and the Townships of Fairview and Lower Swatara. Each of the municipalities appoints representatives to serve for 5-year terms on the authority's board of directors that consists of 15 directors. Each county appoints three board members, each city appoints two board members, while each of the two townships appoints one director. A Director of Aviation and a Deputy Director of Aviation are appointed to act on behalf of the board in connection with administration of the operational responsibilities retained by SARAA.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting and Measurement Focus

The financial statements of SARAA have been prepared using the economic resources measurement focus and the accrual basis of accounting whereby all revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

(b) Basis of Presentation

The Airport applies all Governmental Accounting Standards Board (GASB) pronouncements and only Financial Accounting Standards Board Statements (FASB) and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

In 2003, SARAA adopted the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Disclosures*.

Under these new standards, SARAA follows the reporting requirements for special purpose governments involved in business-type activities, which provide an entity-wide perspective in the financial statement presentation. These standards require presentation of management's discussion and analysis, as required supplementary information and presentation of a statement of net assets, statement of revenues, expenses and changes in net assets using a specified format which distinguishes between operating and nonoperating revenues and expenses, and statement of cash flows using the direct method.

**SUSQUEHANNA AREA REGIONAL
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Notes to Financial Statements

December 31, 2003 with Partial Financial Information
for the Year ended December 31, 2002

The Statement of Net Assets presents SARAA's assets and liabilities, with the difference reported as net assets. Net assets are categorized into three components; capital assets, net of related debt, restricted and unrestricted. Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets. Restricted net assets result when constraints placed on net asset use are either externally imposed by law through constitutional provisions or enabling legislation. Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. The implementation of these standards had no impact on the amount of SARAA's net assets.

The information presented for 2002 has been restated to conform with these standards for comparative purposes.

(c) Revenue Recognition

Revenue is recognized on an accrual basis with the establishment of corresponding accounts receivable. The allowance method for accounts receivable is used to measure bad debts. The allowance for doubtful accounts is determined based upon analysis and management's estimation of collectibility of such accounts.

(d) Cash

SARAA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(e) Investments

Investments are stated at fair value based on estimates from external investment managers and quoted market prices.

(f) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method.

**SUSQUEHANNA AREA REGIONAL
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Notes to Financial Statements

December 31, 2003 with Partial Financial Information
for the Year ended December 31, 2002

(g) Capital Assets

Capital assets are stated at cost. Assets acquired by grant or bequest are recorded at their fair value on date of transfer. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building, including parking facility	3 - 30 years
Utilities and sewers	10 - 50 years
Runways, taxiways and aprons	3 - 20 years
Roads and parking areas	4 - 20 years
Heavy equipment and fixtures	3 - 25 years
Vehicles	3 - 15 years
Facility planning, design and other studies	5 - 20 years

Expenditures for capital assets and for major renewals and betterments that extend the estimated useful life of the assets are capitalized, while routine maintenance and repairs are charged to expense as incurred. At the time fixed assets are sold, retired, or disposed of, the costs of such assets and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in the results of operations. All costs relating to the construction of property and equipment owned by SARAA are capitalized including interest. The amount of interest incurred for 2003 is \$5,348,606 of which \$4,165,400 was capitalized (net of \$810,686 related investment earnings).

SARAA has elected to use the modified approach to report the runway, six taxiways and three ramps at HIA. Under this approach, SARAA does not record depreciation expense. In addition, amounts expended in connection with improvements to these assets are not capitalized unless the improvements expand the capacity or efficiency of the asset. Utilization of this approach requires SARAA to 1) commit to maintaining the preserving the assets at or above a condition level established by SARAA, 2) to maintain an inventory of the asset and perform periodic condition assessments to ensure that the condition level is being maintained and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. See page 28 for a complete discussion and disclosure.

SARAA has not adopted the modified approach for the runway and related infrastructure at CXY. SARAA will continue to depreciate these assets over their useful lives.

(h) Passenger Facility Charges

Effective February 1, 1997, SARAA began assessing passenger facility charges of \$3 per passenger enplanement. Beginning January 1, 2003, the PFC was raised to \$4.50. The passenger facility charges are recorded as nonoperating revenues because they can be expended on capital and debt service approved by the federal government. (See note 12)

(i) Capital Contributions

Certain expenditures for airport capital improvements receive significant federal funding through the Airport Improvement Program of the FAA. Funds are also received for airport development from

**SUSQUEHANNA AREA REGIONAL
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Notes to Financial Statements

December 31, 2003 with Partial Financial Information
for the Year ended December 31, 2002

the Commonwealth. The balance of such expenditures is funded by the Airports' operation. Capital funding is recorded as capital contributions.

(j) Debt Issuance Costs

Debt issuance costs have been capitalized and are amortized to interest expense using the straight-line method over the term of the associated loan. Amortization expense for years ended December 31, 2003 and 2002 amounted to \$216,155 and \$17,410, respectively.

(k) Use of Estimates

Management of SARAA has made a number of estimates and assumptions relating to the reporting of assets and liabilities, recognition of revenue and expenses, and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from the estimates.

(l) Operating and Nonoperating Classification

The policy of SARAA is to report as operating revenues and expenses items that result from providing services in connection with the principal ongoing activities of the Authority. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Included within nonoperating revenues would be such items as passenger facility charges, capital and related financing activities and investing activities.

(m) Restricted Assets

Proceeds from debt and funds set aside for payment of debt are classified as restricted assets since their use is limited by applicable debt agreements. It is SARAA's policy to first apply restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

(n) Comparative Information

The basic financial statements include certain prior-year partial comparative information but does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Specifically, information for 2002 related to capital assets (See note 6) and changes in long-term liabilities (See note 7) is not presented. Accordingly, such information should be read in conjunction with SARAA's financial statements for the year ended December 31, 2002, from which the partial information was derived.

(3) HIA Parking Facility Operation

The airport parking facilities were leased to Dauphin County General Authority (DCGA) until May 14, 2003. DCGA operated and maintained all parking facilities at HIA, including the funding of any capital improvements through the issuance of bonds. Beginning on May 15, 2003, SARAA directly contracts the operation of the parking facilities.

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Revenues and expenses related to these facilities was accounted for by DCGA and any monthly revenues in excess of expenses are provided to SARAA. Administrative and management fees amounted to \$79,068 and \$60,000 for the years ended December 31, 2003 and 2002, respectively.

(4) Major Customers

US Airways and its affiliates account for approximately 11% of airport operating revenues for 2003 and approximately 12% for 2002. Approximately 37% of total 2003 HIA enplanements and approximately 42% of total 2002 HIA enplanements are attributable to their operations.

US Airways has been significantly impacted by various factors in addition to the events of September 11, 2001, resulting in reduction in both its operating schedule and earnings from operations, as well as the incurrence of material operating and net losses. On August 11, 2002, US Airways filed for protection under Chapter 11 of the US Bankruptcy Code. The U.S. Bankruptcy Court judge has ruled that all necessary requirements have been met to implement its reorganization, and the creditors have voted to accept the reorganization plan. The Company emerged from the Chapter 11 bankruptcy August 11, 2003. SARAA's management believes that the bankruptcy filed by US Airways did not have a significant impact on HIA's operations due to the fact that there have not been significant changes in the flight schedules at HIA. The Airport wrote-off \$22,846 in pre-bankruptcy receivables during 2002 and had \$8,797 and \$93,023 in receivables from US Airways and its affiliates at December 31, 2003 and 2002.

Additionally, United Airlines and its commuter affiliate United Express provided 20% of enplanements in 2003 and 16% in 2002. United Airlines announced on December 9, 2002, that it had filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The Authority wrote-off \$28,696 in pre-bankruptcy receivables during 2002, and as of December 31, 2003, United Airlines and its commuter affiliate United Express were current with their payments.

(5) Cash and Restricted Investments

Pennsylvania statutes govern that funds must be deposited in government-insured accounts in banks or thrifts and may not be deposited in financial institutions located in states other than Pennsylvania. Permissible investments include obligations of U.S. Treasury and agencies, domestic certificates of deposit, commercial paper with prescribed ratings, and repurchase agreements. The terms of the investments and the financial institutions used for investment purposes are determined based upon operating and other needs of SARAA.

The fair value of deposits and investment securities by type of investment are:

	<u>2003</u>	<u>2002</u>
Checking accounts	\$ 1,181,025	576,445
Money market trusts	77,921,342	6,227,906
U.S. government obligations	2,085,354	—
Accrued investment income	<u>67,448</u>	<u>3,580</u>
Total deposits and investment securities	<u>\$ 81,255,169</u>	<u>6,807,931</u>

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Deposits of SARAA with financial institutions are categorized by custodial credit risk as follows:

	2003	
	Carrying value	Bank balance
Cash on deposit:		
Insured by Federal Deposit Insurance Corporation	\$ 200,000	200,000
Uninsured – cash on deposit and on hand	981,025	2,092,978
Total deposits	\$ 1,181,025	2,292,978

SARAA’s investments are categorized to give an indication of the level of custodial credit risk assumed by the entity. Category 1 includes investments that are insured or registered, or for which the securities are held by SARAA or its agent in the SARAA’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in SARAA’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in SARAA’s name. All investments are Category 3 except for the money market trusts which cannot be categorized.

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(6) Capital Assets

Capital assets consist of the following:

	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
Capital assets not being depreciated:				
Land and improvements	\$ 13,688,810	261,781	—	13,950,591
Construction in progress	25,565,505	109,581,085	1,223,437	133,923,153
Runway, taxiways and aprons	18,394,233	—	—	18,394,233
Total capital assets, not being depreciated	<u>57,648,548</u>	<u>109,842,866</u>	<u>1,223,437</u>	<u>166,267,977</u>
Capital assets being depreciated:				
Buildings, including parking facility	31,477,328	42,705	3,162,423	28,357,610
Land improvements	1,357,391	807,452	—	2,164,843
Runways, taxiways and aprons	5,177,448	840,478	28,598	5,989,328
Utilities and sewers	8,383,671	4,653	12,544	8,375,780
Roads and parking areas	14,403,909	1,417	—	14,405,326
Heavy equipment, furniture, and fixtures	6,757,282	146,907	701,973	6,202,216
Vehicles	5,149,268	1,556,149	44,199	6,661,218
Facility planning, design and other studies	2,583,831	27,910	—	2,611,741
Total capital assets being depreciated	<u>75,290,128</u>	<u>3,427,671</u>	<u>3,949,737</u>	<u>74,768,062</u>
Less accumulated depreciation for:				
Building, including parking facility	22,496,354	2,101,116	3,162,423	21,435,047
Land improvements	235,105	212,423	—	447,528
Runways, taxiways and aprons - depreciated	4,121,619	192,547	28,598	4,285,568
Runways, taxiways and aprons - nondepreciated	8,576,149	—	—	8,576,149
Utilities and sewers	3,132,002	336,882	12,544	3,456,340
Roads and parking areas	6,338,904	574,270	—	6,913,174
Heavy equipment, furniture, and fixtures	4,507,263	620,235	701,973	4,425,525
Vehicles	2,722,790	519,095	34,658	3,207,227
Facility planning, design and other studies	530,287	231,052	—	761,339
Total accumulated depreciation	<u>52,660,473</u>	<u>4,787,620</u>	<u>3,940,196</u>	<u>53,507,897</u>
Total capital assets, being depreciated, net	<u>22,629,655</u>	<u>(1,359,949)</u>	<u>9,541</u>	<u>21,260,165</u>
Capital assets, net	<u>\$ 80,278,203</u>	<u>108,482,917</u>	<u>1,232,978</u>	<u>187,528,142</u>

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As part of the ongoing construction (see note 16), various fixed assets will be demolished or discontinued in use. Management has shortened the useful lives of these assets to correspond to the construction schedule. The major assets affected are Concourse B, loading bridges, general aviation taxiways and the flight information display system. The effect of the adjustment to depreciable lives is an increase in depreciation expense of \$1,059,587 for 2002 and as a result was fully depreciated.

During 2003 and 2002, construction in progress relates to the planning stages and construction costs related to the capital improvement plan and the new terminal plan.

(7) Long-term debt

SARAA issued the following bonds to provide funds for the construction of major capital facilities.

(a) Senior and Subordinate Airport System Revenue Bonds

On May 8, 2003 the SARAA issued \$179,030,000 of bonds detailed below.

Senior airport system revenue bonds:	Amount
Series A of 2003. Consists of serial bonds with interest rates from 4.875% to 5.5% and term bonds with a 5% interest rate with final maturity in 2028.	\$ 55,025,000
Series B of 2003. Term bonds with an interest rate of 5% with final maturity in 2033.	48,845,000
Subordinate airport system revenue bonds:	
Series C-1 of 2003. PARS bonds with variable interest rate set by weekly auction with final maturity in 2010. (.98% at December 31, 2003)	15,125,000
Series C-2 of 2003. PARS bonds with variable interest rate set by weekly auction with final maturity in 2010. (1.0% at December 31, 2003)	19,350,000
Series D of 2003. Term bonds with an interest rate of 5.375% with final maturity in 2018.	20,685,000
Series E of 2003. Consists of serial bonds with interest rates from 2.4% to 4.79% with final maturity in 2012.	20,000,000
Total	\$ 179,030,000

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The purpose of the bonds is to finance a portion of the construction costs of the new terminal building, multi modal transportation facility, terminal loop road, Navajds and runway lighting, and parallel taxiway and related work. The bonds were also used to refund SARAA's outstanding Airport Revenue Notes, Series A of 2000, Series C of 2000, Series D of 2000 and Series A of 2002. The bond issuance is also used to defease and redeem the DCGA's Revenue Bonds, Series of 1995 and to pay the costs of issuance of the 2003 bonds.

(b) Annual Debt Service Requirements to Maturity

The annual requirements to pay principal and interest to maturity on the Senior and Subordinate airport revenue bonds outstanding at December 31, 2003 are summarized as follows:

	Senior airport system revenue bonds		Subordinate airport system revenue bonds	
	Principal	Interest	Principal	Interest
2004	\$ —	\$ 5,307,131	\$ —	\$ 3,601,548
2005	—	5,307,131	—	3,333,310
2006	—	5,307,131	8,075,000	2,813,948
2007	—	5,307,131	10,065,000	2,479,989
2008	—	5,307,131	11,215,000	2,090,868
2009-2013	—	26,535,655	28,575,000	6,297,186
2014-2018	2,545,000	26,395,680	17,230,000	1,689,899
2019-2023	25,750,000	21,776,299	—	—
2024-2028	33,205,000	14,074,500	—	—
2029-2033	42,370,000	4,443,250	—	—
Total	\$ 103,870,000	\$ 119,761,039	\$ 75,160,000	\$ 22,306,748

(c) Advance Refunding of Public Parking Revenue Bonds

A portion of the proceeds from the 2003E Bonds were used to provide funds to defease and redeem outstanding DCGA Revenue Bonds, Series 1995 (Harrisburg International Airport Project). The 2003E bonds and moneys from established under the DCGA indenture provided resources to purchase United States Treasury Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$10,410,950 of the DCGA bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount by \$734,359. This amount is being netted against the old debt and amortized over the life of 2003E bonds, which is shorter than the remaining life of the refunded DCGA bonds. The advance refunding was undertaken so SARAA could gain complete control over the parking revenues of HIA as they restructured all of their long-term debt. The economic loss on the refunding was \$10,285.

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(d) Payment of Airport Revenue Notes

SARAA issued the following bonds to pay existing Airport Revenue Notes as listed below. SARAA used the notes as temporary refinancing until this series of bonds was issued to refinance the original airport debt taken over from the Commonwealth of Pennsylvania and debt for the construction of additional parking facilities in 2002. The primary purpose of the bonds is to finance a portion of the construction costs of the new terminal building, multi modal transportation facility, terminal loop road, Navajids and runway lighting, and parallel taxiway and related work. The reacquisition price equaled the net carrying amount of debts.

<u>Name</u>	<u>Tax Status</u>	<u>Bond Amount</u>	<u>Note Repaid</u>	<u>Note Payoff</u>
Airport System Revenue Bonds, Series 2003A	AMT	\$ 55,025,000	Airport Revenue Note, Series A of 2000	\$ 11,455,890
Airport System Revenue Bonds, Series 2003B	Non-AMT	48,845,000	Airport Revenue Note, Series A of 2002	1,757,820
Airport System Revenue Bonds, Series 2003B	Non-AMT	48,845,000	Airport Revenue Note, Series D of 2000	1,612,298
Federally Taxable Subordinate Airport System Revenue Bonds, Series 2003E	Taxable	20,000,000	Airport Revenue Note, Series C of 2000	605,187

(e) Rate Covenants

SARAA must meet certain financial and other covenants. SARAA believes it was in compliance with such covenants as of December 31, 2003.

Senior bonds

Net revenues for each fiscal year shall equal to Senior bonds debt service required to be funded by SARAA plus required deposits to the Maintenance and Operations Reserve Fund and Renewal and Replacement Fund. New revenues together with the amount in the Coverage Account shall also equal 125% of Senior bonds debt service.

Subordinate bonds

Net revenues for each fiscal year shall equal to Senior and Subordinate bonds debt service required to be funded by SARAA plus required deposits to the Maintenance and Operations Reserve Fund and Renewal and Replacement Fund. Net revenues together with the amount in the Coverage account shall also equal 110% of Senior and Subordinate bonds debt service.

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(f) Changes in Long-term Liabilities

	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003	Due within one year
Long-term debt:					
Senior revenue bonds	\$ —	103,870,000	—	103,870,000	—
Subordinate revenue bonds	—	75,160,000	—	75,160,000	—
Airport revenue notes	14,683,142	—	14,683,142	—	—
Parking revenue bonds	9,115,000	—	9,115,000	—	—
Total long-term debt	<u>23,798,142</u>	<u>179,030,000</u>	<u>23,798,142</u>	<u>179,030,000</u>	
Other long-term liabilities:					
Capital leases	—	678,885	195,121	483,764	123,257
Estimated costs of remediation	1,858,000	1,000	359,000	1,500,000	215,000
Security deposits	26,120	63,689	25,870	63,939	—
Total long-term liabilities	<u>\$ 25,682,262</u>	<u>179,773,574</u>	<u>24,378,133</u>	<u>181,077,703</u>	<u>338,257</u>

(8) Restricted Investments

SARAA is required to restrict assets for various purposes in accordance with the terms of airline use agreements, bond ordinances, and other contractual agreements applicable to SARAA. A summary of the restricted assets consist of the following:

	2003	2002
Maintenance and operating reserve account	\$ 634,110	1,030,444
Renewal and replacement account	504,215	501,919
Owners' Controlled Insurance program	947,027	—
Security deposits	63,689	27,397
Passenger facility charges	3,211,409	2,175,678
Debt service reserve	15,180,919	1,157,838
Capital improvement account	1,204,999	964,571
Construction fund	49,604,375	—
Investment stock	6,099	—
Coverage account	134,005	—
Debt service fund	8,515,849	—
Revenue trust funds	—	368,498
Project trust funds	—	1,561
Total	<u>80,006,696</u>	<u>6,227,906</u>
Accrued income	<u>67,448</u>	<u>3,580</u>
Total Restricted Investments	<u>\$ 80,074,144</u>	<u>6,231,486</u>
Less current portion	<u>(26,899,456)</u>	<u>(4,703,589)</u>
Long-term portion	<u>\$ 53,174,688</u>	<u>1,527,897</u>

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Assets are identified to support airport operations. The operation and maintenance reserve fund must be maintained at a balance at least equal to one-sixth of SARAA's current operating and maintenance budget as a contingency reserve for payment of operation and maintenance expenses. Assets of the renewal and replacement fund are used to pay for emergency repairs or emergency replacement of property at HIA. The capital improvement account represents all remaining revenues to be used by SARAA for any lawful aviation purposes. Security deposits represent amounts escrowed on behalf of certain airport tenants. Passenger Facility Charges (PFC) represent PFC's collected by the airport not yet authorized to be used by the Federal Aviation Administration.

(9) Capital Leases

SARAA has entered into a lease agreement as lessee for financing the acquisition of three 2002 Thomas Transit Buses for shuttle service to the remote parking lot. The agreement was assumed from the prior parking operator, DCGA. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The net book value of the buses as of December 31, 2003 is \$454,946 consisting of the cost of \$678,885 less accumulated depreciation of \$223,939.

The future minimum lease obligations and net present value of these minimum lease payments as of December 31, 2003, were as follows:

Year Ending December 31	Minimum lease payments
2004	\$ 144,512
2005	144,512
2006	144,512
2007	96,356
Total minimum lease payments	529,892
Less: amount representing interest	46,128
Present value of minimum lease payments at December 31, 2003	483,764
Less: current portion	123,257
Long term portion	\$ 360,507

(10) Operating Leases

Rental Income from Operating Leases

SARAA leases space at HIA, including airport property assigned to the Industrial Park, and CXY on a fixed fee as well as contingent rental basis. Many of the leases provide for a periodic review and redetermination of the rental amounts.

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Minimum future rentals on noncancelable leases to be received in each of the next five years and as of December 31, 2003, are as follows:

	<u>Airline agreements</u>	<u>Other leases</u>	<u>Total</u>
2004	\$ 2,998,342	1,301,778	4,300,120
2005	—	1,099,134	1,099,134
2006	—	1,043,589	1,043,589
2007	—	824,478	824,478
2008	—	539,913	539,913
2009-2013	—	2,743,736	2,743,736
2014-2018	—	2,163,926	2,163,926
2019-2023	—	1,464,198	1,464,198
2024-2028	—	1,106,661	1,106,661
2029-2033	—	817,330	817,330
2034-2038	—	76,150	76,150
Total	<u>\$ 2,998,342</u>	<u>13,180,893</u>	<u>16,179,235</u>

SARAA is currently in negotiations with the signatory airlines regarding a proposed new airline agreement.

(11) Retirement Benefits

SARAA has established a 401(a) retirement plan (Plan) for its employees. All full time employees are eligible to participate. The Plan is entirely funded through SARAA contributions amounting to eight percent of full-time employee salary and wages for employees hired prior to May 1, 2003. Full-time employees hired after May 1, 2003 only have up to four percent of employee salary and wages if it is matched by the employee's contributions to the 457(b) plan. SARAA contributions to the plan amounted to \$352,922 in 2003 and \$323,873 in 2002, respectively. There are no employee contributions to the Plan.

SARAA has established a 457(b) defined contribution plan (Plan) for the benefit of all of its employees. This Plan allows for employees to elect to make contributions either in a dollar amount or percentage not exceeding fifteen percent of the employee's total salary or wages. SARAA does not make any employer contributions to this plan.

(12) PFC Applications

On January 29, 1999 SARAA filed with the FAA a second PFC application. The application requested authorization to recover through PFC collections approximately \$772,000 that had previously been charged to the airlines. In recognition of this application, SARAA made a charge to non-operating income in 1998 in the amount of \$772,000. This charge was credited to the airlines on a straight-line basis in determining their fees payable to the airport under the airline agreement over five years. 2003 was the final year of the credit.

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On December 24, 1999 SARAA filed with the FAA a third PFC application for various airport improvement projects. The application as amended is in the amount of \$4.2 million, the projects will be funded through December 31, 2002.

In October 2002, pursuant to a fourth PFC application, SARAA received approval to collect a \$4.50 PFC on each enplaning passenger, effective January 1, 2003, to finance certain projects at the airport totaling approximately \$71 million. Among the projects to be financed by the \$4.50 PFC's collected are portions of the construction of the new terminal building, terminal loop road, nav aids and runway lighting, and parallel taxiway and related work. SARAA has irrevocably committed \$2,100,000 per year of PFC collections to debt service on the 2003A and 2003B bonds from 2005 to 2008.

(13) Environmental Liabilities and Contingencies

SARAA has identified various environmental hazards at certain of its properties. Remediation costs that mitigate or prevent future environmental contamination or extend the life, increase the capacity, or improve the safety or efficiency of property utilized in current operations are capitalized. Environmental liabilities are recorded when SARAA's liability is probable and the costs are reasonably estimable, but generally not later than the completion of the feasibility study or SARAA's recommendation of a remedy or commitment to an appropriate plan of action. The accruals are reviewed periodically and, as investigations and remediations proceed, adjustments are made as necessary. Accruals for losses from environmental remediation obligations at several of SARAA owned facilities are recorded at the low end of range (\$1,500,000) estimates when point estimates are not available, do not consider the effects of inflation, and anticipated expenditures are not discounted to their present value. In addition, the costs for any demolition of contaminated buildings are not included in the accrual. The accruals are not reduced by possible recoveries from federal and state grants. The measurement of environmental liabilities by SARAA is based on currently available facts, present laws and regulations, and current technology. Such estimates take into consideration SARAA's prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities, and the professional judgment of SARAA's environmental experts in consultation with outside environmental specialists, when necessary.

On April 16, 1997 PennDOT, the Pennsylvania Department of Environmental Protection (DEP), and the U.S. Department of Environmental Protection entered into a Memo of Understanding (MOU) that required PennDOT to operate a water treatment facility and comply with other institutional controls. SARAA must operate the water plant and pump a minimum volume of ground water from several wells on airport property to control a plume of ground water contamination that exists on the property. Well water that is pumped is treated, and subsequently sold to airport and off-airport tenants as potable water. As provided in the MOU, in the event that SARAA reduces the production of the amount of well water pumped by twenty-five percent (25%), SARAA will notify DEP, and DEP may require the implementation of a groundwater monitoring program, including, but not limited to, sampling and analysis of HIA wells. SARAA believes it has operated the water plant and pump in accordance with this agreement and thus has not recorded a liability.

In 2000, SARAA was named as a defendant by Stambaugh's Air Service, Inc. for non-renewal of its contract as SARAA's fixed based operator. Stambaugh has filed a complaint alleging seven counts of

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violations of due process and other matters and is seeking damages of \$42,500,000. The Magistrate Judge has dismissed all but two counts against SARAA however, Stambaugh has filed an objection. Although the outcome of this legal proceeding cannot be predicted with certainty, SARAA believes the claim is without merit and is aggressively defending itself. In June 2002, Stambaugh filed for Chapter 11 bankruptcy protection. An order staying all action has been issued by the Court until Stambaugh is discharged from bankruptcy. SARAA has not recorded any loss provision relative to damages sought by Stambaugh.

SARAA is involved in various legal matters in the normal course of business. Considering available information, management does not believe that resolution of any such matters will have a material impact on the financial statements.

(14) Commitments

On March 26, 2002 the SARAA Board of Directors authorized the commencement of design of the following capital projects at HIA: construction of a new airport terminal building; construction of terminal aircraft ramps; extension of the terminal approach roadway; construction of a multi-model transit center; remediation and demolish of existing buildings; construction of a new parallel taxiway system; installation of a CAT III instrument landing system; and the construction of a new Amtrak railway station. The final contract amount to date is \$224,479,074 with funding coming from the FAA, Pennsylvania Department of Transportation, general airport revenue bonds, passenger facility charges and other federal surface transportation funds. Completion of construction is expected by 2006.

The following summarizes the value of remaining commitments related to the projects described above:

Construct new terminal and related work	\$ 45,558,228
Construct parallel taxiway, taxilanes, lighting, and related work	2,981,556
Terminal aircraft parking apron – new terminal	17,487,882
Multimodal transportation center	28,147,283
Construct terminal loop road	1,781,053
Nav aids and runway lighting	3,222,831
AMTRAK station	476,335

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*, SARAA has adopted, effective for 2003 and thereafter, an alternative process to recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, SARAA expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 6.7 million square feet of airfield pavement at the HIA that SARAA is responsible to maintain. This includes the runway, six taxiways, and three ramps. SARAA has not adopted the modified approach for the runway and related infrastructure at CXY. SARAA will continue to depreciate these assets over their useful lives.

The condition of SARAA's pavement is measured using the Pavement Condition Index (PCI) system, which is based on the extent and severity of various pavement distresses that are visually observed. The PCI system uses a measurement scale that is based on a condition index ranging from 0 for very poor pavement to 100 for pavement in very good condition.

It is SARAA's policy to maintain all of its airfield pavement at HIA at a good (61-75) or better condition level. Airfield pavement assessments are conducted every year. The most recent assessment was performed in June 2003. HIA performs inventory on infrastructure assets annually.

Pavement Condition Index (PCI) Ratings Scale

Very Good	76-100
Good	61-75
Fair	51-60
Poor	26-50
Very Poor	0-25

HIA Airfield Pavement PCI Ratings

<u>Pavement Section</u>	<u>2003</u>
Runway #13-31	97
Taxiway- Main	98
Taxiways- Connector- 5	100
Ramps- 3	77
Overall Score	93

In 2003, only minor maintenance was performed on HIA's airfield pavement using SARAA's personnel and supplies. As only \$1,900 was spent on this maintenance, no budget amount was identified as a comparative amount. Prior to 2003, no system was in place to accumulate costs of maintaining the airfield pavement, though it is known to be immaterial, with costs similar to 2003.

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Schedule of Capital and Non-capital Revenues and Expenses

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	2003	2002
Non-capital related revenues:		
Landing fees	\$ 2,151,314	2,031,809
Concession fees	31,477	38,578
Parking fees	4,591,329	4,054,319
Car rental fees	1,430,120	1,475,936
Facilities rental	3,837,458	4,027,443
Other income	2,051,171	2,258,068
Investment income	19,515	29,850
Non-capital related revenues	14,112,384	13,916,003
Non-capital related expenses:		
Salaries, wages, payroll taxes and benefits	6,951,884	6,739,007
Professional and consulting fees	379,826	321,481
Marketing	1,125,972	1,166,234
Insurance	566,537	469,732
Utilities	973,998	853,532
Repairs and maintenance	756,513	583,469
Supplies, parts and other	2,075,726	1,609,146
Management fees	79,068	60,000
Non-capital related expenses	12,909,524	11,802,601
Excess of non-capital related revenues over non-capital related expenses	1,202,860	2,113,402
Capital related revenues (expenses):		
Restricted investment income	11,336	89,587
Passenger facility charges collected, including interest	2,694,238	1,967,140
Airport Improvement Grants	22,677,244	11,811,361
Depreciation	(4,664,919)	(6,213,296)
Interest expense	(1,183,206)	(623,165)
(Gain) loss on disposal of fixed assets	1,652	(11,346)
Excess of capital related revenue over capital related expenses	19,536,345	7,020,281
Increase in net assets	20,739,205	9,133,683
Net assets, beginning of year	56,638,574	47,504,891
Net assets, end of year	\$ 77,377,779	56,638,574

See accompanying independent auditors' report.

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APPENDIX C DEFINITIONS

Set forth below are definitions of certain terms used in this Official Statement, the Master Trust Indenture (the "Master Indenture") as supplemented by the First Supplemental Trust Indenture and the Second Supplemental Trust Indenture (collectively, the "Indenture") and the Master Subordinate Trust Indenture (the "Master Subordinate Indenture") as supplemented by the First Supplemental Subordinate Trust Indenture and the Second Supplemental Subordinate Trust Indenture (collectively, the "Subordinate Indenture").

Reference hereby is made to the provisions of the Indenture and the Subordinate Indenture for a complete recital of the terms defined therein, some of which are set forth below. Copies of the Indenture and the Subordinate Indenture are on file at the Trustee's corporate trust office in Harrisburg, Pennsylvania.

"Account" or "Accounts" means an account or accounts, as applicable, created within a Fund pursuant to the Indenture or any Supplemental Indenture.

"Accreted Value" means, as of any date of calculation, the sum of the initial principal amount of any Capital Appreciation Bond plus the interest accumulated and unpaid thereon as of a date certain specified for such calculation, determined in accordance with the provisions of the Indenture authorizing the issuance of such Capital Appreciation Bond.

"Act" means the Municipality Authorities Act, 53 Pa. C.S. § 5601 *et seq.*, as amended and supplemented.

"Administrative Expenses" means compensation and expenses of officers and members of the Authority; legal, printing, advertising, engineering, architectural and auditing fees and expenses; fees and expenses of the Trustee, Subordinate Trustee and any other authorized depository and other items of general administrative expense incurred by the Authority, all of the foregoing being subject to proper allocation to various projects of the Authority, if applicable.

"Aggregate Annual Debt Service" means for any Fiscal Year with respect to any Bonds or Subordinate Bonds the aggregate amount of Annual Debt Service on all Outstanding Bonds and Unissued Program Bonds. For purposes of calculating Aggregate Annual Debt Service, the following components of debt service shall be computed as follows:

(a) in determining the amount of principal to be funded in each year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Bonds and Unissued Program Bonds in accordance with any amortization schedule established by the governing documents setting forth the terms of such Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Bonds maturing or scheduled for redemption in such year; in determining the amount of interest to be funded in each year, interest payable at a fixed rate shall (except to the extent subsection (b), (c) or (d) of this definition applies) be assumed to be made at such fixed rate and on the required funding dates; provided, however, that interest payable on the Bonds shall be excluded to the extent such payments are to be paid from Capitalized Interest for such Fiscal Year;

(b) if all or any portion or portions of an Outstanding Series of Bonds or Unissued Program Bonds constitute Balloon Indebtedness (excluding Program Bonds or Unissued Program Bonds to which subsection (f) applies), then, for purposes of determining Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness shall, unless otherwise provided in the Supplemental Indenture pursuant to which such Balloon Indebtedness is issued or unless provision (c) of this definition then applies to such maturity, be treated as if it were to be amortized over a term of not more than 30 years and with substantially level annual debt service funding payments commencing not later than the year following the year in which such Balloon Indebtedness was issued, and extending not later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation shall be that

rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Authority, or if the Authority fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under the Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Bonds, Unissued Program Bonds or Program Bonds only a portion of which constitutes Balloon Indebtedness, the remaining portion shall be treated as described in (a) above or such other provision of this definition as shall be applicable and, with respect to any Series of Bonds, Unissued Program Bonds or Program Bonds or that portion of a Series of Bonds thereof which constitutes Balloon Indebtedness, all funding requirements of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness shall be treated as described in (a) above or such other provision of this definition as shall be applicable;

(c) any maturity of Bonds which constitutes Balloon Indebtedness as described in provision (b) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation of Aggregate Annual Debt Service is made, shall be assumed to become due and payable on the stated maturity date and provision (b) above shall not apply thereto unless there is delivered to the entity making the calculation of Aggregate Annual Debt Service a certificate of an Authorized Authority Representative stating that the Authority intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Authority is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness shall be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms shall be used for purposes of calculating Aggregate Annual Debt Service, provided that such assumption shall not result in an interest rate lower than that which would be assumed under provision (b) above and shall be amortized over a term of not more than 30 years from the date of refinancing;

(d) if any Outstanding Bonds (including Program Bonds) or any Bonds which are then proposed to be issued constitute Tender Indebtedness (but excluding Program Bonds or Bonds as to which a Qualified Swap is in effect and to which subsection (g) or (h) applies), then, for purposes of determining Aggregate Annual Debt Service, Tender Indebtedness shall be treated as if the principal amount of such Bonds were to be amortized over a term of not more than 30 years commencing in the year in which such Series is first subject to tender and with substantially level Annual Debt Service payments and extending not later than 30 years from the date such Tender Indebtedness was originally issued; the interest rate used for such computation shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Authority, or if the Authority fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and with respect to all funding requirements of principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender, such payments shall be treated as described in (a) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date shall be determined as provided in (e) or (f) below, as appropriate;

(e) if any Outstanding Bonds constitute Variable Rate Indebtedness, including obligations described in subsection (h)(ii) to the extent it applies (except to the extent subsection (b) or (c) relating to Balloon Indebtedness or (d) relating to Tender Indebtedness or subsection (h)(i) relating to Synthetic Fixed Rate Debt applies), the interest rate on such Bonds shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Authority, or if the Authority fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for variable rate Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration

whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(f) with respect to any Program Bonds or Unissued Program Bonds (i) debt service on Program Bonds then Outstanding shall be determined in accordance with such of the foregoing provisions of this definition as shall be applicable, and (ii) with respect to Unissued Program Bonds, it shall be assumed that the full principal amount of such Unissued Program Bonds will be amortized over a term certified by an Authorized Authority Representative at the time the initial Subordinate Program Bonds of such Program are issued to be the expected duration of such Program or, if such expectations have changed, over a term certified by an Authorized Authority Representative to be the expected duration of such Program at the time of such calculation, but not to exceed 30 years from the date the initial Subordinate Program Bonds of such Program are issued and it shall be assumed that debt service shall be paid in substantially level Annual Debt Service payments over such assumed term; the interest rate used for such computation shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Authority, or if the Authority fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(g) debt service on Subordinate Repayment Obligations, to the extent such obligations constitute Bonds under the Indenture, shall be calculated as provided therein; and

(h) for purposes of computing the Subordinate Aggregate Annual Debt Service:

(i) with respect to Synthetic Fixed Rate Debt, the interest payable thereon shall, if the Authority elects, be that rate as provided for by the terms of the Qualified Swap or the net interest rate payable pursuant to offsetting indices, as applicable; or, if the Authority fails to elect such rate, then it shall be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Authority; and

with respect to which a Qualified Swap has been entered into whereby the Authority has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Bonds to which such Swap pertains shall be included in the calculation of Subordinate Aggregate Annual Debt Service, and the interest rate with respect to such Bonds shall, if the Authority elects, be the sum of that rate as determined in accordance with subsection (e) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Designated Debt and the rate received from the Swap Provider.

"*Airport Facilities*" or "*Airport Facility*" means a facility or group of facilities or category of facilities which constitute or are part of the Airport System.

"*Airport System*" means all airports, airport sites, and all equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce under the jurisdiction and control of the Authority, including Harrisburg International Airport, Capital City Airport and Franklin County Regional Airport and any area of land or water, which is designated for the landing and taking off of aircraft, whether or not facilities are provided for the shelter, servicing or repairing of aircraft, or for receiving or discharging passengers or cargo, and all appurtenant areas used or suitable for airport buildings or other airport facilities and all appurtenant rights-of-way, including all facilities and property related thereto, real or personal, under the jurisdiction or control of the Authority or in which the Authority has other rights or from which the Authority derives revenues at such location; and including or excluding, as the case may be, such property as the Authority may either acquire or which shall be placed under its control, or divest or have removed from its control.

"Annual Debt Service" means, with respect to any Bond or Subordinate Bond, the aggregate amount of Revenues required during the Fiscal Year under consideration to satisfy the funding requirements for payments of principal and interest, and if a Qualified Swap is in effect for any such Bond, plus the amount payable by the Authority (or the Trustee) under the Qualified Swap in accordance with the terms thereof, less any amount to be received by the Authority from the Qualified Swap Provider pursuant to the Qualified Swap, calculated using the principles and assumptions set forth in the definition of Aggregate Annual Debt Service; provided, however, that:

(a) if moneys or Permitted Investments have been irrevocably deposited with and are held by the Trustee or another fiduciary or Capitalized Interest has been set aside exclusively to be used to pay such principal and/or interest, then such principal and/or interest to be paid from such moneys, Permitted Investments, or Capitalized Interest or from the earnings thereon shall be disregarded and not included in calculating Annual Debt Service; and

(b) if Passenger Facility Charges or LOI Receipts have not been included in the definition of Revenues and have been irrevocably committed or are held by the Trustee or another fiduciary and are to be set aside exclusively to be used to pay such principal and/or interest, then such principal and/or interest to be paid from such Passenger Facility Charges or LOI Receipts or from earnings thereon shall be disregarded and not included in calculating Annual Debt Service.

"Authorized Amount" means, when used with respect to any Bonds or Subordinate Bonds, including Bonds issued pursuant to a Program, the maximum Principal Amount of Bonds which is then authorized by an Indenture to be Outstanding at any one time under the terms of such Program or Indenture.

"Authorized Authority Representative" means the Chairman or Vice Chairman of the Authority, or such other officer or employee of the Authority or other person, which other officer, employee or person has been designated by the Board of the Authority as an Authorized Authority Representative by written notice delivered to the Trustee.

"Average Annual Debt Service" means, with respect to any Bonds or Subordinate Bonds, the sum of the Annual Debt Service for years contained in the period under consideration divided by the number of years contained in such period.

"Balloon Indebtedness" means, with respect to any Bonds or Subordinate Bonds 50% or more of the principal of which matures on the same date or within a Fiscal Year, that portion of such Series which matures on such date or within such Fiscal Year; provided, however, that to constitute Balloon Indebtedness the amount of Bonds of a Series maturing on a single date or within a Fiscal Year must equal or exceed 150% of the amount of such Series which matures during any Fiscal Year. For purposes of this definition, the principal amount maturing on any date shall be reduced by the amount of such Bonds, scheduled to be amortized by prepayment or redemption prior to their stated maturity date. A Commercial Paper Program and the Commercial Paper constituting part of such Program shall not be Balloon Indebtedness.

"Bond Counsel" means a firm or firms of attorneys which are nationally recognized as experts in the area of municipal finance and which are familiar with the transactions contemplated under this Indenture and which are acceptable to the Authority.

"Bond Insurer" means (i) with respect to the Series 2003A Bonds, the Series 2003B Bonds, the Series 2003C Subordinate Bonds and the Series 2003E Subordinate Bonds, Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance corporation, and (ii) with respect to the Series 2004 Bonds, Financial Guaranty Insurance Company, a New York stock insurance corporation.

"Bond" or *"Bonds"* means any debt obligation of the Authority issued as a taxable or tax-exempt obligation under and in accordance with the provisions of the Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Authority, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of

participation therein and Repayment Obligations to the extent provided in the Indenture. The term "Bond" and "Bonds" includes Program Bonds.

"*Bondholder*," "*holder*," "*Owner*," "*owner*" or "*registered owner*" means the person in whose name any Bond or Bonds, are registered on the books maintained by the Registrar and shall include any Credit Provider or Liquidity Provider to which a Repayment Obligation is then owed, to the extent that such Subordinate Repayment Obligation is deemed to be a Subordinate Bond under the provisions of the Indenture.

"*Business Day*" means any day other than a Saturday, Sunday or holiday or a day on which banks in the city or cities in which are located the principal corporate trust office of the Trustee, the principal office of the Paying Agent, the Registrar, the Liquidity Provider or any remarketing agent are required or authorized to close for general banking business or on which the New York Stock Exchange is closed; provided, however, that such term may have a different meaning for any specified Series of Subordinate Bonds if so provided by a Supplemental Indenture.

"*Capital Appreciation Bonds*" means any Bonds or Subordinate Bonds all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Indenture and is payable only upon redemption or on the maturity date of such Bonds. Bonds which are issued as Capital Appreciation Bonds, but later convert to Bonds on which interest is paid periodically shall be Capital Appreciation Bonds until the conversion date and from and after such conversion date shall no longer be Capital Appreciation Bonds, but shall be treated as having a principal amount equal to their Accreted Value on the conversion date.

"*Capital Improvement Account*" means the Capital Improvement Account created within the General Fund under the Master Indenture.

"*Capitalized Interest*" means the amount of any interest on any Bonds or Subordinate Bonds, as applicable, to be funded from the proceeds of the Bonds or other monies deposited with the Trustee in the Debt Service Fund as shall be described in a Supplemental Indenture upon issuance of Bonds.

"*Chairman*" means the chairman of the Authority or such other title as the Authority may from time to time assign for such position.

"*Code*" means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations applicable with respect thereto.

"*Combined Maximum Annual Debt Service*" means, with respect to issuing additional Subordinate Bonds pursuant to the Subordinate Master Indenture, the sum occurring in any Fiscal Year of the Senior Aggregate Annual Debt Service, the Subordinate Aggregate Annual Debt Service and the Annual Debt Service on such proposed Subordinate Bonds, calculated as if such proposed Subordinate Bonds and the full Authorized Amount of proposed Subordinate Program Bonds, if applicable, were then Outstanding, which sum is greater than such sum occurring in any other Fiscal Year.

"*Commercial Paper*" means notes of the Authority with a maturity of not more than 270 days from the date of issuance and which are issued and reissued from time to time pursuant to a Program adopted by the Authority.

"*Commercial Paper Program*" means a Program authorized by the Authority pursuant to which Commercial Paper shall be issued and reissued from time to time, up to the Authorized Amount of such Program.

"*Construction Fund*" means any of the Construction Funds authorized to be created as provided by the Indenture.

"*Consultant*" means any Independent consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm, or other expert recognized to be well-qualified for work of the character required and retained by the Authority to perform acts and carry out the duties provided for such consultant in this Indenture.

"Costs" or "Costs of a Project" means all costs of planning, developing, designing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and shall include, but not be limited to the following: (a) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (b) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (c) costs of insurance requirements and performance and payment sureties; (d) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the Authority or Independent Consultant; (e) costs of the Authority properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (f) financing expenses, including costs related to issuance of and securing of Bonds, costs of Credit Facilities, Investment Agreements and Liquidity Facilities, Capitalized Interest, Trustee's fees and expenses, and funding the Reserve Requirement, if any; (g) any Swap Termination Payments due in connection with a Series of Bonds or the failure to issue such Series of Bonds; and (h) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Authority.

"Coverage Account" means the "Coverage Account" created by the Authority within the General Fund pursuant the Master Indenture.

"Credit Facility" means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby bond purchase agreement, Subordinate Debt Service Reserve Fund Surety Policy or other financial instrument which obligates a third party to make payment of or provide funds to the Trustee for the payment of the principal of and/or interest on Subordinate Bonds whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Authority fails to do so.

"Debt Service Reserve Fund Surety Policy" means an insurance policy or surety bond, or a letter of credit, deposited with the Trustee for the credit of the Debt Service Reserve Fund created for one or more series of Outstanding Bonds in lieu of or in partial substitution for cash or securities on deposit therein. The entity providing such Debt Service Reserve Fund Surety Policy shall be rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

"Debt Service Reserve Requirement" means, with respect to any Bonds or Subordinate Bonds, as of the date in question, such amount as shall be specified in any Supplemental Indenture as required to be maintained on deposit in an identified Account within the Debt Service Reserve Fund with respect to all Outstanding Bonds participating in such identified Account. For purposes of determining the Debt Service Reserve Requirement, if any, with respect to a Series of Bonds that constitute Variable Rate Indebtedness, the Annual Debt Service shall, upon the issuance of such Series, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Aggregate Annual Debt Service, and the amount so determined shall not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Debt Service Reserve Requirement, the Annual Debt Service requirements assumed at the time of issuance of any Series of Bonds containing Balloon Indebtedness or Tender Indebtedness shall not, with respect to such Series, require subsequent increases.

"Defeasance Obligations" means and includes obligations described in items (i) and (ii) of Permitted Investments, which are not subject to prepayment or redemption at the option of the issuer thereof prior to the date of anticipated use of the proceeds thereof.

"Designated Debt" means a specific indebtedness designated by the Authority which shall be offset with a Swap; such specific indebtedness may include all or any part of a Series of Bonds.

"Event of Default" means any occurrence or event specified in the Indenture.

"*Fiscal Year*" means the period of time beginning on January 1 of each given year and ending on December 31 of such given year, or such other similar period as the Authority designates as its fiscal year.

"*Fitch*" means Fitch, Inc., a corporation organized and existing under the laws of the State of New York, its successors and its assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any nationally recognized rating agency designated by the Authority.

"*Fund*" means a fund or funds, as applicable created pursuant to an Indenture.

"*General Fund*" means the "General Fund" required to be created by the Authority pursuant to the Master Indenture.

"*Government Obligations*" means (a) United States Obligations (including obligations issued or held in book-entry form), (b) prerefunded municipal obligations meeting the following conditions: (i) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (iii) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (iv) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (v) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (vi) the municipal obligations are rated in their highest rating category by one or more of the Rating Agencies, but only if such Rating Agencies have been requested by the Authority to maintain a rating on the Subordinate Bonds and such Rating Agencies are then maintaining a rating on any of the Subordinate Bonds; and (c) any other type of security or obligation which the Rating Agencies then maintaining ratings on the Subordinate Bonds to be defeased have determined to be permitted defeasance securities.

"*Independent*" means, when used with respect to any specified firm or individual, such a firm or individual who (a) does not have any direct financial interest or any material indirect financial interest in the operations of the Authority, other than the payment to be received under a contract for services to be performed, and (b) is not connected with the Authority as an official, officer or employee.

"*Initial Bonds*" means those Bonds authorized to be issued as the initial Series of Bonds pursuant to the Master Indenture; *i.e.* the Series 2003A Bonds and the Series 2003B Bonds.

"*Investment Agreement*" means (a) an investment agreement or guaranteed investment contract with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short-term rating category (if the term of the Investment Agreement is less than three years) or in either of the two highest long-term Rating Categories (if the term of the Investment Agreement is three years or longer) by one or more of the Rating Agencies, or (b) an investment agreement or guaranteed investment contract which is fully secured by obligations described in items (b)(i) or (ii) of the definition of Permitted Investments that are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 103% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

"*Junior Obligation*" means any bond, note or other debt instrument issued or otherwise entered into by the Authority which ranks junior and subordinate to the Subordinate Bonds and which may be paid from moneys constituting Subordinate Net Revenues only if all amounts of principal and interest which have become due and payable on the Subordinate Bonds whether by maturity, redemption or acceleration have been paid in full and the Authority is current on all payments, if any, required to be made to replenish the Subordinate Debt Service Reserve Fund. "*Junior Obligations*" are not Subordinate Bonds for purposes of this Indenture. In connection with any Junior Obligation with respect to which a Swap is in effect or proposes to be in effect, the term "*Junior Obligation*"

includes, collectively, both such Junior Obligation and either such Swap or the obligations of the Authority under each such Swap, as the context requires. The term "*Junior Obligations*" also includes a Swap or the obligations of the Authority under such Swap which has been entered into in connection with a Junior Obligation, as the context requires, although none of the Junior Obligations with respect to which such Swap was entered into remain outstanding. In connection with any Subordinate Bonds with respect to which a Qualified Swap is in effect or proposed to be in effect, the term "*Junior Obligation*" includes any Swap Termination Payment if designated as a Junior Obligation in a Supplemental Indenture.

"*Liquidity Facility*" means, with respect to any Bonds or Subordinate Bonds, a letter of credit, line of credit, standby purchase agreement or other financial instrument, including a Credit Facility, which is available to provide funds with which to purchase such Bonds.

"*Liquidity Provider*" means the entity, including the Credit Provider, which is obligated to provide funds under the terms of a Liquidity Facility.

"*LOI Fund*" means the LOI Fund required to be created as provided by the Master Indenture.

"*LOI Receipts*" means moneys payable to the Authority or its assigns derived from the grant program created by the Airport and Airways Improvement Act of 1982, as amended and supplemented, pursuant to a multi-year letter of intent issued by the Federal Aviation Administration.

"*LOI Receipts for the Series C Project*" means all moneys scheduled to be received by the Authority in Federal Fiscal Years 2005 through and including 2009 pursuant to the Letter of Intent 3-42-0059-L01-2009 dated April 15, 2003 issued by the Federal Aviation Administration and any amendments thereto, which moneys are to be applied in conformity with applicable regulations for and toward the payment of principal of and interest on the Series 2003C Subordinate Bonds, the proceeds of which are to be used for the Series C Project, as such term is defined in the First Supplemental Subordinate Trust Indenture.

"*Mail*" means by first-class United States mail, postage prepaid.

"*Maintenance and Operation Expenses of the Airport System*" means, for any given period, the total operation and maintenance expenses of the Airport System, including Administrative Expenses, as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense, interest on Bonds, Subordinate Bonds and Junior Obligations, amortization of issuance expenses with respect to Bonds, Subordinate Bonds and Junior Obligations, and any operation and maintenance expenses of the Airport System payable from moneys other than Revenues.

"*Maintenance and Operation Reserve Fund*" means the "Maintenance and Operation Reserve Fund" created by the Authority pursuant to the Master Indenture.

"*Master Indenture*" means the Master Trust Indenture, dated as of April 15, 2003, entered into by the Authority with the Trustee, as the same may be amended from time to time.

"*Master Subordinate Indenture*" means the Master Subordinate Trust Indenture, dated as of April 15, 2003, entered into by the Authority with the Subordinate Trustee, as trustee, as the same may be amended from time to time.

"*Maximum Aggregate Annual Debt Service*" means, with respect to any Bonds or Subordinate Bonds, as of the date in question, the highest Aggregate Annual Debt Service required to be paid with respect to such Bonds in the then current or any succeeding Fiscal Year.

"*Moody's*" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized rating agency designated by the Authority.

"*Municipalities*" means the Counties of Dauphin, Cumberland and York, the City of Harrisburg (Dauphin County), the City of York (York County), and the Townships of Fairview and Lower Swatara (both of Dauphin County).

"*Net Proceeds*" means insurance proceeds received as a result of damage to or destruction of Airport Facilities or any condemnation award or amounts received by the Authority from the sale of Airport Facilities under the threat of condemnation less expenses (including attorneys' fees and expenses and any fees and expenses of the Trustee) incurred in the collection of such proceeds or award.

"*Net Revenues*" means, for any given period, Revenues less amounts which are required to pay the Maintenance and Operation Expenses of the Airport System.

"*Nonqualified Swap*" means any Swap which is not a Qualified Swap.

"*Notes*" means Bonds issued under the provisions of the Indenture which have a maturity of 397 days or less from their date of original issuance and which are not part of a Commercial Paper Program.

"*Operating Budget*" means the annual budget for the Maintenance and Operation Expenses of the Airport System prepared by the Authority and distributed in accordance with the Indenture.

"*Outstanding*" when used with respect to any Bonds or Subordinate Bonds means all such Bonds which have been authenticated and delivered under this Indenture, except:

(a) Bonds cancelled or purchased by the Trustee for cancellation or delivered to or acquired by the Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(b) Bonds deemed to be paid in accordance with the Indenture;

(c) Bonds in lieu of which other Bonds have been authenticated under the Indenture;

(d) Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Trustee or a Paying Agent;

(e) Bonds which, under the terms of the Supplemental Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;

(f) Repayment Obligations deemed to be Bonds under the terms of the Indenture to the extent such Repayment Obligations arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Bonds acquired by the Liquidity Provider; and

(g) for purposes of any consent or other action to be taken by the holders of a specified percentage of Bonds under the Indenture, Bonds held by or for the account of the Authority or by any person controlling, controlled by or under common control with the Authority, unless such Bonds are pledged to secure a debt to an unrelated party.

"*Passenger Facility Charges*" or "*PFCs*" means charges payable to the Authority or its assigns and imposed pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 and 14 CFR Part 158, as amended from time to time, in respect of any component of the Airport System and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

"*Paying Agent*" or "*Paying Agents*" means, with respect to the Bonds or Subordinate Bonds, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Indenture or a resolution of the Authority as the place where such Bonds shall be payable.

"*Payment Date*" means, with respect to any Bonds or Subordinate Bonds, each date on which interest is due and payable thereon and each date on which principal is due and payable thereon whether by maturity or redemption thereof.

"*Permitted Investments*" means and includes any of the following and such other investments, from time to time, set forth in a Supplemental Indenture entered into in connection with the issuance of a Series of Bonds, to the extent permitted by applicable laws of the Commonwealth:

(i) Government Obligations;

(ii) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration;

(iii) Direct and general long-term obligations of any state, which obligations are rated in one of the two highest Rating Categories by one or more of the Rating Agencies;

(iv) Direct and general short-term obligations of any state which obligations are rated in the highest Rating Category by one or more of the Rating Agencies;

(v) Interest-bearing demand or time deposits (including certificates of deposit) or interests in money market portfolios issued by state banks or trust companies or national banking associations (including the Trustee) that are members of the Federal Deposit Insurance Corporation ("FDIC") or by savings and loan associations that are members of the FDIC, which deposits or interests must either be (A) continuously and fully insured by FDIC and with banks that are rated at least in the highest short-term Rating Category by one or more of the Rating Agencies or are rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies; or (B) fully secured by obligations described in item (i) or (ii) of this definition of Permitted Investments (1) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (2) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (3) subject to a perfected first lien in favor of the Trustee, and (4) free and clear from all third-party liens;

(vi) Long-term or medium-term corporate debt guaranteed by any corporation that is rated in one of the two highest Rating Categories by one or more of the Rating Agencies;

(vii) Repurchase agreements which are (A) entered into with banks or trust companies organized under state law or national banking associations (including the Trustee), insurance companies or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and which either are members of the Security Investors Protection Corporation or with a dealer or parent holding company that has an investment grade rating from one or more of the Rating Agencies and (B) fully secured by investments specified in items (i) or (ii) of this definition of Permitted Investments (1) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements, (2) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (3) subject to a perfected first lien in favor of the Trustee and (4) free and clear from all third-party liens;

(viii) Prime commercial paper of a United States corporation, finance company or banking institution rated in the highest short-term Rating Category of one or more of the Rating Agencies;

(ix) Shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940, as amended) or shares in a regulated investment company (as defined in Section 851(a) of the Code) that is (A) a money market fund that has been rated in one of the two highest Rating Categories by one or more of the Rating Agencies or (B) a money market fund or account of the Trustee or any state or federal bank that is rated at least in the highest short-term Rating Category by one or more of the Rating Agencies or is rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies, or whose bank holding company parent is rated at least in the highest short-term Rating Category by one or more of the Rating Agencies or is rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies, or that has a combined capital and surplus of not less than \$50,000,000;

(x) Interest bearing notes issued by a banking institution (including the Trustee) having a combined capital and surplus of at least \$500,000,000 and whose senior debt is rated in the highest Rating Category by one or more of the Rating Agencies;

(xi) Public housing bonds issued by public agencies which are either unconditionally guaranteed as to principal and interest by the United States of America, or rated in the highest Rating Category by one or more of the Rating Agencies;

(xii) Obligations issued or guaranteed by Private Export Funding Corporation, Resolution Funding Corporation and any other instrumentality or agency of the United States of America;

(xiii) Investment Agreements; and

(xiv) Any other type of investment consistent with Authority policy in which the Authority directs the Trustee to invest provided that there is delivered to the Trustee a certificate of an Authorized Authority Representative stating that each of the Rating Agencies then maintaining a rating on the Subordinate Bonds has been informed of the proposal to invest in such investment and each of such Rating Agencies has confirmed that such investment will not adversely affect the rating then assigned by such rating agency to any of the Subordinate Bonds.

"*PFC Fund*" means the PFC Fund required to be created as provided by the Master Indenture.

"*Principal Amount*" or "*principal amount*" means, as of any date of calculation, (a) with respect to any Capital Appreciation Bond, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest) and (b) with respect to any other Bonds, the principal amount of such Bond payable at maturity.

"*Program*" means a financing program identified in a Supplemental Indenture, including but not limited to a Commercial Paper Program, (a) which is authorized and the terms thereof approved by a resolution adopted by the Authority and other items required to have been filed with the Trustee, (b) wherein the Authority has authorized the issuance, from time to time, of notes, commercial paper or other indebtedness in an Authorized Amount, and (c) the Authorized Amount of which has met the additional bonds test set forth in the Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Authorized Amount.

"*Program Bonds*" means with respect to Bonds and Subordinate Bonds, Bonds issued and Outstanding pursuant to a Program, other than Unissued Program Bonds.

"*Project*" means any and all facilities, improvements and other expenditures related to the Airport System financed in whole or in part with proceeds of a Series of Bonds.

"*Qualified Swap*" means with respect to Bonds or Subordinate Bonds any Swap (a) whose Designated Debt is all or part of a particular Series of Bonds; (b) whose Swap Provider is a Qualified Swap Provider or has been a Qualified Swap Provider within the 60 day period preceding the date on which any calculation based upon Annual Debt Service or Aggregate Annual Debt Service is being made; (c) which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; and (d) which has been designated in writing to the Trustee by the Authority as a Qualified Swap with respect to such Bonds.

"*Qualified Swap Provider*" means a financial institution whose senior long-term debt obligations, or whose obligations under any Qualified Swap are (a) guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated at least "A1," in the case of Moody's and "A+," in the case of S&P, or the equivalent thereof in the case of any successor thereto, or (b) fully secured by obligations described in items (b)(i) or (ii) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

"*Rating Agency*" and "*Rating Agencies*" means Fitch, Moody's or S&P, or any other nationally recognized rating agency of municipal obligations, but only if such Rating Agencies have been requested by the Authority to maintain a rating on the Bonds and such Rating Agencies are then maintaining a rating on any of the Bonds.

"*Rating Category*" and "*Rating Categories*" means (a) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier, and (b) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"*Rebate Fund*" means any fund created by the Authority pursuant to a Supplemental Indenture in connection with the issuance of any Bonds or Subordinate Bonds for the purpose of complying with the Code and providing for the collection and holding for and payment of amounts to the United States of America.

"*Refunding Bonds*" means any Bonds issued pursuant to the Indenture to refund or defease all or a portion of any series of Outstanding Bonds.

"*Registrar*" means, with respect to the Bonds or Subordinate Bonds, the bank, trust company or other entity designated in a Supplemental Indenture or a resolution of the Authority to perform the function of Registrar under the Indenture.

"*Regularly Scheduled Swap Payments*" means the regularly scheduled payments under the terms of a Swap which are due absent any termination, default or dispute in connection with such Swap.

"*Renewal and Replacement Fund*" means the Renewal and Replacement Fund created as provided by the Master Indenture.

"*Repayment Obligation*" means an obligation arising under a written agreement of the Authority and a Credit Provider pursuant to which the Authority agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Bonds or an obligation arising under a written agreement of the Authority and a Liquidity Provider pursuant to which the Authority agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Bonds.

"*Responsible Officer*" means any corporate trust officer of the Trustee assigned by the Trustee to administer this Indenture.

"*Revenue Credit Account*" means the "Revenue Credit Account" created by the Authority within the General Fund pursuant to the Master Indenture.

"*Revenue Fund*" means the "Revenue Fund" established by the Authority pursuant to the provisions of the Master Indenture.

"*Revenues*" means, except to the extent specifically excluded herefrom, all income, receipts, earnings and revenues received by the Authority from the operation and ownership of the Airport System, as determined in accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to, (a) rates, tolls, fees, rentals, charges and other payments made to or owed to the Authority for the use or availability of the Airport System, and (b) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Authority, including rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Authority or any successor thereto from the possession, management, charge, superintendence and control of the Airport System and its related facilities or activities and undertakings related thereto or from any other facilities wherever located with respect to which the Authority receives payments which are attributable to the Airport System or activities or undertakings related thereto. Additionally, "Revenues" shall include amounts released from the Revenue Credit Account to the Revenue Fund and all income, receipts and earnings (except any earnings to be applied by the terms of a Supplemental Indenture to fund Capitalized Interest and the Construction Fund) from the investment of amounts held in the Revenue Fund, any Construction Fund, the Debt Service Funds (except Capitalized Interest on deposit therein), the Debt Service Reserve Funds, the Maintenance and Operation Reserve Fund, the Renewal and Replacement Fund, and any such additional moneys payable to the Authority as are designated as "Revenues" under the terms of any Supplemental Indenture. The following, including any investment earnings thereon, are specifically excluded from Revenues: (i) any arbitrage earnings which are required to be paid to the U.S. Government pursuant to Section 148 of the Code, (ii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Bonds (except to the extent Net Proceeds are utilized to pay Maintenance and Operation Expenses of the Airport System) and (iii) Special Facilities Revenue (to the extent there is no excess Special Facilities Revenue as described in the Master Indenture). In addition, the following, including any investment earnings thereon, are specifically excluded from "Revenues," unless designated as "Revenues" under the terms of a Supplemental Indenture or pursuant to a certificate of an Authorized Authority Representative delivered to the Trustee: (A) grants-in-aid and gifts, (B) any Swap Termination Payments paid to the Authority pursuant to a Qualified Swap, (C) Passenger Facility Charges, (D) LOI Receipts, (E) investment income derived from any moneys or securities which may be placed in escrow or trust and committed to defease Bonds, Subordinate Bonds or Junior Obligations and (F) Capitalized Interest. Further, interest earnings or other investment earnings on any Construction Fund established by any Supplemental Indenture are specifically excluded from "Revenues," unless otherwise provided for in such Supplemental Indenture.

"*Series*" means any Bonds or Subordinate Bonds designated as a separate Series by a Supplemental Indenture and, as to Program Bonds or a Commercial Paper Program, means the full Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Indenture, designated as a separate Series.

"*Series 2003A Bonds*" means the Authority's Airport System Revenue Bonds, Series 2003A (AMT), issued under the Master Indenture, as supplemented by the First Supplemental Trust Indenture.

"*Series 2003B Bonds*" means the Authority's Airport System Revenue Bonds, Series 2003B (Non-AMT), issued under the Master Indenture, as supplemented by the First Supplemental Trust Indenture.

"*Series 2003C Subordinate Bonds*" means the Authority's Variable Rate Subordinate Airport System Revenue Bonds, Series 2003C, issued under the Master Subordinate Indenture, as supplemented by the First Supplemental Subordinate Trust Indenture, consisting of two series designated as Series 2003C-1 (AMT) and Series 2003C-2 (Non-AMT).

"Series 2003D Subordinate Bonds" means the Authority's Subordinate Airport System Revenue Bonds, Series 2003D (Non-AMT), issued under the Master Subordinate Indenture, as supplemented by the Second Supplemental Subordinate Trust Indenture.

"Series 2003E Subordinate Bonds" means the Authority's Federally Taxable Subordinate Airport System Revenue Bonds, Series 2003E, issued under the Master Subordinate Indenture, as supplemented by the Second Supplemental Subordinate Trust Indenture.

"Series 2004 Bonds" means collectively, the Series 2004A Bonds and the Series 2004B Bonds.

"Series 2004A Bonds" means the Authority's Airport System Revenue Bonds, Series 2004A (AMT), Periodic Auction Reset Securities – PARSSM, issued under the Master Indenture, as supplemented by the Second Supplemental Trust Indenture.

"Series 2004B Bonds" means the Authority's Airport System Revenue Bonds, Series 2004B (Taxable), Periodic Auction Reset Securities – PARSSM, issued under the Master Indenture, as supplemented by the Second Supplemental Trust Indenture.

"Significant Portion" means any Airport Facilities or portions thereof which, if such facilities had been sold or disposed of by the Authority would have resulted in a reduction of more than 5% of Net Revenues generated for the immediately preceding twelve-month period. The Authority shall notify each of the Rating Agencies prior to the selling or disposing of a Significant Portion of any Airport Facilities.

"S&P" means Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc., its successors and their assigns, and if such entity shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority.

"Special Facilities" or *"Special Facility"* means a facility or group of facilities or category of facilities which are designated as a Special Facility pursuant to the provisions of the Indenture.

"Special Facilities Revenue" means the contractual payments and all other revenues derived by or available to the Authority from a Special Facility which are pledged to secure Special Facility Obligations.

"Subordinate Bonds" means any "Bond or Bonds" authorized, issued and delivered pursuant to the Master Subordinate Indenture, including the Series 2003C Subordinate Bonds, Series 2003D Subordinate Bonds and Series 2003E Subordinate Bonds.

"Subordinate Capital Appreciation Bonds" means Subordinate Bonds which constitutes "Capital Appreciation Bonds."

"Subordinate Credit Facility" means a "Credit Facility" with respect to the Subordinate Bonds.

"Subordinate Credit Provider" means the party obligated to make payment under the terms of a Subordinate Credit Facility.

"Subordinate Debt Service Reserve Fund" means the fund created under the Master Subordinate Indenture .

"Subordinate Indenture" means the Master Subordinate Indenture and all supplements thereto made and delivered in accordance with provisions thereof and at such time constituting part thereof, including the First Supplemental Subordinate Trust Indenture and the Second Supplemental Subordinate Trust Indenture.

"Subordinate Net Revenues" means, for any given period, Net Revenues less amounts which are required to pay the Senior Aggregate Annual Debt Service and the Senior Debt Service Reserve Requirement.

"*Subordinate Notes*" means Subordinate Bonds issued under the provisions of the Subordinate Indenture which have a maturity of 397 days or less from their date of original issuance and which are not part of a Commercial Paper Program.

"*Subordinate Program Bonds*" means Subordinate Bonds issued and Outstanding pursuant to a Program, other than Unissued Program Bonds.

"*Subordinate Refunding Bonds*" means any Subordinate Bonds issued pursuant to the Subordinate Indenture to refund or defease all or a portion of any series of Outstanding Subordinate Bonds.

"*Subordinate Repayment Obligation*" means a "Repayment Obligation with respect to the Subordinate Bonds.

"*Subordinate Trustee*" means Manufacturers and Traders Trust Company, a New York state chartered bank with trust powers and having a corporate trust office in Harrisburg, Pennsylvania, a party to the Master Subordinate Indenture, and any successors thereto.

"*Subordinated Obligations*" means any bond, note or other debt instrument, including the Series 2003C Subordinate Bonds, Series 2003D Subordinate Bonds and Series 2003E Subordinate Bonds, issued or otherwise entered into by the Authority which ranks junior and subordinate to the Bonds and which may be paid from moneys constituting Net Revenues only if all amounts of principal and interest which have become due and payable on the Bonds whether by maturity, redemption or acceleration have been paid in full and the Authority is current on all payments, if any, required to be made to replenish the Senior Debt Service Reserve Fund.

"*Subordinated Obligations Debt Service Fund*" means any debt service fund created or established pursuant to the Master Subordinate Indenture and any Supplemental Indenture thereto.

"*Subordinated Obligations Debt Service Reserve Fund*" means any debt service reserve fund created or established pursuant to the Master Subordinate Indenture and any Supplemental Indenture thereto.

"*Supplemental Indenture*" means any document supplementing or amending the Master Indenture or the Master Subordinate Indenture, as applicable, or providing for the issuance of Bonds and entered into as provided by the terms of the Master Indenture or the Master Subordinate Indenture, as applicable.

"*Swap*" means any financial arrangement between the Authority and a Swap Provider which provides that (a) each of the parties shall pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or a variable rate or measured against some other rate) on a Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid before it is deemed to have accrued, the amount paid shall reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid after it is deemed to have accrued shall reflect the time value of such funds; (c) payment dates and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one shall pay to the other any net amount due under such arrangement.

"*Swap Provider*" means a party to a Swap with the Authority.

"*Swap Termination Payment*" means an amount payable by the Authority or a Qualified Swap Provider, in accordance with a Qualified Swap, to compensate the other party to the Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Qualified Swap.

"*Synthetic Fixed Rate Debt*" means indebtedness issued by the Authority which: (a) is combined, as Designated Debt, with a Qualified Swap and creates, in the opinion of a Consultant, a substantially fixed-rate maturity or maturities for a term not exceeding the maturity or maturities of such Designated Debt, or (b) consisting of an arrangement in which two inversely related variable-rate securities are issued in equal principal amounts with

interest based on off-setting indices resulting in a combined payment which is economically equivalent to a fixed rate.

"*Tender Indebtedness*" means any Bonds or Subordinate Bonds or portions thereof a feature of which is an obligation or option on the part of the Bondholders, under the terms of such Bonds, to tender all or a portion of such Bonds to the Authority, the Trustee, the Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Bonds or portions thereof be purchased if properly presented.

"*Trustee*" means Manufacturers and Traders Trust Company, a New York state chartered bank with trust powers and having a corporate trust office in Harrisburg, Pennsylvania, a party to the Master Indenture, and any successors thereto.

"*Unissued Program Bonds*" means the bonds, notes or other indebtedness authorized to be issued pursuant to a Program and payable from Net Revenues, issuable in an amount up to the Authorized Amount relating to such Program, which have been approved for issuance by the Authority pursuant to a resolution adopted by the Authority and have been filed with the Trustee but which have not yet been authenticated and delivered pursuant to the Program documents.

"*United States Bankruptcy Code*" means Title 11 U.S.C. Section 101 *et seq.*, as amended or supplemented from time to time, or any successor federal act.

"*United States Obligations*" means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including, with respect only to direct and general obligations and not to guaranteed obligations, evidences of ownership of proportionate interests in future interest and/or principal payments of such obligations, provided that investments in such proportionate interests must be limited to circumstances wherein: (a) a bank or trust company acts as custodian and holds the underlying United States Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (c) the underlying United States Obligations are held in a special account separate from the custodian's general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated. "United States Obligations" shall include any stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

"*Variable Rate Indebtedness*" means any Bond or Subordinate Bond the interest rate on which is not, at the time in question, fixed to maturity, excluding any Commercial Paper Program.

APPENDIX D
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following statements are summaries of certain provisions of the Master Trust Indenture and the Second Supplemental Trust Indenture. The summaries set forth below should not be regarded as full statements of the documents themselves, or of the portions summarized. Reference is made to the documents in their entirety for the complete statements of the provisions thereof. Copies of the Master Trust Indenture and the Second Supplemental Trust Indenture are on file at the corporate trust office of the Trustee in Harrisburg, Pennsylvania.

**PART I: SUMMARY OF
THE MASTER TRUST INDENTURE**

Grant to Secure Bonds; Pledge of Net Revenues

To secure the payment of the interest, principal and premium, if any, on the Bonds and the performance and observance by the Authority of all the covenants, agreements and conditions expressed or implied in the Master Indenture or contained in the Bonds, the Authority has pledged and assigned to the Trustee and granted to the Trustee a lien on and security interest in all right, title and interest of the Authority in and to all of the following and provides that such lien and security interest shall be prior in right to any other pledge, lien or security interest created by the Authority in the following: (a) the Net Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Trustee under the Master Indenture, and to the extent provided in any Supplemental Indenture moneys and securities held in any Construction Fund whether or not held by the Trustee, (c) earnings on amounts included in provisions (a) and (b) above (except to the extent excluded from the definition of "Revenues" by the Master Indenture), and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the Master Indenture, for the equal and proportionate benefit and security of all Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall, with respect to the security provided by the Master Indenture, be of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds. Moneys in the Debt Service Reserve Fund and any Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Debt Service Reserve Requirement and any other security, Liquidity Facility or Credit Facility provided for specific Bonds, a specific Series of Bonds or one or more Series of Bonds may, as provided by a Supplemental Indenture, secure only such specific Bonds, Series of Bonds or one or more Series of Bonds and, therefore, shall not be included as security for all Bonds under the Master Indenture unless otherwise provided by a Supplemental Indenture and moneys and securities held in trust as provided in the Master Indenture exclusively for Bonds which have become due and payable and moneys and securities which are held exclusively to pay Bonds which are deemed to have been paid under the Master Indenture shall be held solely for the payment of such specific Bonds.

Additional Bonds

Subject to the provisions under subparagraphs (c), (d) or (e) of the last paragraph of this section and excepting the Initial Bonds, as a condition to the issuance of any Series of Bonds, there first shall be delivered to the Trustee either:

(a) a certificate of an Authorized Authority Representative stating that the Net Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Bonds or preceding the first issuance of the proposed Program Bonds were at least equal to 110% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Bonds, Unissued Program Bonds and the proposed Series of Bonds, calculated as if the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds (as applicable) were then Outstanding; or

(b) a certificate of a Consultant to the effect that the Annual Debt Service of the proposed Series of Bonds or the full Authorized Amount of proposed Program Bonds (as applicable) is payable out

of Net Revenues and stating that the Authority will be in compliance with subparagraphs (a) and (b) of the Rate Covenant during either (i) each of the first three Fiscal Years succeeding the date on which the Project is expected to be completed, or (ii) during each of the first five Fiscal Years succeeding the date of issuance of such Bonds, whichever is later.

For purposes of subparagraph (a) above, the Authorized Authority Representative shall be allowed to adjust Net Revenues to include any increase in the rates, charges and fees for the use of the Airport System which have become effective prior to the issuance of such proposed Series of Bonds but which rates, charges and fees were not in effect for the 12-month period under consideration, in an amount equal to the sum by which the Net Revenues would have been increased if such increase in rates, charges and fees had been in effect during the whole of the such 12-month period provided, however, such increase is intended to continue to be effective following the issuance of such proposed Series of Bonds.

Neither of the certificates described in subparagraphs (a) and (b) above shall be required:

(c) if Bonds being issued are for the purpose of refunding then Outstanding Bonds and there is delivered to the Trustee, instead, a certificate of an Authorized Authority Representative showing that Maximum Aggregate Annual Debt Service after the issuance of such Refunding Bonds will not exceed Maximum Aggregate Annual Debt Service prior to the issuance of such Refunding Bonds;

(d) if the Bonds being issued constitute Notes and there is delivered to the Trustee, instead, a certificate prepared by an Authorized Authority Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then Outstanding, does not exceed 10% of the Net Revenues for any 12 consecutive months out of the 24 months immediately preceding the issuance of the proposed Notes and there is delivered to the Trustee a certificate of an Authorized Authority Representative setting forth calculations showing that for each of the Fiscal Years during which the Notes will be Outstanding, and taking into account the debt service becoming due on such Notes, the Authority will be in compliance with the Rate Covenant; or

(e) if the Bonds being issued are to pay costs of completing a Project for which Bonds previously have been issued and the principal amount of such Bonds being issued does not exceed an amount equal to 15% of the principal amount of Bonds originally issued and reasonably allocated for such Project as shown in a written certificate of an Authorized Authority Representative and there is delivered to the Trustee (i) a Consultant's certificate stating that the nature and purpose of such Project has not materially changed and (ii) a certificate of an Authorized Authority Representative to the effect that (A) all of the proceeds of the Bonds previously issued to finance such Project, together with investment earnings on amounts in the Funds allocable to such Project, have been or shall be applied to pay Costs of the Project and (B) the then estimated Costs of the Project exceed the sum of the Costs of the Project already paid plus moneys on deposit in Funds and available for such purpose.

Repayment Obligations Afforded Status of Bonds

If a Credit Provider or Liquidity Provider makes payment of principal of or interest on a Bond or advances funds to purchase or provide for the purchase of Bonds and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Authority, but is not reimbursed, the Authority's Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Bond issued under the Master Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider shall be the Bondholder and such Bond shall be deemed to have been issued at the time of the original Bond for which the Credit Facility or Liquidity Facility was provided and will not be subject to the provisions of the Master Indenture relating to the issuance of additional Bonds. The payment terms of such Bond shall be the stated terms of the Repayment Obligation (unless otherwise provided in the Supplemental Indenture pursuant to which such Bonds are issued). Any amount which comes due on the Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Bond shall be a Subordinated Obligation of the Authority. This provision shall not defeat or alter the rights of subrogation which any Credit Provider may have under law or under the terms of any Supplemental Indenture. The Trustee may conclusively rely on a written certification by the Credit Provider

or Liquidity Provider of the amount of such non-reimbursement and that such Repayment Obligation is to be afforded the status of a Bond under the Master Indenture.

Obligations Under Qualified Swap; Nonqualified Swap.

The obligation of the Authority to make Regularly Scheduled Swap Payments under a Qualified Swap with respect to a Series of Bonds may be on a parity with the obligation of the Authority to make payments with respect to such Series of Bonds and other Bonds under the Master Indenture, except as otherwise provided by a Supplemental Indenture and in the Master Indenture with respect to any Swap Termination Payments. The Authority may provide in any Supplemental Indenture that Regularly Scheduled Swap Payments under a Qualified Swap shall be secured by a pledge of or lien on the Net Revenues on a parity with the Bonds of such Series and all other Bonds, regardless of the principal amount, if any, of the Bonds of such Series remaining Outstanding. The Trustee shall take all action consistent with the other provisions the Master Indenture as shall be requested in writing by the Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Authority with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence shall require the Trustee either to exercise the remedies granted in the Master Indenture or to institute any action, suit or proceeding in its own name, the Qualified Swap Provider shall provide to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

In the event that a Swap Termination Payment or any other amounts other than as described in preceding paragraph are due and payable by the Authority under a Qualified Swap, such Swap Termination Payment and any such other amounts shall constitute a Subordinated Obligation under the Master Indenture.

Obligations of the Authority to make payments, including termination payments, under a Nonqualified Swap shall constitute Subordinated Obligations under the Master Indenture.

Revenues and Funds

Revenue Fund. The Authority has covenanted and agreed to deposit in the Revenue Fund, all Revenues when and as received. The Authority has further covenanted to deposit into the Revenue Fund all other moneys required by the Master Indenture to be so deposited. So long as no Event of Default exists and is continuing, the Revenue Fund shall remain in the possession of the Authority; otherwise the Revenue Fund will be held by the Trustee.

As long as there are any Outstanding Bonds, all Revenues shall be deposited in the Revenue Fund and shall be applied by the Authority in the manner, at the times and in the order of priority as follows:

(a) *Maintenance and Operation Expense of the Airport System.* Payment Maintenance and Operation Expenses of the Airport System then due and payable.

(b) *Debt Service Fund.* Revenues shall be paid over by the Authority to the Trustee for deposit in the Debt Service Fund, in the amounts, at the times and in the manner provided in the Master Indenture or in such other amounts and times provided in a Supplemental Indenture to provide for the payment of principal and interest to become due on Outstanding Bonds.

(c) *Debt Service Reserve Fund.* Revenues shall be paid over by the Authority to the Trustee for deposit in the Debt Service Reserve Fund in the amounts and at the times as shall be specified in a Supplemental Indenture to be used in the manner provided in the Master Indenture.

(d) *Subordinated Obligation Debt Service Fund.* Revenues shall be applied in such amounts and at such times as shall be sufficient to pay the debt service with respect to Subordinated Obligations, including any indebtedness issued and outstanding pursuant to the terms of the Master Subordinate Indenture, but only to the extent of a specific pledge of Net Revenues, in writing, for the purpose.

(e) *Subordinated Obligation Debt Service Reserve Fund.* Revenues shall be applied in such amounts and at such times as shall be sufficient to fund any reserve requirement for debt service for any

indebtedness, including Subordinated Obligations, including any indebtedness issued and outstanding pursuant to the terms of the Master Subordinate Indenture, but only to the extent of a specific pledge of Net Revenues, in writing, for the purpose.

(f) *Maintenance and Operation Reserve Fund.* Revenues shall be transferred to the Maintenance and Operation Reserve Fund in the amounts required in accordance with the Master Indenture.

(g) *Renewal and Replacement Fund.* Revenues shall be transferred to the Renewal and Replacement Fund in the amounts required in accordance with the Master Indenture.

(h) *General Fund.* Revenues shall be transferred to the General Fund at the time and in such amounts, if any, as the Authority, from time to time, may determine as provided in the Master Indenture.

Funding of Debt Service Funds. The Trustee, after taking into account Capitalized Interest and other money, if any, on deposit in the Debt Service Fund, shall, at least 15 Business Days prior to each Payment Date on any Bond, give the Authority notice by telephone, promptly confirmed in writing, of the amount required, if any, to be deposited with the Trustee to make each required payment of principal and interest due on such Payment Date. Upon receipt of such notice, the Authority, at least five Business Days prior to such Payment Date, shall withdraw from the Revenue Fund and pay to the Trustee said amount, if any, required to make the interest and/or principal payments due on such Payment Date.

The Supplemental Indenture under which any Series of Bonds are issued may provide for different times and methods of notifying the Authority of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Indenture shall control.

On any day on which the Trustee receives moneys from the Authority to be used to pay principal of or interest on Bonds, the Trustee shall deposit such amounts into the respective Accounts of the Debt Service Fund for the Series of Bonds for which such payments were made and any excess shall be applied to pay all amounts of principal and interest becoming due on any subsequent Payment Dates. If, on any Payment Date, the Trustee does not have sufficient amounts in the Debt Service Fund (without regard to any amounts which may be available from the Debt Service Reserve Fund) to pay in full all amounts of principal and/or interest due on such date, the Trustee shall allocate the total amount which is available to make payment on such day (without regard to any amounts in the Debt Service Reserve Fund) as follows: first to the payment of interest then due on the Bonds and, if the amount available shall not be sufficient to pay in full all interest on the Bonds then due, then *pro rata* among the Series according to the amount of interest then due and second to the payment of principal then due on the Bonds and, if the amount available shall not be sufficient to pay in full all principal on the Bonds then due, then *pro rata* among the Series according to the Principal Amount then due on the Bonds.

If an Account or Accounts in the Debt Service Reserve Fund (or a Credit Facility provided in lieu thereof) have been used to make payments on Bonds secured thereby, then the Authority may be required by Supplemental Indenture to replenish such Account or Accounts or reimburse the Credit Provider from Net Revenues provided that (a) no amount from Net Revenues may be used for such purpose until all payments of principal of and interest on all Bonds which have become due and payable shall have been paid in full, (b) the required payments to replenish the Debt Service Reserve Fund or reimburse the Credit Provider shall be due in no more than 12 substantially equal monthly installments commencing in January of the year immediately succeeding any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish such Accounts in the Debt Service Reserve Fund and reimburse the Credit Provider exceeds the amount available for such purpose, the payments to be made for such purpose to the Trustee and to the Credit Provider shall be allocated among such Accounts in the Debt Service Reserve Fund *pro rata* on the basis of the Outstanding Principal Amount of Bonds secured thereby.

Notwithstanding the foregoing, the Authority may, in the Supplemental Indenture authorizing such Series of Bonds, provide for different provisions and timing of deposits with the Trustee and different methods of paying principal of or interest on such Bonds depending upon the terms of such Bonds and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Account in the Debt Service Fund created for the Series of Bonds for which such Credit Facility is provided.

If the Net Revenues are at any time insufficient to make the deposits required to make payments on the Bonds, the Authority may, at its election, pay to the Trustee funds from any available sources with the direction that such funds be deposited into a specified Account or Accounts or subaccount or subaccounts in the Debt Service Fund.

Maintenance and Operation Reserve Fund. The Authority has created the Maintenance and Operation Reserve Fund. The Authority shall transfer to the Maintenance and Operation Reserve Fund in each Fiscal Year such amounts as shall established by the Authority from time to time. Moneys in the Maintenance and Operation Reserve Fund shall be used by the Authority to pay Maintenance and Operation Expenses of the Airport System in the event there are insufficient moneys in the Revenue Fund to make such payments.

Pursuant to the First Supplemental Trust Indenture, the Authority deposited the sum of \$2,131,000 in the Maintenance and Operation Reserve Fund. Such sum represented the equivalent of one-sixth of the amount budgeted for Maintenance and Operation Expenses of the Airport System in the Operating Budget for the 2003 Fiscal Year. The Authority has covenanted to maintain an amount of moneys in the Maintenance and Operation Reserve Fund equivalent to one-sixth of the amount budgeted for Maintenance and Operation Expenses of the Airport System for then current Fiscal Year in the Operating Budget filed with the Trustee pursuant to the Master Indenture. Such amount to be maintained on deposit within the Maintenance and Operation Reserve Fund shall be designated the "Maintenance and Operation Reserve Requirement." At the beginning of each Fiscal Year, such Maintenance and Operation Reserve Requirement shall be adjusted as necessary to reflect the then current Operating Budget, and the Authority shall deposit from its available moneys on the first Business Day of each month commencing with February of each Fiscal Year 1/11th of the amounts as may be necessary to satisfy the Maintenance and Operation Reserve Requirement for that Fiscal Year.

The Authority shall transfer or cause to be transferred moneys in the Maintenance and Operation Reserve Fund to the Revenue Fund to be applied to the payment of Maintenance and Operation Expenses of the Airport System when moneys on deposit in the Revenue Fund are insufficient therefor.

In the event the Authority makes a withdrawal from the Maintenance and Operation Reserve Fund, the Authority shall withdraw or cause to be withdrawn amounts from the Revenue Fund pursuant to the Master Indenture and deposit or cause to be deposited to the Maintenance and Operation Reserve Fund such amounts as will be sufficient to restore the amount on deposit in the Maintenance and Operation Reserve Fund to the Maintenance and Operation Reserve Requirement in not more than 12 substantially equal monthly payments.

If at any time the amount on deposit in the Maintenance and Operation Reserve Fund is in excess of the Maintenance and Operation Reserve Requirement for the current Fiscal Year, such excess may be transferred to the Revenue Fund or applied as otherwise directed by the Authority.

Renewal and Replacement Fund. The Authority has created a Renewal and Replacement Fund. The Authority shall maintain in the Renewal and Replacement Fund such amounts as shall be required to maintain a balance in such Fund, in the amount as, from time to time, shall be established by the Authority. Moneys in the Renewal and Replacement Fund are to be applied to the costs of improvements, repairs or extraordinary maintenance which are not provided for by moneys available in other Funds or Accounts established under the Indenture, including without limitation the costs of unanticipated or emergency repairs or replacements of any part of the Airport System which are properly chargeable to plant or property accounts under generally accepted accounting principles.

Pursuant to the First Supplemental Trust Indenture, the amount required to be maintained in the Renewal and Replacement Fund (the "Renewal and Replacement Fund Requirement") was initially established to be equal to \$500,000. In conjunction with adoption and filing of the Operating Budget for each Fiscal Year, commencing with the Operating Budget for 2004, the Authority shall certify the Renewal and Replacement Fund Requirement for the Fiscal Year to which such Operating Budget relates; provided that for each such Fiscal Year the Authority's certificate shall be consistent with the Authority's certificate made pursuant to the First Supplemental Trust Indenture. If the Authority shall not certify the Renewal and Replacement Fund Requirement as aforesaid, the requirement for the Fiscal Year shall be such requirement in effect for the previous Fiscal Year until the new requirement is certified as aforesaid. The amount of the Renewal and Replacement Fund Requirement shall be

adjusted to be in accordance with the Authority's certificate issued pursuant to the First Supplemental Trust Indenture.

In the event the Authority makes a withdrawal from the Renewal and Replacement Fund, the Authority shall withdraw or cause to be withdrawn amounts from the Revenue Fund pursuant to the Master Indenture and deposit or cause to be deposited to the Renewal and Replacement Fund such amounts as will be sufficient to restore the amount on deposit in the Renewal and Replacement Fund to the then current Renewal and Replacement Fund Requirement in not more than 24 substantially equal monthly payments.

If at any time, the amount on deposit in the Renewal and Replacement Fund is in excess of the Renewal and Replacement Fund Requirement for the current Fiscal Year, such excess may be transferred to the Revenue Fund or applied as otherwise directed by the Authority.

General Fund. The Authority initially has created within the General Fund, the "Coverage Account," the "Revenue Credit Account," and the "Capital Improvement Account."

At the end of each Fiscal Year commencing with the Fiscal Year ending December 31, 2003 or as soon thereafter as is practicable, after all transfers, payments and deposits required to be made from the Revenue Fund, the Authority shall transfer to the General Fund moneys remaining in the Revenue Fund after provision for a reasonable reserve .

Moneys so transferred to the General Fund shall be applied, first, to the Coverage Account in an amount determined by the Authority but not to exceed an amount equal to 25% of Aggregate Annual Debt Service, and second, to the Capital Improvement Account, to the Revenue Credit Account and to such other Accounts that may be established, from time to time, within the General Fund, in such amounts and such priority as shall be determined by the Authority.

Moneys in the Capital Improvement Account may be used for any lawful Airport System purpose including, at the Authority's discretion, payment of the costs of capital improvements of the Airport System.

Moneys in the Revenue Credit Account shall be transferred at the beginning of each Fiscal Year to the Revenue Fund and applied for such Fiscal Year as a credit in the calculation of such fees and charges as shall be determined by the Authority that are related to Airport System.

PFC Fund. There is created within the PFC Fund, initially, an account known as the "PFC Capital Account". The Authority has covenanted and agreed that all Passenger Facility Charges, when and as received by the Authority, shall be deposited into the PFC Fund. In addition to Passenger Facility Charges, all earnings derived from investment of the PFC Fund shall be retained in the PFC Fund, unless otherwise provided in a Supplemental Indenture. The Authority shall make transfers, payments or deposits from the PFC Fund at the times and in the amounts determined by the Authority to fund principal and interest on Outstanding Bonds or Subordinated Obligations, if any, issued to fund Costs of a Project authorized to be funded with Passenger Facility Charges.

Any Passenger Facility Charges not used for such transfers, payments or deposits may be transferred, at the election of the Authority, to the PFC Capital Account or to such other Accounts as may be created within the PFC Fund as the Authority may determine in conformity with federal statutes and regulations governing the use of the Passenger Facility Charges. Funds on deposit in the PFC Capital Account and any other Accounts established within the PFC Fund may be transferred or applied as the Authority shall determine in conformity with applicable law.

LOI Fund. The Authority has created within the LOI Fund, initially, an Account known as the "LOI Capital Account". The Authority has covenanted and agreed that all LOI Receipts, when and as received by the Authority, shall be deposited into the LOI Fund. In addition to LOI Receipts, all earnings derived from investment of the LOI Fund shall be retained in the LOI Fund, unless otherwise provided in a Supplemental Indenture. The Authority shall make transfers, payments or deposits from the LOI Fund at the times and in the amounts determined by the Authority to fund principal and interest on Outstanding Bonds or Subordinated Obligations issued to fund Costs of a Project authorized to be funded with LOI Receipts.

Any LOI Receipts not used for such transfers, payments or deposits may be transferred, at the election of the Authority, to the LOI Capital Account or to such other Accounts as may be created within the LOI Fund as the Authority may determine in conformity with federal statutes and regulations governing the use of the LOI Receipts. Funds on deposit in the LOI Capital Account and any additional Accounts established within the LOI Fund may be transferred or applied as the Authority shall determine in conformity with applicable law.

Additional Security. The pledge of Net Revenues and the other security provided in the Granting Clauses of the Master Indenture secure all Bonds issued under the terms of the Master Indenture on an equal and ratable basis, except as to the timing of such payments. The Authority may, however, in its discretion, provide additional security or credit enhancement for specified Bonds or Series of Bonds with no obligation to provide such additional security or credit enhancement to other Bonds.

Payment of Principal and Interest

The Authority has covenanted and agreed that it will duly and punctually pay or cause to be paid from the Net Revenues and to the extent thereof the principal of, premium, if any, and interest on every Bond at the place and on the dates and in the manner in the Master Indenture, in the Supplemental Indentures and in the Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Master Indenture and in the Bonds contained, provided that the Authority's obligation to make payment of the principal of, premium, if any, and interest on the Bonds shall be limited to payment from the Net Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Master Indenture and any other source which the Authority may specifically provide for such purpose and no Bondholder shall have any right to enforce payment from any other funds of the Authority.

Rate Covenant

The Authority covenants in the Master Indenture to fulfill the following requirements:

(a) The Authority, so long as any Bonds remain Outstanding, shall establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that Net Revenues in each Fiscal Year will be at least equal to the following amounts:

(i) the Aggregate Annual Debt Service on any Outstanding Bonds required to be funded by the Authority in such Fiscal Year as required by the Master Indenture;

(ii) the required deposits to the Debt Service Reserve Fund which may be established by a Supplemental Indenture;

(iii) the interest on and principal of any indebtedness required to be funded during such Fiscal Year other than Outstanding Bonds, but including Subordinated Obligations;

(iv) payments of any reserve requirement for debt service for any indebtedness other than Outstanding Bonds, but including Subordinated Obligations;

(v) the reimbursement owed to any Credit Provider or Subordinate Credit Provider as required by a Supplemental Indenture or the Master Subordinate Indenture;

(vi) transfers to the Maintenance and Operation Reserve Fund under the Master Indenture; and

(vii) transfers to the Renewal and Replacement Fund under the Master Indenture.

(b) The Authority further agrees under the Master Indenture that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues, together with

the amount on deposit in the Coverage Account, will be equal to at least 125% of Aggregate Annual Debt Service on the Outstanding Bonds. For purposes of this subsection (b), the amount on deposit in the Coverage Account taken into account shall not exceed 25% of Aggregate Annual Debt Service on the Outstanding Bonds in such Fiscal Year.

(c) The Authority covenants that if Net Revenues, together with any amount on deposit in the Coverage Account (only as applied in (b) above), in any Fiscal Year are less than the amount specified in paragraph (a) or (b) above, the Authority will retain and direct a Consultant to make recommendations as to the revision of the Authority's business operations and its schedule of rentals, rates, fees and charges for the use of the Airport System and for services rendered by the Authority in connection with the Airport System, and after receiving such recommendations or giving reasonable opportunity for such recommendations to be made the Authority shall take all lawful measures to revise the schedule of rentals, rates, fees and charges as may be necessary to produce Net Revenues, together with any amount on deposit in the Coverage Account (only as applied in (b) above), in the amount specified in paragraph (a) or (b) above in the next succeeding Fiscal Year.

(d) In the event that Net Revenues for any Fiscal Year are less than the amount specified in paragraph (a) or (b) above, but the Authority promptly has taken prior to or during the next succeeding Fiscal Year all lawful measures to revise the schedule of rentals, rates, fees and charges as required by paragraph (c) above, such deficiency in Net Revenues shall not constitute an Event of Default under the Master Indenture. Nevertheless, if after taking the measures required by paragraph (c) above to revise the schedule of rentals, rates, fees and charges, Net Revenues in the next succeeding Fiscal Year (as evidenced by the audited financial statements of the Authority for such Fiscal Year) are less than the amount specified in paragraph (a) or (b) above, such deficiency in Net Revenues shall constitute an Event of Default under the provisions of the Master Indenture.

Obligations Prohibited

The Authority has agreed that so long as any Bonds are Outstanding under the Master Indenture, it will not issue, or authorize issuance of, any bonds or other obligations with a lien on or security interest granted in Net Revenues which is senior to the Bonds.

Subordinated Obligations

The Authority may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in the Master Indenture, referred to as Subordinated Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Authority shall determine, provided that:

(a) any Supplemental Indenture authorizing the issuance of any Subordinated Obligations shall specifically state that such lien on or security interest granted in the Net Revenues is junior and subordinate to the lien on and security interest in such Net Revenues and other assets granted to secure the Bonds; and

(b) payment of principal of and interest on such Subordinated Obligations shall be permitted, provided that all deposits required to be made pursuant to the Master Indenture, if any, are then current in accordance with the Master Indenture.

Special Facilities and Special Facility Obligations

The Authority shall be permitted to designate new or existing Airport Facilities as Special Facilities. The Authority may, from time to time, and subject to the terms and conditions of this section, (a) designate a separately identifiable existing facility or planned facility as a "Special Facility," (b) pursuant to an indenture other than the Master Indenture and without a pledge of any Net Revenues, incur debt primarily for the purpose of acquiring, constructing, renovating or improving or providing financing or refinancing to a third party to acquire, construct, renovate or improve, such facility, (c) provide that certain of the contractual payments derived from such Special Facility, together with other income and revenues available to the Authority from such Special Facility to the extent

necessary to make the payments required by clause (i) of the second succeeding paragraph, be “Special Facilities Revenue” and not included as Revenues or Net Revenues unless on terms provided in any supplemental indenture, and (d) provide that the debt so incurred shall be a “Special Facility Obligation” and the principal of and interest thereon shall be payable solely from the Special Facilities Revenue. The Authority may from time to time refinance any such Special Facility Obligations with other Special Facility Obligations.

Special Facility Obligations shall be payable as to principal, redemption premium, if any, and interest solely from Special Facilities Revenue, which shall include contractual payments derived by the Authority under and pursuant to a contract (which may be in the form of a lease) relating to a Special Facility by and between the Authority and another person, firm or corporation, either public or private, as shall undertake the operation of a Special Facility.

No Special Facility Obligations shall be issued by the Authority unless there shall have been filed with the Trustee: (i) a certificate of an Authorized Authority Representative stating that the estimated Special Facilities Revenue pledged to the payment of obligations relating to the Special Facility will be at least sufficient to pay the principal of and interest on such Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such Special Facility not paid for by the operator thereof or by a party other than the Authority and all sinking fund, reserve or other payments required with respect to the Special Facility Obligations as the same become due; and (ii) a certificate of a Consultant with respect to the designation of any separately identifiable existing Airport Facilities or Airport Facility as a “Special Facility” or “Special Facilities,” to the effect that the estimated Net Revenues, calculated without including the new Special Facilities Revenue and without including any operation and maintenance expenses of the Special Facility as Maintenance and Operation Expenses of the Airport System, will be sufficient so that the Authority will be in compliance with the Rate Covenant of the Master Indenture; and (iii) no Event of Default then exists under the Master Indenture.

To the extent Special Facilities Revenue received by the Authority during any Fiscal Year shall exceed the amounts required to be paid pursuant to clause (i) of the immediately preceding paragraph for such Fiscal Year, such excess Special Facilities Revenue, to the extent not otherwise encumbered or restricted, shall constitute Revenues.

Notwithstanding any other provision of this section, at such time as the Special Facility Obligations issued for a Special Facility including Special Facility Obligations issued to refinance Special Facility Obligations are fully paid or otherwise discharged, all revenues of the Authority from such facility shall be included as Revenues.

Obligations Secured by Other Revenues

The Authority may, from time to time, incur indebtedness payable solely from certain revenues of the Airport System which do not constitute Revenues or Net Revenues at such times and upon such terms and conditions as the Authority shall determine, provided that such indebtedness shall specifically include a provision that payment of such indebtedness is neither secured by nor payable from Net Revenues. The Authority may also, from time to time, incur indebtedness payable from and secured by both Net Revenues and certain revenues of the Airport System which do not constitute Revenues or Net Revenues at such times and upon such terms and conditions as the Authority shall determine, provided that the conditions set forth in the Master Indenture for the issuance of indebtedness payable from and secured by Net Revenues are met.

Maintenance and Operation of Airport System

The Authority has covenanted that the Airport System shall at all times be operated and maintained in good working order and condition and in compliance with all lawful orders of any governmental agency or authority having jurisdiction (provided the Authority shall not be required to comply with any such orders so long as the validity or application thereof shall be contested in good faith), and that all licenses and permits necessary with respect to construction or operation of any part of the Airport System shall be obtained and maintained, and that all necessary repairs, improvements and replacements of the Airport System shall be made in order to maintain proper operation of the Airport System.

Insurance; Application of Insurance Proceeds.

Subject, in each case, to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions:

(a) the Authority will procure and maintain or cause to be procured and maintained commercial insurance or provide Qualified Self Insurance with respect to the facilities constituting the Airport System and public liability insurance in the form of commercial insurance or Qualified Self Insurance and, in each case, in such amounts and against such risks as are, in the judgment of the Authority, prudent and reasonable taking into account, but not being controlled by, the amounts and types of insurance or self insured programs provided by similar airports; and

(b) the Authority will place on file with the Trustee, annually within 120 days after the close of each Fiscal Year, a certificate of an Authorized Authority Representative containing a summary of all insurance policies and self insured programs then in effect with respect to the Airport System and the operations of the Authority. The Trustee may conclusively rely upon such certificate and shall not be responsible for the sufficiency or adequacy of any insurance required herein or obtained by the Authority.

“Qualified Self Insurance” shall mean insurance maintained through a program of self insurance or insurance maintained with a fund, company or association in which the Authority may have a material interest and of which the Authority may have control, either singly or with others. Each plan of Qualified Self Insurance shall be established in accordance with law, shall provide that reserves be established or insurance acquired in amounts adequate to provide coverage which the Authority determines to be reasonable to protect against risks assumed under the Qualified Self Insurance plan, including any potential retained liability in the event of the termination of such plan of Qualified Self Insurance, and such self insurance program shall be reviewed at least once every 12 months by a Consultant who shall deliver to the Authority a report on the adequacy of the reserves established thereunder. If the Consultant determines that such reserves are inadequate, he shall make a recommendation as to the amount of reserves that should be established and maintained, and the Authority shall comply with such recommendation unless it can establish to the satisfaction of and receive a certification from a Consultant that a lower amount is reasonable to provide adequate protection to the Authority.

If, as a result of any event, any part of the Airport System is destroyed or severely damaged, the Authority shall create within the Revenue Fund a special account and shall credit the Net Proceeds received as a result of such event of damage or destruction to such account and such Net Proceeds shall, within a reasonable period of time taking into account any terms under which insurance proceeds are paid and any insurance restrictions upon the use or timing of the use of insurance proceeds, be used to: (i) repair or replace the Airport System, or portions thereof, which were damaged or destroyed, (ii) provide additional revenue-producing Airport Facilities, (iii) redeem Bonds or Subordinated Obligations, or (iv) create an escrow fund pledged to pay (I) specified Bonds and thereby cause such Bonds to be deemed to be paid as provided in the Master Indenture; or (II) specified Subordinated Obligations and thereby cause such Subordinated Obligations to be deemed to be paid as provided in the Master Subordinate Indenture; provided, however, in either case, that the Authority shall first deliver to the Trustee a certificate of a Consultant showing that, after taking into account the use of the Net Proceeds for the redemption of such specified Bonds or Subordinated Obligations, the Rate Covenant set forth in the Master Indenture would, nevertheless, be met.

Transfer of Airport Facility or Airport Facilities

The Authority shall not, except as permitted below, transfer, sell or otherwise dispose of an Airport Facility or Airport Facilities. For purposes of this section, any transfer of an asset over which the Authority retains substantial control in accordance with the terms of such transfer, shall not, for so long as the Authority has such control, be deemed a disposition of an Airport Facility or Airport Facilities.

The Authority may transfer, sell or otherwise dispose of any property or interest in property constituting Airport Facilities only if such transfer, sale or disposition complies with one or more of the following provisions: (a) the property being disposed of is inadequate, obsolete or worn out; or (b) the property proposed to be disposed of and all other Airport Facilities disposed of during the immediately preceding 12 month period (but excluding

property disposed of under (a) above), will not, in the aggregate, constitute a Significant Portion, the proceeds are deposited into the Revenue Fund to be used as described below and the Authority believes that such disposal will not prevent it from fulfilling its obligations under the Master Indenture; or (c) the Authority receives fair market value for the property, the proceeds are deposited in the Revenue Fund to be used as described below, and prior to the disposition of such property, there is delivered to the Trustee a certificate of a Consultant to the effect that notwithstanding such disposition, but taking into account the use of such proceeds in accordance with the expectations of the Authority as evidenced by a certificate of an Authorized Authority Representative, the Consultant estimates that Authority will be in compliance with the Rate Covenant as set forth in the Master Indenture during each of the three Fiscal Years immediately following such disposition.

Net proceeds of sale or other disposition of property or interest in property shall be applied by the Authority to replacement of property so sold or otherwise disposed of, if deemed necessary or proper by the Authority, or, in lieu thereof, shall be deposited by the Authority to the Revenue Fund, in the case of sale or other disposition of current assets (determined in accordance with sound accounting practice) or the lease of property, and otherwise in the Renewal and Replacement Fund or Debt Service Fund, as appropriate to the intended use thereof.

Notwithstanding the foregoing provisions of this section, Airport Facilities (excluding property described in subparagraph (a) above) which were financed with the proceeds of obligations the interest on which is then excluded from gross income for federal income tax purposes shall not be disposed of unless the Authority has first received a written opinion of Bond Counsel to the effect that such disposition will not cause the interest on such obligations to become includable in gross income for federal income tax purposes.

No such disposition shall be made which would cause the Authority to be in default of any other covenant contained in the Master Indenture.

The Authority covenants that it will not dispose of assets necessary to operate the Airport System in the manner and at the levels of activity required to enable it to perform its covenants contained in the Master Indenture, including, without limitation, the Rate Covenant.

Investments

Moneys held by the Trustee in the funds and accounts created in the Master Indenture and under any Supplemental Indenture shall be invested and reinvested as directed by the Authority, in Permitted Investments subject to the restrictions set forth in the Master Indenture and such Supplemental Indenture. The Authority shall direct such investments by written certificate (upon which the Trustee may conclusively rely) of an Authorized Authority Representative or by telephone instruction followed by prompt written confirmation by an Authorized Authority Representative; in the absence of any such instructions, the Trustee shall, to the extent practicable, invest in Permitted Investments specified in item (ix) of the definition thereof, which includes a money market fund comprised of United States Obligations, or in a money market fund or account (which is generally referred to as the U.S. Government Fund) of the Trustee, provided it meets the requirements specified in (ix) of the definition of Permitted Investments.

Defeasance

Bonds or portions thereof (such portions to be in integral multiples of the authorized denomination) which have been paid in full or which are deemed to have been paid in full shall no longer be secured by or entitled to the benefits of the Master Indenture except for the purposes of payment from moneys or Defeasance Obligations held by the Trustee or a Paying Agent for such purpose. When all Bonds which have been issued under the Master Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master Indenture by the Authority, including all necessary and proper fees, compensation and expenses of the Trustee, the Registrar and the Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Trustee in and to the pledge of Net Revenues and the other assets pledged to secure the Bonds under the Master Indenture shall thereupon cease, terminate and become void, and thereupon the Trustee shall cancel, discharge and release the Master Indenture, shall execute, acknowledge and deliver to the Authority such instruments as shall be requisite to evidence such cancellation, discharge and release and shall assign and deliver to the Authority any property and revenues at the time subject to the Master Indenture which may then be in the Trustee's possession,

except funds or securities in which such funds are invested and are held by the Trustee or the Paying Agent for the payment of the principal of, premium, if any, and interest on the Bonds; provided, however, that so long as any Subordinated Obligations remain outstanding, the Trustee shall not cancel, discharge and release the Master Indenture.

A Bond shall be deemed to be paid within the meaning of and for all purposes of the Master Indenture when payment of the principal, interest and premium, if any, either (a) shall have been made or caused to be made in accordance with the terms of the Bonds and the Master Indenture or (b) shall have been provided for by depositing with the Trustee in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) Defeasance Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Bonds shall be deemed to be paid under the Master Indenture, such Bonds shall no longer be secured by or entitled to the benefits of the Master Indenture, except for the purposes of payment from such moneys or Defeasance Obligations.

Any deposit under clause (b) of the foregoing paragraph shall be deemed a payment of such Bonds. Once such deposit shall have been made, the Trustee shall notify all holders of the affected Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Master Indenture. No notice of redemption shall be required at the time of such defeasance or prior to such date as may be required by the Supplemental Indenture under which such Bonds were issued. The Authority may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Indenture under which such Bonds were issued, modify or otherwise change the scheduled date for the redemption or payment of any Bond deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Bonds or the Master Indenture subject to (a) receipt of an approving opinion of nationally recognized Bond Counsel that such action will not adversely affect the tax-exemption of any Bond or Bonds then Outstanding and (b) receipt of a report of a nationally recognized accounting firm verifying sufficiency of the deposit of the amount of moneys and/or maturing principal of and interest on Defeasance Obligations estimated to be derived therefrom for the payment of the principal of, premium, if any, and interest on such Bonds. Notwithstanding anything in the Master Indenture to the contrary, monies from the trust or escrow established for the defeasance of Bonds may be withdrawn and delivered to the Authority so long as the requirements of subparagraphs (a) and (b) above are met prior to or concurrently with any such withdrawal.

Defaults and Remedies

Events of Default. Each of the following events shall constitute and is referred to in the Master Indenture as an “Event of Default”:

- (a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same shall become due and payable at maturity or upon redemption;
- (b) a failure to pay any installment of interest on any of the Bonds when such interest shall become due and payable;
- (c) a failure to pay the purchase price of any Bond when such purchase price shall be due and payable upon an optional or mandatory tender date as provided in a Supplemental Indenture;
- (d) a failure by the Authority to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) of this section) that are to be observed or performed by the Authority and which are contained in the Master Indenture or a Supplemental Indenture, which failure, except for a violation of the Rate Covenant under the Master Indenture which shall be controlled by the provisions set forth therein, shall continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Authority by the Trustee, which notice may be given at the discretion of the Trustee and shall be given at the written request of holders of 25% or more of the Principal Amount of the Bonds then Outstanding, unless the Trustee, or the Trustee and the holders of Bonds in a Principal Amount not less than the Principal Amount of Bonds the holders of which requested such notice, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the holders of such principal amount of

Bonds shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Authority within such period and is being diligently pursued until such failure is corrected;

(e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 of the United States Bankruptcy Code, or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Authority and, if instituted against the Authority, said proceedings are consented to or are not dismissed within 60 days after such institution; or

(f) the occurrence of any other Event of Default as is provided in a Supplemental Indenture.

Remedies.

(a) Upon the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and upon the written direction of the holders of 25% or more of the Principal Amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction, shall, in its own name and as the Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, and require the Authority to carry out any agreements with or for the benefit of the Bondholders and to perform its or their duties under the Act or any other law to which it is subject and the Master Indenture;

(ii) bring suit upon the Bonds;

(iii) commence an action or suit in equity to require the Authority to account as if it were the Trustee of an express trust for the Bondholders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

(b) The Trustee shall be under no obligation to take any action with respect to any Event of Default unless the Trustee has actual knowledge of the occurrence of such Event of Default.

(c) In no event, upon the occurrence and continuation of an Event of Default shall the Trustee, the Bondholders, a Credit Provider or any other party have the right to accelerate the payment of principal of and interest on the Bonds Outstanding.

(d) An Event of Default with respect to the one Series of Bonds shall not cause an Event of Default with respect to any other Series of Bonds unless such event or conditions on its own constitutes an Event of Default with respect to such other Series of Bonds pursuant to the Master Indenture.

Bondholders' Right To Direct Proceedings. Anything in the Master Indenture to the contrary notwithstanding, holders of a majority in Principal Amount of the Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Trustee under the Master Indenture to be taken in connection with the enforcement of the terms of the Master Indenture or exercising any trust or power conferred on the Trustee by the Master Indenture; provided that such direction shall not be otherwise than in accordance with the provisions of the law and the Master Indenture and that there shall have been provided to the Trustee security and indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Trustee.

Limitation on Right To Institute Proceedings. No Bondholder shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power under the Master Indenture, or any other remedy under the Master Indenture or on such Bonds, unless such Bondholder or Bondholders previously shall have given to the Trustee written notice of an Event of Default as hereinabove provided and unless also holders of 25% or more of the Principal Amount of the Bonds then Outstanding shall have made written request of the Trustee

to do so, after the right to institute such suit, action or proceeding under the Master Indenture shall have accrued, and shall have afforded the Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being understood and intended that no one or more of the Bondholders shall have any right in any manner whatever by their action to affect, disturb or prejudice the security of the Master Indenture, or to enforce any right under the Master Indenture or under the Bonds, except in the manner provided in the Master Indenture, and that all suits, actions and proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Master Indenture and for the equal benefit of all Bondholders.

Rights of Credit Providers. Credit Providers may be granted, pursuant to a Supplemental Indenture, the right to make requests of, direct or consent to the actions of the Trustee or to otherwise direct proceedings all as provided in the Master Indenture to the same extent and in place of the owners of the Bonds which are secured by the Credit Facility.

Trustee

Standard of Care; Duties. If an Event of Default has occurred and is continuing, the Trustee shall exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Trustee shall perform the duties set forth in the Master Indenture and no implied duties or obligations shall be read into the Master Indenture against the Trustee. Except during the continuance of an Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Master Indenture. However, the Trustee shall examine the certificates and opinions to determine whether they conform to the requirements of the Master Indenture.

The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (i) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless the Trustee was negligent in ascertaining the pertinent facts; and (ii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Bondholders, any Credit Provider or the Authority in the manner provided in the Master Indenture.

The Trustee shall not, by any provision of the Master Indenture, be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Master Indenture at the request or direction of any of the holders of the Bonds, unless such holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Notice of Defaults. If (a) an Event of Default has occurred or (b) an event has occurred which with the giving of notice and/or the lapse of time would be an Event of Default and, with respect to such events for which notice to the Authority is required before such events will become Events of Default, such notice has been given, then the Trustee shall promptly, after obtaining actual notice of such Event of Default or event described in (b) of the first sentence of this section, give notice thereof to each Bondholder. Except in the case of a default in payment or purchase on any Bonds, the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Bondholders.

Eligibility of Trustee. The Master Indenture shall always have a Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of

the Commonwealth, is subject to supervision or examination by United States, state or District of Columbia authority and has (together with its corporate parent) a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

Replacement of Trustee. The Trustee may resign by notifying the Authority in writing prior to the proposed effective date of the resignation. The holders of a majority in Principal Amount of the Bonds may remove the Trustee by notifying the removed Trustee and may appoint a successor Trustee with the Authority's consent. The Authority may remove the Trustee, by notice in writing delivered to the Trustee at least 60 days prior to the proposed removal date; provided, however, that the Authority shall have no right to remove the Trustee during any time when an Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be an Event of Default.

No resignation or removal of the Trustee under this section shall be effective until a new Trustee has taken office and delivered a written acceptance of its appointment to the retiring Trustee and to the Authority. Immediately thereafter, the retiring Trustee shall transfer all property held by it as Trustee to the successor Trustee, the resignation or removal of the retiring Trustee shall then (but only then) become effective and the successor Trustee shall have all the rights, powers and duties of the Trustee under the Master Indenture.

If the Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Master Indenture, the Authority shall promptly appoint a successor Trustee. If a Trustee is not performing its duties under the Master Indenture and a successor Trustee does not take office within 60 days after the retiring Trustee delivers notice of resignation or the Authority delivers notice of removal, the retiring Trustee, the Authority or the holders of a majority in Principal Amount of the Bonds may petition any court of competent jurisdiction for the appointment of a successor Trustee.

Successor Trustee or Agent by Merger. If the Trustee, any Paying Agent or Registrar consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a bank or trust company, its corporate trust assets) to, another corporation and such corporation meets the qualifications set forth in the Master Indenture, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee, Paying Agent or Registrar.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Bondholders. The Authority may, from time to time and at any time, without the consent of or notice to the Bondholders, execute and deliver Supplemental Indentures supplementing and/or amending the Master Indenture or any Supplemental Indenture as follows:

- (a) to provide for the issuance of a Series or multiple Series of Bonds under the provisions of the Master Indenture and to set forth the terms of such Bonds and the special provisions which shall apply to such Bonds;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Indenture or any Supplemental Indenture, provided such supplement or amendment is not materially adverse to the Bondholders;
- (c) to add to the covenants and agreements of the Authority in the Master Indenture or any Supplemental Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Authority, provided such supplement or amendment shall not adversely affect the interests of the Bondholders;
- (d) to confirm, as further assurance, any interest of the Trustee in and to the pledge of Net Revenues or in and to the funds and accounts held by the Trustee or in and to any other moneys, securities or funds of the Authority provided pursuant to the Master Indenture or to otherwise add additional security for the Bondholders;

(e) to evidence any change made in the terms of any Series of Bonds if such changes are authorized by the Supplemental Indenture at the time the Series of Bonds is issued and such change is made in accordance with the terms of such Supplemental Indenture;

(f) to comply with the requirements of the Trust Indenture Act of 1939, as amended from time to time;

(g) to modify, alter, amend or supplement the Master Indenture or any Supplemental Indenture in any other respect which is not materially adverse to the Bondholders;

(h) to provide for book-entry only Bonds or for the issuance of coupons and bearer Bonds or Bonds registered only as to principal;

(i) to qualify the Bonds or a Series of Bonds for a rating or ratings from a Rating Agency;

(j) to accommodate the technical, operational and structural features of Bonds which are issued or are proposed to be issued or of a Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, swaps, variable rate or adjustable rate bonds, discounted or compound interest bonds or other forms of indebtedness which the Authority from time to time deems appropriate to incur;

(k) to accommodate the use of a Credit Facility or Liquidity Facility for specific Bonds or a specific Series of Bonds; and

(l) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Bonds, including, without limitation, the segregation of Revenues into different funds.

Before the Authority shall, pursuant to this section, execute any Supplemental Indenture, there shall have been delivered to the Authority and Trustee an opinion of Bond Counsel to the effect that such Supplemental Indenture is authorized or permitted by the Master Indenture, the Act and other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Authority in accordance with its terms and will not cause interest on any of the Bonds which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes.

Supplemental Indenture Requiring Consent of Bondholders.

(a) Except for any Supplemental Indenture entered into as described above and any Supplemental Indenture entered into pursuant subsection (b) below, the holders of not less than a majority in aggregate Principal Amount of the Bonds then Outstanding shall have the right from time to time to consent to and approve the execution by the Authority of any Supplemental Indenture deemed necessary or desirable by the Authority for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture or in a Supplemental Indenture; provided, however, that, unless approved in writing by the holders of all the Bonds then Outstanding or unless such change affects less than all Series of Bonds and the following subsection (b) is applicable, nothing contained in the Master Indenture shall permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Bonds or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds or the rate of interest thereon; and provided that nothing contained in the Master Indenture, including the provisions of subsection (b) below, shall, unless approved in writing by the holders of all the Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Master Indenture) upon or pledge of the Net Revenues created by the Master Indenture, ranking prior to or on a parity with the claim created by the Master Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Bonds, a preference or priority of any Bond or Bonds over any other Bond or Bonds with respect to the security granted therefor

under the Granting Clauses of the Master Indenture, or (v) a reduction in the aggregate Principal Amount of Bonds the consent of the Bondholders of which is required for any such Supplemental Indenture. Nothing contained in the Master Indenture, however, shall be construed as making necessary the approval by Bondholders of the execution of any Supplemental Indenture as authorized in the Master Indenture, including the granting, for the benefit of particular Series of Bonds, security in addition to the pledge of the Net Revenues.

(b) The Authority may, from time to time and at any time, execute a Supplemental Indenture which amends the provisions of an earlier Supplemental Indenture under which a Series or multiple Series of Bonds were issued. If such Supplemental Indenture is executed for one of the purposes set forth in the section above regarding Supplemental Indentures without consent of Bondholders, no notice to or consent of the Bondholders shall be required. If such Supplemental Indenture contains provisions which affect the rights and interests of less than all Series of Bonds Outstanding and the section above regarding Supplemental Indentures without consent of Bondholders is not applicable, then this subsection (b) rather than subsection (a) above shall control and, subject to the terms and provisions contained in this subsection (b) and not otherwise, the holders of not less than a majority in aggregate Principal Amount of the Bonds of all Series which are affected by such changes shall have the right from time to time to consent to any Supplemental Indenture deemed necessary or desirable by the Authority for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Indenture and affecting only the Bonds of such Series; provided, however, that, unless approved in writing by the holders of all the Bonds of all the affected Series then Outstanding, nothing contained in the Master Indenture shall permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds of such Series or the rate of interest thereon. Nothing contained in the Master Indenture, however, shall be construed as making necessary the approval by Bondholders of the adoption of any Supplemental Indenture as authorized by the Master Indenture, including the granting, for the benefit of particular Series of Bonds, security in addition to the pledge of the Net Revenues.

(c) If at any time the Authority shall desire to enter into any Supplemental Indenture for any of the purposes of this section, the Authority shall cause notice of the proposed execution of the Supplemental Indenture to be given by Mail to all Bondholders or, under section (b) above, all Bondholders of the affected Series. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Authority for inspection by all Bondholders and it shall not be required that the Bondholders approve the final form of such Supplemental Indenture but it shall be sufficient if such Bondholders approve the substance thereof.

Credit Providers

If a Credit Facility is provided for a Series of Bonds or for specific Bonds, the Authority may in the Supplemental Indenture under which such Bonds are issued, provide any or all of the following rights to the Credit Provider as the Authority shall deem to be appropriate:

(a) the right to make requests of, direct or consent to the actions of the Trustee or to otherwise direct proceedings all as provided in the Master Indenture to the same extent and in place of the owners of the Bonds which are secured by the Credit Facility and for such purposes the Credit Provider shall be deemed to be the Bondholder of such Bonds; and

(b) the right to act in place of the owners of the Bonds which are secured by the Credit Facility for purposes of removing a Trustee or appointing a Trustee under the Master Indenture.

The rights granted to any such Credit Provider, with respect to the Master Indenture shall be disregarded and be of no effect if the Credit Provider is in default of its payment obligations under its Credit Facility.

**PART II: SUMMARY OF THE
SECOND SUPPLEMENTAL TRUST INDENTURE**

Terms of the Series 2004 Bonds

The Second Supplemental Trust Indenture sets forth the terms of the Series 2004 Bonds, most of which terms are described earlier in this Official Statement under “DESCRIPTION OF THE SERIES 2004 BONDS.”

Establishment of Funds

The Second Supplemental Trust Indenture establishes the following funds and accounts: (i) within the Debt Service Fund, the Series 2004A Debt Service Account and the Series 2004B Debt Service Account (collectively, the “*Series 2004 Debt Service Accounts*”) and within each Series 2004 Debt Service Account a respective Interest Subaccount, a Principal Subaccount and a Redemption Subaccount; (ii) the Series 2004A Construction Fund and the Series 2004B Construction Fund (collectively, the “*Construction Funds*”) and within each Construction Fund a respective Costs of Issuance Account and a Project Account; (iii) within the Debt Service Reserve Fund, the Series 2004A Debt Service Reserve Account and the Series 2004B Debt Service Reserve Account (collectively, the “*Series 2004 Debt Service Reserve Accounts*”); and (iv) the Series 2004A Rebate Fund (the “*Series 2004A Rebate Fund*”) and therein an Earnings Account.

The funds and accounts shall be initially funded by the proceeds of the sale of the Series 2004 Bonds as described in this Official Statement under “APPLICATION OF THE SERIES 2004 BOND PROCEEDS.”

Construction Funds. The proceeds of the Series 2004 Bonds deposited to the respective Costs of Issuance Accounts of the Construction Funds will be disbursed by the Trustee, from time to time, to pay Costs of Issuance. The Trustee shall make payments or disbursements from the Costs of Issuance Accounts pursuant to directions issued by the Authority upon the closing of the Series 2004 Bonds or upon receipt from the Authority of a written requisition executed by an Authorized Authority Representative, which requisition states, among other things, with respect to each amount requested thereby, (i) that such amount is to be paid from the Costs of Issuance Accounts, (ii) the number of the requisition from such account, (iii) the amount to be paid, the name/names of the entity/entities to which the payment is to be made and the manner in which the payment is to be made, and (iv) describe the Costs of Issuance represented by such payment. Any amounts remaining in the Costs of Issuance Accounts 180 days after the issuance of the Series 2004 Bonds shall be transferred to the respective Project Accounts of the Construction Funds, and the Costs of Issuance Accounts shall be closed.

Amounts deposited to the Project Accounts shall be invested and reinvested in Permitted Investments as directed by the Authority and the earnings in such accounts will be credited to such account. The Trustee shall make payments or disbursements from the Project Accounts upon receipt from the Authority of a written requisition, executed by an Authorized Authority Representative, which requisition shall state, with respect to each amount requested thereby, (i) that such amount is to be paid from the Project Accounts and is not to be used to pay Costs of Issuance, (ii) the number of the requisition from such account, (iii) the amount to be paid, the name/names of the entity/entities to which the payment is to be made and the manner in which the payment is to be made, and (iv) that the amount to be paid represents a Cost incurred in connection with the project for which such Series 2004 Bond was issued.

Upon the happening and continuance of an Event of Default described in either Section 8.01(a) or Section 8.01(b) of the Master Indenture with respect to the Series 2004 Bonds and if moneys are on deposit in a Project Account of the Construction Funds, the Trustee shall transfer available moneys in such Project Account to the applicable Series 2004 Debt Service Account in amounts necessary for application to the payment of the principal of and interest on the applicable Series 2004 Bonds in order to cure such Event of Default.

Series 2004 Debt Service Accounts within the Debt Service Fund. Pursuant to the Second Supplemental Trust Indenture, the Series 2004A Debt Service Account and the Series 2004B Debt Service Account are established within the Debt Service Fund; and within each Series 2004 Debt Service Account, an Interest Subaccount, a Principal Subaccount and a Redemption Subaccount.

The Trustee shall deposit into the respective Interest Subaccounts the amounts received representing Capitalized Interest from the sale of the Series 2004 Bonds and shall, thereafter, deposit into the respective Interest Subaccount (i) amounts received from the Authority to be used to pay interest on the Series 2004 Bonds and, if the Authority enters into an interest rate swap agreement with respect to all or a portion of the Series 2004 Bonds, to pay amounts due and payable to the provider of such agreement at such times as are provided in such interest rate swap agreement and (ii) if the Authority enters into an interest rate swap agreement with respect to all or a portion of the Series 2004 Bonds, any amounts received by the Authority from the provider of such agreement. The Trustee shall also deposit into the respective Interest Subaccounts any other amounts deposited with the Trustee for deposit in the Interest Subaccounts or transferred from other funds and accounts for deposit therein. All amounts held at any time in the Interest Subaccounts shall be held on a priority basis for the ratable security and payment of interest due on the Series 2004 Bonds in accordance with their terms and amounts due and payable by the Authority under any interest rate swap agreement entered into by the Authority with respect to all or a portion of the Series 2004 Bonds (other than any swap termination payments) at any time in proportion to the amounts due or accrued with respect to each of them. Earnings on the Interest Subaccounts shall be retained in the respective accounts to be credited against the Authority's payment of interest next becoming due.

The Trustee shall deposit into the Principal Subaccounts amounts received from the Authority to be used to pay principal of the Series 2004 Bonds whether at maturity or by mandatory sinking fund redemption. The Trustee shall also deposit into the Principal Subaccounts any other amounts deposited with the Trustee for deposit into the Principal Subaccounts or transferred from other funds and accounts for deposit therein. On or about January 15 of each Fiscal Year, the Authority may direct either (i) that earnings on the Principal Subaccounts be withdrawn by the Trustee and paid to the Authority for deposit into the Revenue Fund unless an Event of Default exists under the Master Indenture, in which event the earnings shall be retained in such account or (ii) that earnings be retained in such account to be credited against the Authority's payment of principal next becoming due.

The Trustee shall deposit into the Redemption Subaccounts amounts received from the Authority or from other sources to be used to pay the principal of, interest on and premium, if any, on Series 2004 Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of the mandatory sinking fund). Earnings on amounts from time to time deposited into the Redemption Subaccounts shall be retained in such account or paid to the Authority for deposit into the Revenue Fund in accordance with written instructions given to the Trustee by an Authorized Authority Representative at the time of such deposit.

The Series 2004 Debt Service Accounts shall be invested and reinvested as directed by the Authority in Permitted Investments.

Series 2004 Debt Service Reserve Accounts. Pursuant to the Second Supplemental Trust Indenture, the Series 2004A Debt Service Reserve Account and the Series 2004B Debt Service Reserve Account are established within the Debt Service Reserve Fund.

Upon issuance of the Series 2004A Bonds, a portion of the proceeds of the Series 2004A Bonds will be deposited to the Series 2004A Debt Service Reserve Account in the amount of \$1,504,906.87 (the "***Series 2004A Initial Deposit***"). Over the term of the Series 2004A Bonds, amounts on deposit in the Series 2004A Debt Service Reserve Account are intended to accumulate so as to equal the Maximum Annual Debt Service for the Series 2004A Bonds. Additional deposits (the "***Series 2004A Transferred Deposits***") to the Series 2004A Debt Service Reserve Account are expected to be made, from time to time, from moneys available to be transferred from the Series 2004B Debt Service Reserve Account. If on January 1, 2011, the sum of the Series 2004A Initial Deposit and the Series 2004A Transferred Deposits on deposit in the Series 2004A Debt Service Reserve Account do not equal the Maximum Annual Debt Service for the Series 2004A Bonds, the Authority is required to deposit additional moneys to the Series 2004A Debt Service Reserve Account so that the amount on deposit therein equals the Maximum Annual Debt Service for the Series 2004A Bonds. The Debt Service Reserve Requirement for the Series 2004A Bonds from the date of issuance to January 1, 2011 shall be the lesser of either (i) the sum of the Series 2004A Initial Deposit and any Series 2004A Transferred Deposits or (ii) the Maximum Annual Debt Service for the Series 2004A Bonds, and thereafter an amount equal to the Maximum Annual Debt Service on the Series 2004A Bonds. In no event will the Debt Service Reserve Requirement for the Series 2004A Bonds exceed the Maximum Annual Debt Service with respect thereto.

Upon issuance of the Series 2004B Bonds, a portion of the proceeds of the Series 2004B Bonds will be deposited to the Series 2004B Debt Service Reserve Account in the amount of \$813,640.63 (the “*Series 2004B Initial Deposit*”). Such amount is the Debt Service Reserve Requirement for the Series 2004B Bonds. The Debt Service Reserve Requirement for the Series 2004B Bonds shall be the lesser of either (i) the Series 2004B Initial Deposit or (ii) the Maximum Annual Debt Service for the Series 2004B Bonds. In no event will the Debt Service Reserve Requirement for the Series 2004B Bonds exceed the Maximum Annual Debt Service with respect thereto.

The Second Supplemental Trust Indenture provides that when the Series 2004B Bonds mature or are redeemed, amounts remaining in the Series 2004B Debt Service Reserve Account which are no longer needed to satisfy the Debt Service Reserve Requirement for the Series 2004B Bonds shall be transferred by the Trustee to the Series 2004A Debt Service Reserve Account to the extent permitted by the Code. The Authority anticipates that such transfers of moneys from the Series 2004B Debt Service Reserve Account will be sufficient to have on deposit in the Series 2004A Debt Service Reserve Account by January 1, 2011, an amount equal the Maximum Annual Debt Service for the Series 2004A Bonds.

As long as the Series 2004 Bonds remain Outstanding, the Authority shall maintain an amount equal to the Debt Service Reserve Requirement for each series of Series 2004 Bonds in the relevant Series 2004 Debt Service Reserve Account.

Moneys on deposit in the Series 2004 Debt Service Reserve Accounts shall be applied by the Trustee as follows:

(a) On the Payment Date of each required payment from the Series 2004 Debt Service Accounts, moneys in the Series 2004 Debt Service Reserve Accounts shall be applied to cure any deficiency in the relevant Series 2004 Debt Service Account;

(b) Upon maturity or redemption of each series of the Series 2004 Bonds, moneys remaining in the applicable Series 2004 Debt Service Reserve Account and no longer needed in order to satisfy the Debt Service Reserve Requirement for the applicable series of Series 2004 Bonds shall be transferred to the Interest Subaccount of the applicable Series 2004 Debt Service Account and credited against the Authority's payments next becoming due in respect of the interest on the applicable series of Series 2004 Bonds; and

(c) Any amount in any of the Series 2004 Debt Service Reserve Accounts in excess of the Debt Service Reserve Requirement on the applicable series of Series 2004 Bonds on any valuation date shall be transferred to the Interest Subaccount of the applicable Series 2004 Debt Service Account and credited against the Authority's payments next becoming due in respect of the interest on the applicable series of Series 2004 Bonds.

The amount of any deficiency in the Series 2004 Debt Service Reserve Accounts shall be restored by the Authority in no more than twelve (12) substantially equal, consecutive, monthly installments, each payable on the last Business Day of the month, commencing with the month in which the withdrawal is made; provided that, if any withdrawal is made and if, prior to the restoration of the amount withdrawn, an additional withdrawal is made, such additional withdrawal shall be restored in equal monthly installments over the remainder of the restoration period for the initial withdrawal. In addition, if the fair market value of the investments in any Series 2004 Debt Service Reserve Account is less than 100% of the Debt Service Reserve Requirement on the related Outstanding Series 2004 Bonds for which the Series 2004 Debt Service Reserve Account was established on any valuation date, the difference between such Debt Service Reserve Requirement and the value of the relevant Series 2004 Debt Service Reserve Account shall be restored by the Authority in no more than 12 equal, consecutive, monthly installments, each payable on the last Business Day of the month, commencing with the month in which the valuation revealing the deficiency is made. Upon the making of any monthly deposit to restore a withdrawal or deficiency, the Authority may direct the Trustee to recompute the value of the assets in the relevant Series 2004 Debt Service Reserve Account, in which event the remaining amount to be restored, if any, after taking the new valuation into account shall be deposited in equal monthly installments over the balance of the restoration period.

Moneys in the Series 2004 Debt Service Reserve Accounts shall be invested and reinvested by the Trustee at the direction of the Authority in Permitted Investments.

The Authority is permitted to substitute a Debt Service Reserve Fund Surety Policy for cash or securities on deposit in any Series 2004 Debt Service Reserve Account provided certain conditions set forth in the Second Supplemental Trust Indenture are met.

Series 2004A Rebate Fund. The Second Supplemental Trust Indenture creates the Series 2004A Rebate Fund for the Series 2004A Bonds established for the purpose of complying with certain provisions of the Code which require that the Authority pay to the United States of America the excess, if any, of the amounts earned on certain funds held by the Trustee with respect to the Series 2004A Bonds over the amounts which would have been earned on such funds if such funds earned interest at a rate equal to the yield on the Series 2004A Bonds. Such excess is to be deposited into the Series 2004A Rebate Fund and periodically paid to the United States of America. The Series 2004A Rebate Fund while held by the Trustee is held in trust for the benefit of the United States of America and is not pledged as security for nor available to make payment on the Series 2004A Bonds.

Transfer of Passenger Facility Charges from the PFC Fund

For the period commencing on January 1, 2005 through December 31, 2008, the Authority has irrevocably committed, pursuant to the First Supplemental Trust Indenture, to transfer or cause to be transferred from the PFC Fund created under the Master Indenture, the amount of \$864,150 to the Series 2003A Debt Service Account on or before each June 10 and each December 10 for the payment of a portion of the principal of or interest on the Series 2003A Bonds and the amount of \$185,850 to the Series 2003B Debt Service Account on or before each June 10 and each December 10 for the payment of a portion of the principal of or interest on the Series 2003B Bonds; provided that the amounts so transferred are in conformity with federal statutes and regulations governing the use of Passenger Facility Charges and shall not exceed the amount permitted by applicable law.

Under the Second Supplemental Trust Indenture, the Authority has irrevocably committed, to transfer or cause to be transferred from the PFC Fund created under the Master Indenture, to the Series 2004 Debt Service Accounts on or before each June 10 and December 10 of the years 2005 through and including 2008, any amounts remaining in the PFC Fund after the transfers required above pursuant to the First Supplemental Trust Indenture; provided that the amounts so transferred are in conformity with federal statutes and regulations governing the use of Passenger Facility Charges and shall not exceed the amount permitted by applicable law. Such transfers shall be made pro rata to the Series 2004A Debt Service Account and the Series 2004B Debt Service Account.

Transfer of Net Revenues from Revenue Fund to the Debt Service Fund.

(a) The Authority shall pay or cause to be paid amounts from Net Revenues on deposit in the Revenue Fund to the Trustee for deposit to the respective Principal Subaccount of the Series 2004 Debt Service Accounts by the tenth day of each month sufficient to accumulate in equal monthly installments the principal component of the Annual Debt Service next becoming due on the succeeding Payment Date for the payment of principal of the applicable Series 2004 Bonds.

(b) The Authority shall pay or cause to be paid amounts from Net Revenues on deposit in the Revenue Fund to the Trustee for deposit to respective Interest Subaccount of the Series 2004 Debt Service Accounts the amount necessary for the payment of the interest component of the Annual Debt Service becoming due on any Payment Date for the applicable Series 2004 Bonds.

Bond Insurance

The Bond Insurer's consent is required in addition to Bondholder consent, when required, for the following purposes: (i) execution and delivery of any Supplemental Indenture; (ii) removal of the Trustee or paying agent and selection and appointment of any successor trustee or paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) which requires Bondholder consent. Anything in the Second Supplemental Trust Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined in the Indenture, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under the Second Supplemental Trust Indenture.

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APPENDIX E
FORM OF OPINION OF BOND COUNSEL

SUSQUEHANNA AREA REGIONAL AIRPORT AUTHORITY

\$27,800,000
AIRPORT SYSTEM REVENUE BONDS, SERIES 2004A (AMT)
PERIODIC AUCTION RESET SECURITIES – PARSSM

\$1,875,000
AIRPORT SYSTEM REVENUE BONDS, SERIES 2004B (TAXABLE)
PERIODIC AUCTION RESET SECURITIES – PARSSM

To the Purchasers of the
Above-Described Bonds:

August 12, 2004

We have acted as Bond Counsel in connection with the issuance of \$27,800,000, aggregate principal amount, Airport System Revenue Bonds, Series 2004A (AMT), Periodic Auction Reset Securities – PARSSM (the “Series 2004A Bonds”), and \$1,875,000, aggregate principal amount, Airport System Revenue Bonds, Series 2004B (Taxable), Periodic Auction Reset Securities – PARSSM (the “Series 2004B Bonds”, and with the Series 2004A Bonds, collectively, the “Bonds”), by Susquehanna Area Regional Airport Authority (the “Authority”). The Authority is a municipality authority incorporated pursuant to the Pennsylvania Municipality Authorities Act, 53 Pa. C.S. § 5601 *et seq.*, as amended and supplemented (the “Act”) by appropriate action of the counties of Dauphin, Cumberland and York, the cities of Harrisburg and York, and the townships of Fairview and Lower Swatara.

The Bonds are issued under the terms of a Master Trust Indenture, dated as of April 15, 2003 (the “Master Indenture”), as supplemented by a First Supplemental Trust Indenture, dated as of April 15, 2003 (the “First Supplemental Indenture”), as further supplemented by a Second Supplemental Trust Indenture, dated as of August 1, 2004 (the “Second Supplemental Indenture”, and together with the Master Indenture and First Supplemental Indenture, collectively, the “Indenture”), each between the Authority and Manufacturers and Traders Trust Company, as trustee (the “Trustee”). As used herein, capitalized terms not otherwise defined have meanings assigned to them in the Indenture.

Under the Indenture, the Bonds are secured by a pledge of the Net Revenues of the Airport System. The Indenture establishes appropriate Funds and Accounts, and the Master Indenture provides, *inter alia*, for issuance of additional bonds for purposes and upon terms and conditions established therein secured on a parity with the Bonds.

The Bonds are limited obligations of the Authority. Neither the credit nor the taxing power of the Commonwealth of Pennsylvania (the “Commonwealth”) or any political subdivision thereof is pledged for the payment of the principal of, premium, if any, or interest on the Bonds; nor shall the Bonds be deemed to be obligations of the Commonwealth or any political subdivision thereof; nor shall the Commonwealth or any political subdivision thereof be liable for the payment of principal of, premium, if any, or interest on the Bonds. The Authority has no taxing power. Reference is made to the Indenture for a description of the terms of the Bonds.

We have not been engaged, nor have we undertaken, to review the accuracy, completeness or sufficiency of the Official Statement dated July 30, 2004 (the “Official Statement”) or other offering material relating to the Bonds, and we express no opinion herein relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

To the Purchasers of the
Above-Described Bonds
August 12, 2004
Page 2

As to questions of fact material to our opinion, we have relied upon the representations of the Authority contained in the Indenture and in the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

As Bond Counsel, we have examined, among other things, originals or certified copies of the Indenture, the form of the Series 2004A Bond, the form of the Series 2004B Bond, the Opinion of Counsel to the Authority, such constitutional and statutory provisions and such other certificates, instruments and documents as we have deemed necessary or appropriate in order to enable us to render an informed opinion as to the matters set forth herein.

Based on such examination of the foregoing, identified above, and the certifications and representations of fact contained in the proceedings relating to the issuance of the Bonds, which we have not verified independently, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Authority is duly created and validly existing as a body politic and corporate and public instrumentality of the Commonwealth with the corporate power to enter into the Master Indenture and the Second Supplemental Indenture, perform the agreements and covenants on its part contained therein and issue the Bonds.
2. The Indenture has been duly entered into by the Authority and, assuming due authorization, execution and delivery by the Trustee, constitutes a valid and enforceable instrument.
3. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding limited obligations of the Authority, payable solely from and are secured by an assignment and pledge by the Authority to the Trustee of the Net Revenues and certain Funds and Accounts established under the Indenture.
4. Interest on the Series 2004A Bonds is excludable from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"), except that no opinion is expressed as to the exclusion from gross income of interest on any Series 2004A Bond for any period during which such Series 2004A Bond is held by a person who is a "substantial user" of projects financed or refinanced by the Series 2004A Bonds, or who is a "related person" within the meaning of Section 147(a) of the Code. Interest on the Series 2004A Bonds will be treated as an item of tax preference in calculating the alternative minimum tax imposed on individuals and corporations. The opinions set forth in this paragraph 4 with respect to exclusion of interest from gross income for federal income tax purposes are subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2004A Bonds in order that interest on and accruals of original issue discount with respect to the Series 2004A Bonds be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on and accruals of original issue discount with respect to the Series 2004A Bonds to be included in gross income retroactive to the date of issuance of the Series 2004A Bonds. The Authority has covenanted to comply with such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Series 2004A Bonds.
5. Interest on the Series 2004B Bonds is not excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended. We express no opinion regarding other federal tax consequences arising with respect to the Series 2004B Bonds.
6. The Bonds are exempt from personal property taxes in Pennsylvania; and the interest on the Bonds is exempt from Pennsylvania Corporate Net Income Tax and from personal income taxation by the Commonwealth, or by any of its political subdivisions.

To the Purchasers of the
Above-Described Bonds
August 12, 2004
Page 3

It is understood that the rights of the owners of the Bonds and the enforceability of the Bonds, the Master Indenture and Second Supplemental Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

ECKERT SEAMANS CHERIN & MELLOTT, LLC

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APPENDIX F
FORM OF CONTINUING DISCLOSURE UNDERTAKING

SUSQUEHANNA AREA REGIONAL AIRPORT AUTHORITY

THIS CONTINUING DISCLOSURE UNDERTAKING (this “**Disclosure Undertaking**”) is made by the Susquehanna Area Regional Airport Authority (the “**Authority**”) as of the 12th day of August, 2004 in connection with its issuance of \$27,800,000 aggregate principal amount of Airport System Revenue Bonds, Series 2004A (the “**Series 2004A Bonds**”) and \$1,875,000 aggregate principal amount of Airport System Revenue Bonds, Series 2004B (the “**Series 2004B Bonds**” together with the Series 2004A Bonds, the “**Series 2004 Bonds**”). The Series 2004 Bonds are being issued pursuant to the Authority’s Master Trust Indenture dated as of April 15, 2004 (the “**Master Indenture**”), as supplemented by the Second Supplemental Trust Indenture dated as of August 1, 2004 (the “**Second Supplemental Trust Indenture**” together with the Master Indenture, the “**Indenture**”).

In consideration of the purchase of the Series 2004 Bonds by the Underwriter (as defined below), the Authority agrees as follows:

SECTION 1. Purpose of this Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Authority for the benefit of the Bondowners and in order to assist the Underwriter in complying with the provisions of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the “**Commission**”) under the Securities Exchange Act of 1934, as amended from time to time (the “**Act**”) in connection with the public offering of the Series 2004 Bonds.

SECTION 2. Definitions. Capitalized terms used but not defined herein shall have the meaning ascribed to them in the Indenture. The capitalized terms shall have the following meanings:

“**Annual Financial Information**” shall mean financial information or operating data with respect to the Authority, the Airport System, and any other Obligated Person, delivered at least annually pursuant to Section 3 hereof, substantially similar to the type of information set forth in the Official Statement under the captions “THE AUTHORITY,” “HARRISBURG INTERNATIONAL AIRPORT -- Aviation Activity,” “FINANCIAL INFORMATION,” and in Appendices A and B to the Official Statement. Annual Financial Information may, but is not required to, include Audited Financial Statements or any other format deemed convenient by the Authority.

“**Audited Financial Statements**” shall mean the annual financial statements of the Authority for the prior Fiscal Year, prepared in accordance with accounting principles generally accepted in the United States of America as in effect from time to time, audited by a firm of certified public accountants.

“**Bondowner**” or “**Owner of the Bonds**” shall mean the registered owner of the Series 2004 Bonds, and so long as the Series 2004 Bonds are subject to the Book Entry Only System, any person who, through any contract, arrangement or otherwise, has or shares investment power with respect to the Series 2004 Bonds, which includes the power to dispose, or direct the disposition, of the Series 2004 Bonds.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Act. The current address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, Virginia 22314; phone (703) 797-6600, fax (703) 683-1930; Email: msrb.org.

“National Repository” shall mean any nationally recognized municipal securities information repository within the meaning of Rule 15c2-12. The list of National Repositories maintained by the Commission shall be conclusive for purposes of determining National Repositories. Currently, the following are National Repositories:

1. DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
(201) 346-0701 (phone)
(201) 947-0107 (fax)
Email: nrmsir@dpcedata.com
2. Interactive Data
Attn: Repository
100 Williams Street
New York, New York 10038
(212) 771-6999 (phone)
(212) 771-7391 (fax for primary market information)
(212) 771-7390 (fax for secondary market information)
Email: NRMSIR@FTID.com
3. Bloomberg Municipal Repositories
P.O. Box 840
Princeton, New Jersey 08542-0840
(609) 279-3225 (phone)
(609) 279-5962 (fax)
Email: Munis@Bloomberg.com
4. Standard & Poor’s J.J. Kenny Repository
55 Water Street
45th Floor
New York, New York 10041
(212) 438-4595 (phone)
(212) 438-3975 (fax)
Email: nrmsir_repository@sandp.com

“Notice Events” shall mean any of the events listed in Section 4(a) of this Disclosure Undertaking.

“Obligated Persons” shall mean the Authority, and each airline or other entity using the Airport Facilities of the Authority under a lease or use agreement extending for more than one year from the date in question and including bond debt service as part of the calculation of rates and charges, under which lease or use agreement such airline or other entity has paid amounts equal to at least 20% of the Revenues of the Authority for each of the two prior Fiscal Years of the Authority.

“Official Statement” shall mean the final Official Statement dated July 30, 2004, together with any supplements thereto, prior to the date the Series 2004 Bonds are issued and delivered in connection with the original issue and sale of the Series 2004 Bonds.

“Repository” shall mean each National Repository and the State Depository (if any).

“Rule 15c2-12” shall mean Rule 15c2-12 (as amended through the date of this Disclosure Undertaking including any official interpretations thereof promulgated on or prior to the effective date hereof), promulgated by the Commission under the Act.

“**State Depository**” shall mean any public or private depository or entity designated by the Commonwealth of Pennsylvania as a state information depository (if any) within the meaning of Rule 15c2-12. As of the date of this Disclosure Undertaking, there is no State Depository for the Commonwealth of Pennsylvania.

“**Underwriter**” shall have the meaning given thereto under Rule 15c2-12, or any successor to such underwriter or underwriters known to the Authority.

SECTION 3. Provision of Annual Financial Information.

(a) Commencing with the Fiscal Year ending December 31, 2004, and annually while the Series 2004 Bonds remain outstanding, the Authority shall provide to the Repositories the Annual Financial Information and Audited Financial Statements.

(b) Such Annual Financial Information shall be provided no later than 120 days after the end of the Fiscal Year. If not provided as a part of the Annual Financial Information, the Audited Financial Statements will be provided if and when they become available, but in no event later than 180 days after the end of each Fiscal Year.

(c) The Authority may provide Annual Financial Information and Audited Financial Statements by specific cross-reference to other documents, which have been submitted to the State Depository (if any), each National Repository, or filed with the Commission. If the document so referenced is a final official statement within the meaning of Rule 15c2-12, such final official statement must be available from the MSRB. The Authority shall clearly identify each such other document provided by cross-reference.

(d) The Authority confirms that there is no Obligated Person other than the Authority at present. Unless Rule 15c2-12 no longer requires reporting of Obligated Persons, the Authority agrees to use its reasonable efforts to cause any future Obligated Person to make Annual Financial Information available as contemplated by this Section 3 hereof. Any change in Obligated Persons shall be reported by the Authority in connection with the Annual Financial Information. The Authority takes no responsibility for the accuracy or completeness of any financial information or operating data or other filings by any future Obligated Person.

SECTION 4. Reporting of Notice Events. (a) This Section 4 hereof shall govern the giving of notices of the occurrence of any of the following Notice Events with respect to the Series 2004 Bonds, if material:

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 relating to any Bonds 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 any Bonds;
7. Modifications to rights of Bondowners;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of any Bonds;
and
11. Ratings changes.

(b) The Authority shall provide in a timely manner to the MSRB and to the State Depository (if any) notice of any event with respect to the Series 2004 Bonds, if material. Notice of Notice Events under subsections (a)(8) and (a)(9) hereof need not be given any earlier than the notice (if any) is given to Bondowners of the affected Series 2004 Bonds pursuant to section 511 of the Second Supplemental Trust Indenture.

(c) The parties recognize that (1) the Chairman of the Board of Directors of the Authority or any person designated by him has primary responsibility for compliance with this section, unless such responsibility is altered by action of the Authority, and (2) no notice shall be deemed an official notice from the Authority unless given or authorized by the Chairman of the Board of Directors of the Authority (unless an alternative procedure is established by the Authority).

(d) At any time the Series 2004 Bonds are outstanding, the Authority shall provide, in a timely manner, to the MSRB and the State Depository (if any), notice of any failure of the Authority to provide the Annual Financial Information and Audited Financial Statements by the date specified in Section 3 hereof in the form attached as Exhibit A hereto.

SECTION 5. Term. This Disclosure Undertaking shall be in effect from and after the issuance and delivery of the Series 2004 Bonds and shall extend to the earlier of (i) the date all principal and interest on the Series 2004 Bonds shall have been deemed paid pursuant to the terms of the Indenture; (ii) the date that the Authority shall no longer be deemed an “obligated person” with respect to the Series 2004 Bonds within the meaning of Rule 15c2-12; or (iii) the date on which those portions of Rule 15c2-12, which require this Disclosure Undertaking, are determined to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Series 2004 Bonds, which determination shall be evidenced by an opinion of counsel selected by the Authority, a copy of which opinion shall be given to the Underwriter. The Authority shall file a notice of any such termination with the Repositories and the MSRB.

SECTION 6. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Authority may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived (a) if such amendment or waiver occurs prior to a primary offering of the Series 2004 Bonds or prior to the actual issuance and delivery of the Series 2004 Bonds, (b) if such amendment or waiver is consented to by the Underwriter and by the Bondowners of no less than a majority in aggregate principal amount of the Series 2004 Bonds then outstanding obtained in the manner prescribed by the Indenture or (c) if such amendment or waiver is otherwise consistent with Rule 15c2-12 as then in effect. Written notice of any such amendment or waiver shall be provided by the Authority to the Repositories and the MSRB, and the Annual Financial Information shall explain the reasons for the amendment or waiver and the impact of any change in the type of information being provided.

SECTION 7. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other annual information or notice of occurrence of an event which is not in addition to that which is required by this Disclosure Undertaking; provided that the Authority shall not be required to do so. If the Authority chooses to include any annual information or notice of occurrence of an event in addition to that which is specifically required by this Disclosure Undertaking, the Authority shall have no obligation under this Disclosure Undertaking to update such information or include it in any future annual filing or notice or occurrence of a Notice Event.

SECTION 8. Default and Enforcement. If the Authority fails to comply with any provision of this Disclosure Undertaking, any Bondowner may take action to seek specific performance by court order to compel the Authority to comply with its obligations under this Disclosure Undertaking; provided that any Bondowner seeking to require compliance with this Disclosure Undertaking shall first provide to the Chairman of the Board of Directors of the Authority at least 30 days’ prior written notice of the Authority’s failure, giving reasonable details of such failure, following which notice the Authority shall have 30 days to comply. A default under this Disclosure Undertaking shall not be deemed a Notice Event of Default under the Indenture or the Series 2004 Bonds or any other agreement executed and delivered in connection with the issuance of the Series 2004 Bonds, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Authority to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 9. Disclosure Dissemination Agent. The Authority may appoint a disclosure dissemination agent to assume the responsibilities for compliance with disclosure requirements pursuant to Rule 15c2-12 performed by the Authority under this Disclosure Undertaking for the benefit of the Bondowners and Underwriter.

SECTION 10. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Authority, the Underwriter and the Bondowners and shall create no rights in any other person or entity.

SECTION 11. Governing Law. This Disclosure Undertaking shall be governed by the laws of the Commonwealth of Pennsylvania (other than with respect to conflicts of laws).

IN WITNESS WHEREOF, the undersigned has duly authorized, executed and delivered this Disclosure Undertaking as of the date first written above.

SUSQUEHANNA AREA REGIONAL
AIRPORT AUTHORITY, the Authority

By: _____
Chairman

Exhibit A

FORM OF NOTICE OF FAILURE TO FILE ANNUAL REPORT

Issuer _____

Name of Bond Issue: _____

Date of Issuance: _____

CUSIP Number: _____

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Undertaking, dated as of July 30, 2004. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

Susquehanna Area Regional
Airport Authority, Issuer

APPENDIX G BOOK ENTRY ONLY SYSTEM

Unless otherwise noted, the information contained under “General” below has been provided by The Depository Trust Company. Neither the Authority nor the Underwriter make any representation as to the accuracy or the completeness of such information. The Beneficial Owners of the Series 2004 Bonds should confirm the following information with DTC or the DTC Participants.

NEITHER THE AUTHORITY, THE TRUSTEE, NOR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2004 BONDS UNDER THE INDENTURE; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2004 BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE OWNER OF THE SERIES 2004 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2004 BONDS; OR (F) ANY OTHER MATTER RELATING TO DTC OR THE BOOK-ENTRY ONLY SYSTEM.

General

DTC will act as securities depository for the Series 2004 Bonds. The Series 2004 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 Series 2004 Bond certificate will be issued for each maturity of the Series 2004 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Trustee.

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 “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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 organization. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Direct Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The Authority, the Trustee, and the Underwriter undertake no responsibility for and make no representation as to the accuracy or the completeness of the content of such material contained on DTC’s website as described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website.

Book-Entry System

Purchases of the Series 2004 Bonds under the DTC system must be made by or through Direct or Indirect Participants, which will receive a credit for the Series 2004 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2004 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 Series 2004 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 Series 2004 Bonds, except in the event that use of the book-entry system for the Series 2004 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004 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 Series 2004 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 Series 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004 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.

While the Series 2004 Bonds are in the book-entry system, redemption notices will be sent to Cede & Co. If less than all of the Series 2004 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2004 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Series 2004 Bonds are credited on the record dated (identified in a listing attached to the Omnibus Proxy).

Principal, premium and interest payments on the Series 2004 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 Participant's accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect 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 Direct and Indirect Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry System

DTC may discontinue providing its services as depository with respect to the Series 2004 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2004 Bonds are required to be printed and delivered as provided in the Indenture.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates representing the Series 2004 Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but neither the Authority nor the Underwriter take any responsibility for the accuracy thereof.

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APPENDIX H PARS PROVISIONS

The following are selected provisions of the Second Supplemental Trust Indenture which are applicable to the Series 2004 Bonds bearing interest at a PARS Rate, and are in addition and complementary to the summary found under the caption “DESCRIPTION OF THE SERIES 2004 BONDS.”

The Series 2004 Bonds contain terms and conditions that are substantially the same. Unless otherwise specified herein, reference in this Appendix H to the Series 2004 Bonds mean each Series of the Series 2004 Bonds.

Definitions

In addition to the words and terms elsewhere defined in the Second Supplemental Trust Indenture and this Official Statement, the following words and terms as used in this Appendix H and elsewhere in the Second Supplemental Trust Indenture and this Official Statement have the following meanings with respect to the Series 2004 Bonds bearing interest at a PARS Rate unless the context or use indicates another or different meaning or intent:

“*Agent Member*” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“*All Hold Rate*” means, as of any Auction Date, 55% of the PARS Index in effect on such Auction Date for the Series 2004A Bonds, and 90% of the PARS Index in effect on such Auction Date for the Series 2004B Bonds.

“*Auction*” means each periodic implementation of the Auction Procedures.

“*Auction Agent*” means the auctioneer appointed in accordance with the Second Supplemental Trust Indenture and shall initially be Wilmington Trust Company for both Series.

“*Auction Agreement*” means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in the Second Supplemental Trust Indenture with respect to the Series 2004 Bonds while bearing interest at a PARS Rate, as such agreement may from time to time be amended or supplemented.

“*Auction Date*” means, with respect to each Series of the Series 2004 Bonds, (i) if the Series 2004 Bonds are in a daily Auction Period, each Business Day, (ii) if the Series 2004 Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) if the Series 2004 Bonds are in any other Auction Period, the Business Day next preceding each PARS Interest Payment Date for such Series 2004 Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the Series 2004 Bonds in an Auction Period other than a daily Auction Period or a Special Auction Period shall be the earlier of (a) the Business Day next preceding the PARS Interest Payment Date next preceding the Conversion Date for the Series 2004 Bonds and (b) the Business Day next preceding the PARS Interest Payment Date next preceding the final maturity date for the Series 2004 Bonds; and provided, further, that if the Series 2004 Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the Series 2004 Bonds and (y) the Business Day next preceding the final maturity date for the Series 2004 Bonds. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Dates for the Series 2004 Bonds are set forth in the inside front cover page of this Official Statement.

“*Auction Period*” means:

- (a) a Special Auction Period;
- (b) with respect to the Series 2004 Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;

(c) with respect to the Series 2004 Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(d) with respect to the Series 2004 Bonds in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to the Series 2004 Bonds in a 35-day Auction Period and with Auctions generally conducted on (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to the Series 2004 Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following

the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(g) with respect to the Series 2004 Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding December 31 or June 30;

provided, however, that

(a) if there is a conversion of the Series 2004 Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i. e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(b) if there is a conversion of the Series 2004 Bonds with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i. e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i. e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i. e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(c) if there is a conversion of the Series 2004 Bonds with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i. e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i. e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(d) if there is a conversion of the Series 2004 Bonds with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i. e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i. e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not

followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(e) if there is a conversion of the Series 2004 Bonds with Auctions generally conducted on Thursdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.* the PARS Interest Payment Date for the prior Auction Period) and shall end on Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

“*Auction Procedures*” means the procedures for conducting Auctions for the Series 2004 Bonds during a PARS Rate Period as summarized under “*Auction Procedures*” herein.

“*Auction Rate*” means the rate of interest to be borne by the Series 2004 Bonds of each Series during each Auction Period determined as summarized under “*Determination of PARS Rate*” below.

“*Available Bonds*” means, with respect to each Series of the Series 2004 Bonds on each Auction Date, the aggregate principal amount of the Series 2004 Bonds that are not the subject of Submitted Hold Orders.

“*Bid*” has the meaning specified under “*Orders by Existing Owners and Potential Owners*” below.

“*Bidder*” means each Existing Owner and Potential Owner who places an Order.

“*Broker-Dealer*” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in the Second Supplemental Trust Indenture that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Authority, with the consent of Goldman, Sachs & Co., so long as Goldman, Sachs & Co. remains a Broker-Dealer, and is a party to a Broker-Dealer Agreement with the Authority and the Auction Agent. The initial Broker-Dealer for both Series of the Series 2004 Bonds is Goldman, Sachs & Co.

“*Broker-Dealer Agreement*” means an agreement among the Auction Agent, the Authority, and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in the Second Supplemental Trust Indenture, as such agreement may from time to time be amended or supplemented.

“*Conversion Date*” means, with respect to any Series 2004 Bonds, the date on which the Series 2004 Bonds begin to bear interest at a Fixed Rate or a Variable Rate.

“*Existing Owner*” means, with respect to each Series 2004 Bond, a Person who is listed as the beneficial owner of such Series 2004 Bond in the records of the Auction Agent.

“*Hold Order*” has the meaning specified under “*Orders by Existing Owners and Potential Owners*” below.

“*Initial Period*” means the Issue Date to but not including September 18, 2004 for the Series 2004A Bonds and the Issue Date to but not including August 22, 2004 for the Series 2004B Bonds.

“*LIBOR*” means on any date of determination for an Auction Period, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%) for deposits in U.S. dollars for a one-month period which appears on the Telerate page 3750 at approximately 11:00 A.M., London time, on such date, or if such date is

not a date on which dealings in U.S. dollars are transacted in the London interbank market then on the next preceding day on which such dealings were transacted in such market.

“*Maximum Rate*” means, with respect to the Series 2004A Bonds, the lesser of fourteen percent (14%) or the maximum rate permitted by applicable law, and with respect to the Series 2004B Bonds, the lesser of sixteen percent (16%) or the maximum rate permitted by applicable law.

“*Order*” means a Hold Order, Bid or Sell Order.

“*PARS*” means each Series of the Series 2004 Bonds while they bear interest at the PARS Rate.

“*PARS Interest Payment Date*” with respect to each Series of the Series 2004 Bonds bearing interest at a PARS Rate means the initial PARS Interest Payment Dates specified on the inside front cover of this Official Statement, and thereafter (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Special Auction Period, or (ii) 92 or more days, (A) in the case of the Series 2004 Bonds with Auctions generally conducted on Fridays, each thirteen Monday after the first day of such Special Auction Period or the next Business Day if such Monday is not a Business Day and on the Business Day immediately following such Special Auction Period, (B) in the case of the Series 2004 Bonds with Auctions generally conducted on Mondays, each thirteen Tuesday after the first day of such Special Auction Period or the next Business Day if such Tuesday is not a Business Day and on the Business Day immediately following such Special Auction Period, (C) in the case of the Series 2004 Bonds with Auctions generally conducted on Tuesdays, each thirteen Wednesday after the first day of such Special Auction Period or the next Business Day if such Wednesday is not a Business Day and on the Business Day immediately following such Special Auction Period, (D) in the case of the Series 2004 Bonds with Auctions generally conducted on Wednesdays, each thirteen Thursday after the first day of such Special Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Special Auction Period, (E) in the case of the Series 2004 Bonds with Auctions generally conducted on Thursdays, each thirteen Friday after the first day of such Special Auction Period or the next Business Day if such Friday is not a Business Day and on the Business Day immediately following such Special Auction Period.

“*PARS Rate*” means with respect to each Series of the Series 2004 Bonds, the rate of interest to be borne by the Bonds of such Series during each Auction Period determined as summarized under “*Determination of PARS Rate*” below; provided, however, in no event may the PARS Rate exceed the Maximum Rate.

“*PARS Rate Conversion Date*” means with respect to each Series of the Series 2004 Bonds, the date on which the Series 2004 Bonds convert from an interest rate period other than a PARS Rate Period and begin to bear interest at a PARS Rate.

“*PARS Rate Period*” means, with respect to each Series of the Series 2004 Bonds, any period of time after the Initial Period, commencing on the day following the Initial Period to, but not including, a Variable Rate Date or a Fixed Rate Date.

“*Potential Owner*” means, with respect to each Series of the Series 2004 Bonds, any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Series 2004 Bonds of such Series in addition to the Series 2004 Bonds currently owned by such Person, if any.

“*Principal Office*” means, with respect to the Auction Agent, the office thereof designated in writing to the Authority, the Trustee, and the Broker-Dealer.

“*Securities Depository*” means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Authority, which agrees to follow the procedures required to be followed by such securities depository in connection with the Series 2004 Bonds.

“*Sell Order*” has the meaning as summarized under “*Orders by Existing Owners and Potential Owners*” below.

"*Special Auction Period*" means, with respect to each Series of the Series 2004 Bonds, (a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of Series 2004 Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of Series 2004 Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of Series 2004 Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of Series 2004 Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of Series 2004 Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or (b) any period which is longer than 182 days, which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Series 2004 Bonds.

"*Submission Deadline*" means, with respect to each Series of the Series 2004 Bonds, 1:00 p.m., New York City time, on each Auction Date for a Series of the Series 2004 Bonds not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date for a Series of the Series 2004 Bonds in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

"*Submitted Bid*" has the meaning summarized under "*Determination of PARS Rate*" below.

"*Submitted Order*" has the meaning summarized under "*Determination of PARS Rate*" below.

"*Sufficient Clearing Bids*" means with respect to each Series of the Series 2004 Bonds, an Auction for which the aggregate principal amount of the Series 2004 Bonds are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate and is not less than the aggregate principal amount of the Series 2004 Bonds of such Series that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

"*Winning Bid Rate*" means, with respect to each Series of the Series 2004 Bonds, the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the PARS Rate would cause the aggregate principal amount of the Series 2004 Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

Auction Procedures

Orders by Existing Owners and Potential Owners.

- (a) Prior to the Submission Deadline on each Auction Date:
 - (i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:
 - (A) the principal amount of the Series 2004 Bonds of such Series, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period;
 - (B) the principal amount of the Series 2004 Bonds of such Series, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding PARS Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner); and/or

(C) the principal amount of the Series 2004 Bonds of such Series, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding PARS Interest Payment Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period.

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Series 2004 Bonds of such Series, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of the Series 2004 Bonds of each Series, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) above is herein referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a "Bid," and an Order containing the information referred to in clause (i)(C) above is herein referred to as a "Sell Order."

(b)(i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the Series 2004 Bonds of such Series specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the Series 2004 Bonds of such Series to be determined as described in subsection (a)(v) of the section below entitled "*Allocation of Series 2004 Bonds*" if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of the Series 2004 Bonds of such Series to be determined as described in subsection (b)(iv) of the section below entitled "*Allocation of Series 2004 Bonds*" if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the Series 2004 Bonds of such Series specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of the Series 2004 Bonds of such Series as described in subsection (b)(iv) of the section below entitled "*Allocation of Series 2004 Bonds*" if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of the Series 2004 Bonds of such Series specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the Series 2004 Bonds of such Series as described in subsection (a)(vi) of the section below entitled "*Allocation of Series 2004 Bonds*" if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies the Series 2004 Bonds of any Series to be held, purchased or sold in a principal amount which is not \$25,000 or an integral multiple

thereof shall be rounded down to the nearest \$25,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Series 2004 Bonds of any Series which has been called for redemption on or prior to the PARS Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Series 2004 Bonds of any Series which has been called for redemption on or prior to the PARS Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) except as provided under “*Changes in Auction Period or Auction Date*” below, if an Order or Orders covering all outstanding Series 2004 Bonds subject to Auction on an Auction Date held by an Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline for such Auction Date the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of such outstanding Series 2004 Bonds held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and, if requested, specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of the Series 2004 Bonds of such Series, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of the Series 2004 Bonds of such Series, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the Series 2004 Bonds of such Series, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the Series 2004 Bonds of such Series, if any, subject to any Sell Order placed by such Existing Owner.

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Series 2004 Bonds of any Series held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of the Series 2004 Bonds of such Series held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of the Series 2004 Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of the Series 2004 Bonds of such Series to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of Outstanding Series 2004 Bonds of any Series held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of the Series 2004 Bonds of such Series held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of the Series 2004 Bonds of such Series held by such Existing Owner over the principal amount of the Series 2004 Bonds of such Series subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of the Series 2004 Bonds of such Series held by such Existing Owner over the principal amount of the Series 2004 Bonds of such Series held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of the Series 2004 Bonds of such Series held by such Existing Owner over the principal amount of the Series 2004 Bonds of such Series held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above; and

(D) the principal amount, if any, of such Series 2004 Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner.

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of the Series 2004 Bonds of such Series equal to the excess of the principal amount of the Series 2004 Bonds of such Series held by such Existing Owner over the sum of the principal amount of the Series 2004 Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of the Series 2004 Bonds of such Series considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of the Series 2004 Bonds of any Series specified therein.

(f) Neither the Authority, the Trustee, nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

Determination of PARS Rate.

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for the Series 2004 Bonds of any Series, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone or other electronic communication acceptable to the parties of the All Hold Rate, the Maximum Rate and the PARS Index for the Series 2004 Bonds of such Series.

(b) Promptly after the Submission Deadline on each Auction Date for the Series 2004 Bonds of any Series, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent shall advise the Trustee by telephone (promptly confirmed in writing), telex or facsimile transmission or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Period and the Trustee shall promptly notify the Securities Depository of such Auction Rate.

(d) In the event the Auction Agent fails to calculate or, for any reason, fails to provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the PARS Rate for the new Auction Period shall be the same as the PARS Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the PARS Rate in effect for the preceding Auction Period shall continue in effect for the Auction Period as so extended. In the event Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extend to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period shall end on the date it would otherwise have ended on had the prior Auction Period not been extended.

(e) In the event of a failed conversion, with respect to the Series 2004 Bonds of any Series to a Variable Rate Period or a Fixed Rate Period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the PARS Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Series 2004 Bonds of any Series are no longer maintained in book-entry-only form by the Securities Depository, then the PARS Rate shall be the Maximum Rate.

Allocation of Series 2004 Bonds.

(a) In the event of Sufficient Clearing Bids for the Series 2004 Bonds of any Series, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004 Bonds of such Series that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Series 2004 Bonds of such Series that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004 Bonds of such Series that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Series 2004 Bonds of such Series that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004 Bonds of such Series that are the subject of such Submitted Bid, but only up to and including the principal amount of the Series 2004 Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Series 2004 Bonds of such Series which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding

Series 2004 Bonds of such Series held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Outstanding Series 2004 Bonds of such Series subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of the Series 2004 Bonds of such Series;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Series 2004 Bonds of such Series that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the Series 2004 Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Series 2004 Bonds of such Series which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Series 2004 Bonds of such Series subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding Series 2004 Bonds of such Series subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for the Series 2004 Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders, for Series 2004 Bonds of such Series shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004 Bonds of such Series that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004 Bonds of such Series that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Series 2004 Bonds of such Series that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of the Series 2004 Bonds of such Series obtained by multiplying (A) the aggregate principal amount of the Series 2004 Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding Series 2004 Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding Series 2004 Bonds of such Series subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of the Series 2004 Bonds of such Series; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the Series 2004 Bonds of any Series which is not an integral multiple of \$25,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of the Series 2004 Bonds of such Series to be purchased or sold by any Existing Owner or Potential Owner on such Auction

Date so that the aggregate principal amount of the Series 2004 Bonds of such Series purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Series 2004 Bonds of such Series on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than \$25,000 in principal amount of the Series 2004 Bonds of such Series on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the Series 2004 Bonds of such Series for purchase among Potential Owners so that the principal amount of Series 2004 Bonds of such Series purchased on such Auction Date by any Potential Owner shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Potential Owners not purchasing the Series 2004 Bonds of such Series on such Auction Date.

Notice of PARS Rate.

(a) On each Auction Date, the Auction Agent shall notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following with respect to each Series of the Series 2004 Bonds for which an Auction was held on such Auction Date:

- (i) the PARS Rate determined on such Auction Date for the succeeding Auction Period;
- (ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of the Series 2004 Bonds of such Series, if any, to be sold by such Existing Owner;
- (iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of the Series 2004 Bonds of such Series, if any, to be purchased by such Potential Owner;
- (v) if the aggregate principal amount of the Series 2004 Bonds of such Series to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of the Series 2004 Bonds of such Series to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of the Series 2004 Bonds of such Series to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and
- (vi) the immediately succeeding Auction Date.

(b) On each Auction Date for the Series 2004 Bonds of any such Series, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the PARS Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of the Series 2004 Bonds of such Series to be purchased pursuant to such Bid (including, with respect to the Series 2004 Bonds of such Series in a daily Auction Period, accrued interest if the purchase date is not the PARS Interest Payment Date for such Bond) against receipt of such Series 2004 Bonds of such Series; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of the Series 2004 Bonds of such Series to be sold pursuant to such Bid or Sell Order against payment therefor.

PARS Index.

- (a) The PARS Index is LIBOR.
- (b) If for any reason on any Auction Date the PARS Index shall not be determined as hereinabove provided in this Section, the PARS Index shall be the PARS Index for the Auction Period ending on such Auction Date.
- (c) The determination of the PARS Index as provided herein shall be conclusive and binding upon the Authority, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of each Series of the Series 2004 Bonds.

Miscellaneous Provisions Regarding Auctions.

- (a) Each reference to the purchase, sale or holding of the Series 2004 Bonds of any such Series shall refer to beneficial interests in the Series 2004 Bonds of such Series, unless the context clearly requires otherwise.
- (b) During a PARS Rate Period with respect to the Series 2004 Bonds of any Series, the provisions of the Second Supplemental Trust Indenture and the definitions contained therein, including without limitation the definitions Maximum Rate, All Hold Rate, PARS Index, PARS Interest Payment Date, and the PARS Rate, may be amended with respect to the Series 2004 Bonds pursuant to the Second Supplemental Trust Indenture, by obtaining the consent of the owners of all affected Outstanding Series 2004 Bonds of such Series bearing interest at a PARS Rate. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Series 2004 Bonds of such Series, (i) the PARS Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Authority and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Series 2004 Bonds or any exemption from federal income tax to which the interest on the Series 2004A Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Outstanding Series 2004 Bonds of such Series bearing interest at a PARS Rate.
- (c) During a PARS Rate Period with respect to the Series 2004 Bonds of any Series, if the Securities Depository notifies the Authority that it is unwilling or unable to continue as owner of the Series 2004 Bonds of such Series or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Authority within 90 days after the Authority receives notice or becomes aware of such condition, as the case may be, the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the Series 2004 Bonds of such Series. Such Series 2004 Bonds shall be registered in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Authority and the Trustee.

Notwithstanding any provision to the Master Indenture to the contrary, during a PARS Rate Period, so long as the ownership of the Series 2004 Bonds of such Series is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Series 2004 Bond of such Series only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of the Series 2004 Bonds of such Series from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Series 2004 Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Series 2004 Bonds of such Series so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Changes in Auction Period or Auction Date.

- (a) Changes in Auction Period. (i) During any PARS Rate Period, the Authority may, from time to time on any PARS Interest Payment Date, change the length of the Auction Period with respect to all of the

Series 2004 Bonds of any Series in a PARS Rate Period among daily, seven-day, 28-day, 35-day, three month, six month and a Special Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Series 2004 Bonds; provided, however, in the case of a change from a Special Auction Period, the date of such change shall be the PARS Interest Payment Date immediately following the last day of such Special Auction Period. The Authority shall initiate the change in the length of the Auction Period by giving written notice to the Trustee, the Bond Insurer, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Special Auction Period and shall be for all of the Series 2004 Bonds of such Series in a PARS Rate Period.

(iii) The change in the length of the Auction Period for each Series of the Series 2004 Bonds shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period for each Series of the Series 2004 Bonds shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Authority consenting to the change in the length of the Auction Period specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Series 2004 Bonds except to the extent such Existing Owner submits an Order with respect to such Series 2004 Bonds. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any PARS Rate Period, the Auction Agent, with the written consent of the Authority, may specify an earlier Auction Date for any Series (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Series 2004 Bonds of any Series. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Authority, the Broker-Dealers and the Securities Depository.

Conversions from PARS Rate Periods.

At the option of the Authority, all Series of the Series 2004 Bonds may be converted from a PARS Rate Period to a Variable Rate Period or a Fixed Rate Period as follows:

(a) The Variable Rate Date or the Fixed Rate Date shall be the PARS Interest Payment Date following the final Auction Period.

(b) The Authority shall give written notice of any such conversion to the Bond Insurer, the Trustee, the Auction Agent, the Remarketing Agent, if any, and the Broker-Dealer not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Bondholders of the pursuant to subparagraph (c) below. Such notice shall specify the proposed Variable Rate Date and the Variable Rate Period to which the conversion shall be made or the Fixed Rate Date, as the case may be. Together with such notice, the Authority shall file with the Bond Insurer and the Trustee an opinion of Bond Counsel to the effect that the proposed conversion of the Series 2004 Bonds to a Variable Rate Period or a Fixed Rate Period, including the assignment of maturity dates and sinking fund payment dates, shall not adversely affect the

validity of the Series 2004 Bonds or any exemption from federal income taxation to which interest on the Series 2004 Bonds would otherwise be entitled. No change to a Variable Rate Period or a Fixed Rate Period shall become effective unless the Authority shall also file with the Bond Insurer and the Trustee, such an opinion of Bond Counsel dated the Variable Rate Conversion Date or the Fixed Rate Conversion Date, as the case may be.

(c) Not less than twenty (20) days prior to the Variable Rate Date or the Fixed Rate Date, the Trustee shall mail a written notice of the conversion to the holders of all Series 2004 Bonds to be converted, specifying the Variable Rate Date or the Fixed Rate Date and setting forth the matters required to be stated pursuant to the Second Supplemental Trust Indenture with respect to purchases of each Series of the Series 2004 Bonds.

(d) If on a Variable Rate Date or a Fixed Rate Date any condition precedent to such conversion required under the Second Supplemental Trust Indenture is not satisfied, the Trustee shall give written notice by first class mail postage prepaid as soon as practicable and in any event not later than the next succeeding Business Day to the holders of the affected Series 2004 Bonds, the Authority and the Bond Insurer that such conversion has not occurred, that such Series 2004 Bonds shall not be purchased on the failed Variable Rate Date or Fixed Rate Date, that the Auction Agent shall continue to implement the Auction Procedures on the Auction Dates with respect to the Series 2004 Bonds which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed Variable Rate Date or Fixed Rate Date, and that the interest rate shall continue to be the PARS Rate; provided, however, that the interest rate borne by such Series 2004 Bonds during the Auction Period commencing on such failed Variable Rate Date or Fixed Rate Date shall be the Maximum Rate, and the Auction Period shall be the seven-day Auction Period.

Auction Agent.

(a) The Auction Agent shall be appointed by the Trustee to perform the functions specified in the Second Supplemental Trust Indenture. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it under the Second Supplemental Trust Indenture by a written instrument, delivered to the Authority, the Trustee and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Authority and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in the Series 2004 Bonds with the same rights as if such entity were not the Auction Agent.

Qualifications of Auction Agent; Resignation; Removal.

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Second Supplemental Trust Indenture and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Second Supplemental Trust Indenture by giving at least ninety (90) days notice to the Authority, the Bond Insurer and the Trustee. The Auction Agent may be removed at any time by the Authority by written notice delivered to the Auction Agent, the Bond Insurer, and the Trustee. Upon any such resignation or removal, the Trustee shall appoint a successor Auction Agent meeting the requirements of this paragraph. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and the Series 2004 Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties until its successor has been appointed by the Trustee. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the Authority and the Trustee even if a successor Auction Agent has not been appointed.

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APPENDIX I
SPECIMEN OF BOND INSURANCE POLICY

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Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

**Municipal Bond
 New Issue Insurance Policy**

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its Secretary or other Designated Officer.

Frank Burton

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President

Effective Date:

Secretary/Designated Officer

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Endorsement
 To Financial Guaranty Insurance Company
 Insurance Policy

Policy Number: _____ **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

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NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its Secretary or other Designated Officer.

President

Effective Date:

Secretary/Designated Officer

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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