

*In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2012 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except that no opinion is expressed as to such exclusion of interest on any Series 2012B Bond for any period during which the Series 2012B Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a "substantial user" of the facilities refinanced with the proceeds of the Series 2012B Bonds or a "related person," (ii) interest on the Series 2012A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations and (iii) interest on the Series 2012B Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In addition, in the opinion of Bond Counsel to the City, under existing New Hampshire law, interest on the Series 2012 Bonds is exempt from the New Hampshire personal income tax on interest. See "TAX MATTERS" herein for a description of certain other provisions of the Code that may affect the tax treatment of interest on the Series 2012 Bonds for certain bondholders.*

**\$84,940,000**

**CITY OF MANCHESTER, NEW HAMPSHIRE  
General Airport Revenue Bonds**

**\$59,215,000**

**Refunding Series 2012A (Non-AMT)**

**\$25,725,000**

**Refunding Series 2012B (AMT)**

**Dated:** Date of Delivery

**Due:** January 1, as shown on the inside cover

The City of Manchester, New Hampshire, General Airport Revenue Bonds, Refunding Series 2012A (the "Series 2012A Bonds") and Refunding Series 2012B (the "Series 2012B Bonds" and, together with the Series 2012A Bonds, the "Series 2012 Bonds") are issuable only as fully registered bonds without coupons, and, when issued, will be registered in the name of Cede & Co., as bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of beneficial interests in the Series 2012 Bonds will be made in book-entry only form, in authorized denominations. Purchasers of beneficial interests will not receive certificates representing their interests in the Series 2012 Bonds. See "BOOK-ENTRY ONLY SYSTEM."

The Series 2012 Bonds are being issued by the City of Manchester, New Hampshire (the "City") to provide funds to refund certain Outstanding Bonds (as defined herein) issued with respect to Manchester-Boston Regional Airport (the "Airport") and certain other related purposes, as described in "PLAN OF REFUNDING." The Series 2012 Bonds shall bear interest payable on July 1, 2012 and semi-annually on each January 1 and July 1 thereafter until maturity or earlier redemption as set forth herein. The Series 2012A Bonds are subject to redemption prior to maturity, as more fully described herein. The Series 2012B Bonds are not subject to redemption prior to maturity. The Series 2012 Bonds shall be fully registered bonds in minimum denominations of \$5,000 and integral multiples of \$5,000 in excess thereof.

Principal and redemption or purchase price, if any, of and interest on the Series 2012 Bonds will be paid directly to DTC by The Bank of New York Mellon, as Trustee, so long as DTC or its nominee, Cede & Co., is the bondowner. Disbursement of such payments to the DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of the DTC participants and the indirect participants, as more fully described herein.

The scheduled payment of principal of and interest on the Series 2012A Bonds maturing on January 1 of the years 2025 through 2027, inclusive, and 2032 and the Series 2012B Bonds maturing on January 1 of the years 2018 through 2020, inclusive (collectively, the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Municipal Corp. See "BOND INSURANCE."

The Series 2012 Bonds are special obligations of the City, payable solely from Revenues (as defined herein) of the City derived from the ownership and operation of the Airport, subject to the prior payment of Operation and Maintenance Expenses (as defined herein), on a parity with Outstanding Bonds and any additional Bonds (as defined herein) which may hereafter be issued by the City for Airport purposes and other obligations, as provided in the Resolution (as defined herein). The Series 2012 Bonds are not general obligations of the City. Neither the full faith and credit nor the taxing power of the City, the State of New Hampshire or any political subdivision or agency of the State of New Hampshire is pledged to the payment of the Series 2012 Bonds. This cover page contains certain information for quick reference only. Investors must read the entire Official Statement to obtain information essential to the making of any informed investment decision.

The Series 2012 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Edwards Wildman Palmer LLP, Boston, Massachusetts and for the City by the City Solicitor. Public Financial Management, Inc., Largo, Florida, serves as Financial Advisor to the City. It is expected that the Series 2012 Bonds in definitive form will be available for delivery through the facilities of DTC or its custodial agent on or about June 20, 2012.

**\$84,940,000**  
**City of Manchester, New Hampshire**  
**General Airport Revenue Bonds**

**\$59,215,000**  
**Refunding Series 2012A (Non-AMT)**

**Dated: Date of Issuance**

**Due: January 1, as shown below**

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Number<sup>†</sup></u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Number<sup>†</sup></u>
2020	\$1,000,000	4.00%	2.96%	562334 EZ1	2024 <sup>††</sup>	\$7,535,000	5.00%	3.63%	562334 FD9
2021	6,490,000	5.00	3.18	562334 FA5	2025 <sup>††*</sup>	7,930,000	5.00	3.65	562334 FE7
2022	6,820,000	5.00	3.33	562334 FB3	2026 <sup>††*</sup>	8,325,000	5.00	3.74	562334 FF4
2023	7,170,000	5.00	3.48	562334 FC1	2027 <sup>*</sup>	2,100,000	3.75	3.94	562334 FG2

\$11,845,000 4.125% Term Bonds due January 1, 2032<sup>\*</sup>; Yield: 4.24% CUSIP: 562334 FH0<sup>†</sup>

**\$25,725,000**  
**Refunding Series 2012B (AMT)**

**Dated: Date of Issuance**

**Due: January 1, as shown below**

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Number<sup>†</sup></u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Number<sup>†</sup></u>
2013	\$ 760,000	2.00%	0.99%	562334 FJ6	2017	\$5,320,000	5.00%	2.49%	562334 FN7
2014	960,000	3.00	1.52	562334 FK3	2018 <sup>*</sup>	5,600,000	5.00	2.70	562334 FP2
2015	990,000	4.00	1.91	562334 FL1	2019 <sup>*</sup>	5,885,000	5.00	3.01	562334 FQ0
2016	1,030,000	4.00	2.15	562334 FM9	2020 <sup>*</sup>	5,180,000	5.00	3.31	562334 FR8

<sup>†</sup> Copyright, American Bankers Association. CUSIP herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2012 Bonds as a result of various subsequent actions.

<sup>††</sup> Priced to call on January 1, 2022 at a price of 100% of par.

<sup>\*</sup> Guaranteed under an insurance policy to be issued by Assured Guaranty Municipal Corp. concurrently with the delivery of the Series 2012 Bonds (collectively, the "Insured Bonds"). See "BOND INSURANCE" herein.

**CITY OF MANCHESTER, NEW HAMPSHIRE**

**MAYOR**

Theodore L. Gatsas

**BOARD OF ALDERMEN**

Ward 1.....Joyce Craig	Ward 7..... William P. Shea
Ward 2.....Ron Ludwig	Ward 8..... Thomas Katsiantanis
Ward 3.....Patrick Long	Ward 9..... Barbara E. Shaw
Ward 4.....Jim Roy	Ward 10..... Phil Greazzo
Ward 5.....Ed Osborne	Ward 11..... Russ Ouellette
Ward 6.....Garth Corriveau	Ward 12..... Patrick Arnold
At Large .....Joseph Kelly Levasseur	At Large ..... Daniel P. O’Neil

**CITY ADMINISTRATION**

William Sanders, Finance Officer  
Guy J.L. Beloin, Assistant Director – Accounting & Reporting  
Sharon Y. Wickens, Assistant Director – Treasury  
Matthew Normand, City Clerk  
Thomas R. Clark, City Solicitor

**MANCHESTER-BOSTON REGIONAL AIRPORT**

Mark P. Brewer, Director

**BOND COUNSEL**

Hawkins Delafield & Wood LLP  
New York, New York

**FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Largo, Florida

The information set forth herein has been obtained from the City, the Depository Trust Company, and other sources that are deemed to be reliable, but, as to information from sources other than the City, it is not to be construed as a representation of the City. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2012 Bonds shall under any circumstances create any implication that there has been no change in the affairs of the City or the Airport since the date hereof.

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

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Series 2012 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement contains forecasts, projections and estimates that are based on current expectations. In light of the important factors that may materially affect the financial condition of the Airport and the airline industry generally and other economic and financial matters, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the City or the Underwriters that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “Bond Insurance” and “Appendix F - Specimen Municipal Bond Insurance Policy”.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS TO STABILIZE OR MAINTAIN THE MARKET PRICES OR YIELDS OF THE SERIES 2012 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**FOR NEW HAMPSHIRE RESIDENTS: IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

## TABLE OF CONTENTS

	Page	Page	
INTRODUCTION .....	1	FINANCIAL INFORMATION.....	26
General .....	1	General Information.....	26
The City.....	1	Summary of Historical Operating Statements.....	26
The Airport.....	1	Management’s Discussion of Airport Finances .....	28
Purpose of the Series 2012 Bonds .....	2	Summary of Historical Debt Service Coverage	
Security for the Series 2012 Bonds .....	2	Ratio .....	29
Airline Agreements .....	2	OTHER FINANCIAL INFORMATION .....	29
Continuing Disclosure.....	2	Budgeting Process.....	29
Additional Information.....	3	Pension and Other Post Employment Benefits.....	30
Bond Insurance.....	3	Investment Policies .....	31
Assured Guaranty Deemed Holder of Insured		Financial Hedge Policy.....	31
Bonds .....	3	Risk Management and Insurance .....	31
DESCRIPTION OF THE SERIES 2012 BONDS .....	3	CAPITAL PROGRAM .....	31
Redemption Provisions for the Series 2012 Bonds.....	3	New Master Plan Update .....	32
BOOK-ENTRY ONLY SYSTEM.....	4	FEDERAL PROGRAMS, REGULATIONS	
Transfer of Series 2012 Bonds .....	6	AND RESTRICTIONS AFFECTING THE	
SECURITY AND SOURCES OF PAYMENT		AIRPORT .....	32
FOR THE BONDS .....	6	Federal Law Affecting Airport Rates and Charges ....	32
General .....	6	Passenger Facility Charges .....	33
Revenue Pledge .....	7	Federal Grants-in-Aid .....	33
Flow of Airport Funds .....	7	CERTAIN INVESTMENT CONSIDERATIONS .....	34
Coverage Covenants .....	9	Factors Affecting the Airline Industry .....	34
Debt Service Reserve Fund .....	10	Effect of Airline Bankruptcies .....	35
Other Reserves .....	11	Southwest/AirTran Merger .....	36
General Fund .....	12	United/Continental Merger .....	37
Additional Indebtedness .....	12	Aviation Security Concerns .....	37
Consequences of Events of Default.....	13	Information Concerning the Airlines .....	37
Permitted Investments .....	13	Forward-Looking Statements.....	38
Status of Passenger Facility Charges.....	13	TAX MATTERS.....	38
Modifications of the Resolution .....	13	Opinion of Bond Counsel .....	38
BOND INSURANCE .....	13	Certain Ongoing Federal Tax Requirements and	
Bond Insurance Policy.....	13	Covenants .....	38
Assured Guaranty Municipal Corp.....	14	Certain Collateral Federal Tax Consequences .....	39
SOURCES AND USES OF FUNDS .....	15	Original Issue Discount.....	39
PLAN OF REFUNDING.....	15	Bond Premium .....	39
OUTSTANDING OBLIGATIONS AND DEBT		Information Reporting and Backup Withholding.....	40
SERVICE SCHEDULE.....	16	Miscellaneous .....	40
Outstanding Bonds .....	16	LITIGATION AND LEGAL DEVELOPMENTS .....	40
Future Debt Issuance .....	16	RATINGS .....	40
Debt Service .....	17	CERTAIN LEGAL MATTERS .....	41
THE CITY .....	17	FINANCIAL ADVISOR.....	41
THE AIRPORT .....	18	CONTINUING DISCLOSURE .....	41
Introduction .....	18	UNDERWRITING.....	42
Governing Body .....	18	INDEPENDENT ACCOUNTANTS.....	43
Airport Management .....	18	MISCELLANEOUS.....	43
Employee Matters.....	20	AUTHORIZATION .....	43
Airport Services.....	20	APPENDIX A - AUDITED FINANCIAL	
Airport Facilities.....	21	STATEMENTS OF THE CITY’S	
AIRPORT ACTIVITY AND AGREEMENTS .....	21	DEPARTMENT OF AVIATION FOR THE	
Airlines Providing Service at the Airport .....	21	YEAR ENDED JUNE 30, 2011 AND	
Enplaned Passengers .....	22	COMPARATIVE DATA FOR FISCAL YEAR	
Airline Market Shares.....	23	2010 .....	A-1
Landed Weight .....	23	APPENDIX B - SUMMARY OF CERTAIN	
Origin - Destination Patterns .....	24	PROVISIONS OF THE RESOLUTION.....	B-1
Airline Agreements .....	25	APPENDIX C - SUMMARY OF CERTAIN	
Airport Parking.....	26	PROVISIONS OF THE AIRLINE	
Airport Concessions and Other Contracts .....	26	AGREEMENTS.....	C-1

**TABLE OF CONTENTS**

**(continued)**

**Page**

APPENDIX D - FORM OF OPINION OF  
BOND COUNSEL FOR THE SERIES 2012A  
BONDS AND FORM OF OPINION OF  
BOND COUNSEL FOR THE SERIES 2012B  
BONDS ..... D-1

APPENDIX E - CONTINUING DISCLOSURE  
AGREEMENT ..... E-1

APPENDIX F - SPECIMEN MUNICIPAL  
BOND INSURANCE POLICY ..... F-1

## OFFICIAL STATEMENT

**\$84,940,000**  
**CITY OF MANCHESTER, NEW HAMPSHIRE**  
**GENERAL AIRPORT REVENUE BONDS**

**\$59,215,000**  
**REFUNDING SERIES 2012A (NON-AMT)**

**\$25,725,000**  
**REFUNDING SERIES 2012B (AMT)**

### INTRODUCTION

#### General

The purpose of this Official Statement, which includes the cover page, inside cover page and appendices, is to provide certain information concerning the City of Manchester, New Hampshire (the “City”) and the Manchester-Boston Regional Airport (the “Airport”) in connection with the sale and delivery by the City of its \$59,215,000 principal amount of General Airport Revenue Bonds, Refunding Series 2012A (the “Series 2012A Bonds”) and \$25,725,000 principal amount of General Airport Revenue Bonds, Refunding Series 2012B (the “Series 2012B Bonds”) and together with the Series 2012A Bonds, the “Series 2012 Bonds”).

The Series 2012 Bonds are authorized to be issued pursuant to certain proceedings of the City, Chapter 33-B of the New Hampshire Revised Statutes (the “Act”) and the General Airport Revenue Bond Resolution of the City of Manchester, New Hampshire, adopted by the City as of October 1, 1998, as amended (the “General Resolution”), and as supplemented by the Tenth Supplemental Resolution authorizing the Series 2012 Bonds (the “Tenth Supplemental Resolution”) to be adopted by the City prior to the issuance of the Series 2012 Bonds. The General Resolution, as supplemented to and including the date of issuance of the Series 2012 Bonds, is herein referred to as the “Resolution.” The bonds issued under the Resolution, including the Series 2012 Bonds and all bonds of the City hereafter issued pursuant to the Resolution on parity therewith are referred to herein as the “Bonds.”

The Series 2012 Bonds are being issued for the purpose of refunding on a current basis certain Outstanding Bonds. See “PLAN OF REFUNDING.” As described herein, the City may incur other obligations on parity with the Bonds. Upon the issuance of the Series 2012 Bonds, the City will have \$204,305,000 aggregate principal amount of Bonds Outstanding under the Resolution. Unless otherwise defined in this Official Statement, all capitalized terms used will have the definitions set forth in the Resolution, many of which are summarized under “Appendix B - Summary of Certain Provisions of the Resolution - Definitions.”

#### The City

The City is located on the Merrimack River in south central New Hampshire approximately fifty-eight miles north of Boston, Massachusetts. The City had an estimated 2010 population of 109,565 and occupies a land area of 33.9 square miles. It is the largest city in northern New England. The City is governed by the Board of Mayor and Aldermen (the “Board”). See “THE CITY.”

#### The Airport

The City owns and, through its Department of Aviation, operates the Airport. The 1,200 acre Airport is located in both the City and the Town of Londonderry, New Hampshire, approximately six miles south of the downtown area of the City in both Hillsborough and Rockingham Counties. The primary service region of the Airport consists of Hillsborough, Merrimack and Rockingham counties in New Hampshire with a combined 2010 population of approximately 842,389. The Airport is the largest commercial passenger and air cargo airport in northern New England. The Airport is currently served by four major air carriers and/or their regional affiliates and three all-cargo carriers. See “THE AIRPORT” and “AIRPORT ACTIVITY AND AGREEMENTS.”

## **Purpose of the Series 2012 Bonds**

Proceeds of the Series 2012 Bonds are being used by the City to fund an escrow account, which will be used to refund on a current basis the Outstanding Bonds listed in “PLAN OF REFUNDING” below (the “Refunded Bonds”) and to pay costs of issuance of the Series 2012 Bonds. See “PLAN OF REFUNDING.”

## **Security for the Series 2012 Bonds**

Upon issuance of the Series 2012 Bonds, the Series 2012 Bonds will be secured by a pledge of and lien on Revenues, subject to the payment of Operation and Maintenance Expenses, and the provisions of the Resolution regarding the application of Revenues. Revenues consist of all receipts, revenues, rentals, investment earnings, income and other moneys received by or on behalf of the City from or in connection with the ownership or operation of all or any part of the Airport Property, including without limitation, landing fees, terminal rentals, real property rentals, concession fees, parking receipts and earnings from the investment of Revenues, as further defined in the Resolution. Revenues do not include passenger facility charge (“PFC”) revenues or Grant Receipts. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “Appendix B - Summary of Certain Provisions of the Resolution - Definitions.”

The Series 2012 Bonds are special obligations of the City, payable solely from Revenues derived from the ownership and operation of the Airport, subject to the prior payment of Operation and Maintenance Expenses, as described herein, on a parity with Outstanding Bonds, any additional Bonds which may hereafter be issued by the City for Airport purposes, and other parity obligations described herein, as provided in the Resolution. The Series 2012 Bonds are not general obligations of the City. Neither the full faith and credit nor the taxing power of the City, the State of New Hampshire (the “State”) or any political subdivision or agency of the State is pledged to the payment of the Series 2012 Bonds.

## **Airline Agreements**

The current Airline Operating Agreements and Terminal Building Leases, as amended by the First Amendment to the Airline Operating Agreements and Terminal Building Leases (as so amended, the “Airline Agreements”) between the City and the signatory airlines serving the Airport will expire on June 30, 2015. The signatory airlines that are parties to the Airline Agreements are: Delta Air Lines, Southwest Airlines and US Airways and/or their regional affiliates. The Airline Agreement for United/Continental Airlines is in the final stages of approval. Both United and Continental were parties to the prior Airline Agreements that expired on June 30, 2010 and as a result of their merger will be signing the new agreement as a single entity. The airlines that are parties to the Airline Agreements and their affiliates (including United/Continental) accounted for approximately 99.94% of fiscal year 2011 enplanements at the Airport.

The City expects to negotiate separate operating agreements and leases with the cargo airlines currently serving the Airport with operating provisions that are substantially the same as those contained in the Airline Agreements. See “THE AIRPORT - Governing Body,” “AIRPORT ACTIVITY AND AGREEMENTS - Airline Agreements,” and “Appendix C - Summary of Certain Provisions of the Airline Agreements” for additional information concerning the Airline Agreements.

For a description of Airport concessions and other significant contracts for Airport services, see “THE AIRPORT - Airport Services” and “AIRPORT ACTIVITY AND AGREEMENTS - Airport Concessions and Other Contracts.”

## **Continuing Disclosure**

The City will enter into a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”) for the benefit of the owners and beneficial owners of the Series 2012 Bonds, pursuant to which the City will agree to provide annually certain Airport financial information and operating data and notice of certain enumerated events to the Municipal Securities Rulemaking Board (the “MSRB”) in an electronic format prescribed by the MSRB,

pursuant to the requirements of Rule 15c2-12 of the Securities and Exchange Commission. See “CONTINUING DISCLOSURE” and “Appendix E - Form of Continuing Disclosure Agreement.”

### **Additional Information**

Brief descriptions of the Series 2012 Bonds, the City, the Airport, the Resolution and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, report or other instrument. The audited financial statements of the City’s Department of Aviation included as Appendix A are for the fiscal year ended June 30, 2011. All fiscal year 2012 information in this Official Statement is unaudited, preliminary and subject to change. Information contained herein has been obtained from officers, employees and records of the City and the Airport and from other sources believed to be reliable. The information herein is 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 City or the Airport since the date hereof. This Official Statement is not to be construed as a contract or agreement between the City or the underwriters and purchasers or owners of any of the Series 2012 Bonds.

### **Bond Insurance**

Concurrently with the issuance of the Series 2012 Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Series 2012A Bonds maturing on January 1 of the years 2025 through 2027, inclusive, and 2032 and the Series 2012B Bonds maturing on January 1 of the years 2018 through 2020, inclusive (collectively, the “Insured Bonds”). See “BOND INSURANCE” and “Appendix F – Specimen Municipal Bond Insurance Policy.” The Policy applies only to the Insured Bonds.

### **Assured Guaranty Deemed Holder of Insured Bonds**

So long as the Policy shall remain in full force and effect, and so long as there shall have been no default by AGM thereunder, AGM shall be deemed to be the sole holder of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Insured Bonds are entitled to take pursuant to the Resolution pertaining to (i) defaults and remedies, (ii) the duties and obligations of the Trustee, or (iii) any amendment, supplement, modification to, or waiver of, the Resolution that requires the consent of the holders of the Insured Bonds.

## **DESCRIPTION OF THE SERIES 2012 BONDS**

The Series 2012 Bonds will be issued as fully registered bonds in the aggregate principal amount set forth on the cover page hereof, will be dated the date of initial delivery thereof and will bear interest from that date to maturity as set forth on the inside cover page hereof, subject to redemption prior to maturity as described below. Ownership interests in the Series 2012 Bonds will be available in denominations of \$5,000 and integral multiples of \$5,000 in excess thereof. Interest on the Series 2012 Bonds will be payable on each January 1 and July 1, commencing July 1, 2012, until maturity or earlier redemption.

So long as Cede & Co. is the registered owner of the Series 2012 Bonds, all payments of principal or redemption price, if any, and interest on the Series 2012 Bonds are payable by wire transfer by The Bank of New York Mellon, as Trustee (the “Trustee”) to Cede & Co. as nominee for The Depository Trust Company (“DTC”), New York, New York, which will, in turn, remit such amounts to the DTC participants for subsequent disposition to beneficial owners. See “BOOK-ENTRY ONLY SYSTEM.”

### **Redemption Provisions for the Series 2012 Bonds**

**Optional Redemption.** The Series 2012A Bonds maturing on or prior to January 1, 2023 will not be subject to optional redemption prior to their respective maturity dates. The Series 2012A Bonds maturing after January 1, 2023 will be redeemable at the option of the City, on or after January 1, 2022 in whole or in part on any

date, in any order of maturity and by lot within any single maturity, at a redemption price of 100% of the principal amount of such Series 2012A Bonds to be redeemed, plus accrued interest to the date fixed for redemption. The Series 2012B Bonds will not be subject to optional redemption prior to maturity.

**Mandatory Sinking Fund Redemption.** The Series 2012A Bonds maturing on January 1, 2032 are subject to redemption in part by lot on January 1 of the indicated years and in the indicated principal amounts as mandatory sinking fund installments, at a redemption price equal to the principal amount thereof plus accrued interest:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2028	\$2,175,000	2031	\$2,465,000
2029	2,270,000	2032 <sup>†</sup>	2,570,000
2030	2,365,000		

<sup>†</sup>Final maturity.

In the event that any Series 2012A Bonds shall be redeemed in part at the option of the City, then the principal amount so redeemed shall be applied to reduce the amount of mandatory sinking fund installments of such Series 2012A Bonds (including principal due on the final maturity date of such Series 2012A Bonds) as the City shall specify in writing to the Trustee.

**Notice of Redemption.** The Trustee shall give notice of redemption by mailing a copy of the redemption notice by registered or certified mail, postage prepaid, at least thirty (30) days and not more than forty-five (45) days prior to the date fixed for redemption, to the registered holder of each Series 2012A Bond to be redeemed at the address shown on the registration books kept by the Trustee.

The City 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 2012A 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 opening of business five Business Days prior to the scheduled redemption date, and such notice shall be of no effect unless such moneys are so deposited. Failure to give any required notice of redemption or any defect therein as to any particular Series 2012A Bonds will not affect the validity of the call for redemption of any Series 2012A Bonds in respect of which no failure occurs. Any notice sent as provided herein will be conclusively presumed to have been given whether or not actually received by the addressee.

#### **BOOK-ENTRY ONLY SYSTEM**

DTC will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Series 2012 Bond certificate will be issued for each maturity of each series of the Series 2012 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both

U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2012 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 2012 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 Series 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012 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 2012 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 2012 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2012 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2012 Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2012 Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 Series 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2012 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the City or the Trustee, on 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 nor its nominee, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2012 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2012 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2012 Bond certificates 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 City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Neither the City nor the Trustee will have any responsibility or obligation to the Direct or Indirect Participants of DTC or the persons for whom they act as nominees with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to the Direct Participants, the Indirect Participants or the Beneficial Owners, (iii) the selection by DTC or by any Direct or Indirect Participant of DTC of any Beneficial Owner to receive payment in the event of a partial redemption of the Series 2012 Bonds or (iv) any other action taken by DTC or its partnership nominee as owner of the Series 2012 Bonds.

### **Transfer of Series 2012 Bonds**

So long as Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC), as nominee for DTC, is the bondowner of record of the Series 2012 Bonds, beneficial ownership interests in the Series 2012 Bonds may be transferred only through a Direct Participant or Indirect Participant and recorded on the book-entry system operated by DTC. In the event the book-entry only system is discontinued, Series 2012 Bond certificates will be delivered to the Beneficial Owners as described in the Resolution. Thereafter, the Series 2012 Bonds, upon surrender thereof at the corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the holder thereof or such holder's duly authorized attorney, may be exchanged for an equal aggregate principal amount of Series 2012 Bonds of the same series and maturity and of any authorized denominations.

In all cases in which the privilege of exchanging or transferring Series 2012 Bonds is exercised, the City shall execute and the Trustee shall authenticate and deliver the Series 2012 Bonds in accordance with the provisions of the Resolution. For every such exchange or transfer of Series 2012 Bonds, the City or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer but may impose no other charge therefor. Neither the City nor the Trustee shall be required to make any such exchange or transfer of Series 2012 Bonds during the 15 days next preceding an Interest Payment Date or, in the case of any proposed redemption, during the 15 days next preceding the first publication or mailing of notice of redemption.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **General**

The following summary of the security for the Bonds is qualified in its entirety and reference is hereby made to Appendix B hereto and to the Resolution, which set forth in further detail provisions relating to the security for the Bonds. For definitions of certain capitalized terms used but not defined herein, see "Summary of Certain Provisions of the Resolution - Definitions" in Appendix B.

The payment of the principal of and premium, if any, and interest on the Bonds is secured by a pledge of the Revenues of the City from or in connection with the operation of the Airport. The Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal or redemption price of or interest on the Bonds. Neither the State nor any other political subdivision thereof shall be obligated to pay the principal or redemption price of or interest on any Bond, and neither the faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to such payment.

Under the Resolution, the City may issue additional Bonds on a parity with the Outstanding Bonds, the Series 2012 Bonds and other parity obligations as described herein upon the satisfaction of certain conditions. See "Additional Indebtedness" and "Summary of Certain Provisions of the Resolution - Conditions Precedent to Delivery of a Series of Bonds" in Appendix B. All Bonds are equally and ratably secured under the provisions of the Resolution and by the Funds and Accounts established thereunder, including, without limitation, the Debt Service Reserve Fund. See "Debt Service Reserve Fund" below. The Resolution also permits the issuance of Subordinated Bonds.

Other obligations that may be incurred on a parity with the Bonds include, among other things, Regularly Scheduled Swap Payments made with respect to a Qualified Swap and Parity Reimbursement Obligations. The City has entered into a Reimbursement Agreement with RBS Citizens, National Association in connection with its Series 2008 Bonds, pursuant to which it may incur Parity Reimbursement Obligations. As of the date hereof, the City has no Qualified Swaps in effect with respect to the Bonds. See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Debt Issuance” and “Appendix B - Summary of Certain Provisions of the Resolution - Credit Facilities; Obligations Under Qualified Swap; Nonqualified Swap.”

The Resolution permits the issuance of Subordinated Bonds, which are referred to herein, together with the Bonds, as “Secured Bonds,” as well as other obligations that are subordinate to the Bonds. The City currently has no Subordinated Bonds outstanding with respect to the Airport.

The Resolution permits the City to pay as Operation and Maintenance Expenses interest payments on revenue anticipation notes which may be issued in an aggregate amount in a fiscal year not exceeding fifty percent of the Revenues for the immediately preceding fiscal year. See also “Appendix B - Summary of Certain Provisions of the Resolution - Indebtedness and Liens.”

Neither the City Charter nor the Act limits the total amount of the Bonds which may be outstanding at any time. For a table showing the debt service on outstanding Bonds, see “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE - Debt Service.”

### **Revenue Pledge**

In the Resolution, the City pledges as security for Bonds and for other permitted parity obligations (i) all Revenues and (ii) all moneys or securities held in any Fund, Account or Subaccount established under the Resolution (except the Revenue Fund, the Operating Fund, the Rebate Fund, the Note Payment Fund, the PFC Fund, the LOI Fund and any Subordinated Debt Service Reserve Fund) together with all investment earnings thereon (except to the extent such earnings are required to be deposited into the Rebate Fund). This pledge is subject to the provisions of the Resolution regarding the application of Revenues and other moneys pledged as security for Bonds and Subordinated Bonds, if any. See “Consequences of Events of Default” below.

The term “Revenues” is defined in the Resolution to include the following: all receipts, revenues, rentals, investment earnings, income and other moneys received by or on behalf of the City from or in connection with the ownership or operation of all or any part of the Airport Property, whether existing at the date of adoption of the Resolution or thereafter coming into existence and whether held by the City on such date or thereafter acquired, including without limitation, all tolls and charges, landing fees, terminal rentals, real property rentals, concession fees, parking receipts, interest income, proceeds of business interruption insurance, if any, and condemnation awards from temporary takings, but not including (i) proceeds of insurance (except business interruption insurance, if any) and of condemnation awards (except awards for temporary takings), (ii) proceeds of the sale of the Bonds, Subordinated Bonds, if any, or any other Indebtedness, (iii) Grant Receipts, PFC Revenues or amounts which are subject to referral by the City or held for the account of others, (iv) proceeds of the sale of any portion of the Airport Property permitted under the Resolution, (v) moneys derived from facilities hereafter financed with the proceeds of Indebtedness permitted under the Resolution to finance a facility for a particular person to the extent that such are pledged to the payment of such Indebtedness under a separate resolution, indenture or other agreement of the City, (vi) interest income or other investment earnings on the Project Fund or the PFC Fund or (vii) any Swap Termination Payments to the City pursuant to a Swap; provided, that there shall be included in Revenues amounts transferred from the Revenue Credit Account to the Revenue Fund as provided in the Resolution.

### **Flow of Airport Funds**

The Resolution provides that the City shall promptly cause all Revenues received to be deposited in the Revenue Fund.

The Resolution further provides that the funds on deposit in the Revenue Fund shall be transferred by the Trustee on the last Business Day of each month to the following funds and accounts in the following order:

*First*, to the Operating Fund, an amount, if any, necessary to make the amount on deposit therein equal to the Operation and Maintenance Expenses for the next succeeding month as shown in the Operating Budget of the City on file with the Trustee;

*Second*, to the Debt Service Fund, the amounts necessary on a pro rata basis (i) to make up any deficiency in any Subaccount resulting from an increase in the applicable interest rate on any Variable Rate Bonds over the rate assumed in calculating the amount required for a prior deposit pursuant to the General Resolution, (ii) to increase the amount on deposit in each Subaccount of the Interest Account to equal interest included in Adjusted Debt Service next coming due on Outstanding Bonds of the applicable Series accrued and unpaid and to accrue to and including the last day of the next succeeding month after taking into account any available moneys in the corresponding Subaccount of the Capitalized Interest Account, (iii) to increase the amount on deposit in each Subaccount of the Principal Account to equal that portion of the Principal Installment included in Adjusted Debt Service next coming due (within twelve months) on Outstanding Bonds of the applicable Series accrued and unpaid and to accrue to and including the last day of the next succeeding month, and (iv) to increase the amount on deposit in each Subaccount of the Redemption Account to equal the Redemption Price of Outstanding Bonds of the applicable Series then called for redemption (other than Sinking Fund Installments) as of any date on or prior to the last day of the next succeeding month; provided, that in determining the amount of any payment to any Account of the Debt Service Fund, the City shall take into account all amounts transferred to such Account on or before the same day from the PFC Revenues Account in the PFC Fund or from the LOI Revenues Account in the LOI Fund, as provided in the Resolution;

*Third*, to the Debt Service Reserve Fund, (i) one-twelfth of the amount necessary to increase the amount on deposit in the Common Account therein, determined as of the first day of the current fiscal year, to equal the Aggregate Debt Service Reserve Fund Requirement, and (ii) the deposit required by any Supplemental Resolution to any Special Account;

*Fourth*, to the Subordinated Debt Service Fund, the amounts with respect to Subordinated Bonds, if any, determined in the same manner as the amounts in the Debt Service Fund set forth in Paragraph Second above with respect to Bonds;

*Fifth*, to the Subordinated Debt Service Reserve Fund, (i) the amount, if any, necessary to increase the amount on deposit in the Common Account therein, determined as of the first day of the current fiscal year, to equal the level required by any Supplemental Resolution, and (ii) the deposit required by any Supplemental Resolution to any Special Account;

*Sixth*, to the Operation and Maintenance Reserve Fund, the amount necessary to make the amount on deposit therein equal to Operation and Maintenance Expenses for the three consecutive months following the next succeeding month, as shown in the Operating Budget of the City on file with the Trustee;

*Seventh*, to the Renewal and Replacement Reserve Fund, one-twelfth of the difference, if any, between the amount on deposit in such Fund on the first day of the current fiscal year and the Renewal and Replacement Reserve Requirement for the current fiscal year;

*Eighth*, to the Insurance Reserve Fund, one-twelfth of the difference, if any, between the amount on deposit in such Fund on the first day of the current fiscal year and the Insurance Reserve Requirement for the current fiscal year;

*Ninth*, to the Rebate Fund, the amount necessary to make the amount on deposit therein equal to the Rebate Fund Requirement, if any, determined in accordance with the applicable Supplemental Resolution; and

*Tenth*, after making the deposits set forth above, and, under certain circumstances, maintaining certain reserves, the amount remaining or any portion thereof, to the General Fund, including without limitation to the Coverage Account or the Revenue Credit Account in the General Fund.

Each Fund and Account must be funded from Revenues to the amount required under the Resolution before Revenues are transferred to Funds and Accounts lower in the flow of funds.

See “Summary of Certain Provisions of the Resolution - Flow of Funds from the Revenue Fund” in Appendix B for a more detailed explanation of the flow of funds.

### **Coverage Covenants**

Under the Resolution, the City is required to meet the following covenants with respect to Rates and Charges (collectively, the “Rate Covenant”).

**Rate Covenant.** Pursuant to the Resolution, the City covenants that for each fiscal year it will maintain Revenues Available for Bond Debt Service equal to or in excess of the sum of Required Debt Service Fund Deposits plus deposits required to be made from Revenues described in Paragraphs *Third* through *Ninth* of the description of the flow of funds set forth above in “Flow of Funds” (excluding deposits to the Subordinated Debt Service Fund made from Capitalized Interest, interest or other earnings on the Project Fund, amounts paid from other funds of the City that are not Revenues and are not transferred from other Funds or Accounts established under the Resolution or amounts transferred from the PFC Revenues Account or the LOI Revenues Account). In addition, the City covenants under the Resolution that the sum of Revenues Available for Bond Debt Service in each fiscal year plus the Coverage Amount for such fiscal year shall equal or exceed 125% of Required Debt Service Fund Deposits. For the purposes of the Resolution, the term “Coverage Amount” means, for any period, the lesser of (a) the principal balance of the Coverage Account in the General Fund as of the close of business on the day immediately preceding such period or (b) 25% of the Required Debt Service Fund Deposits for such period.

For the purpose of the Resolution, the term “Revenues Available for Bond Debt Service” means, for any period, the difference of (a) the Net Revenues for such period minus (b) the principal of and interest on the Prior Bonds required to be paid during such period. Currently, there are no Prior Bonds outstanding, nor will additional Prior Bonds be issued in the future. For the purposes of the Resolution, the term “Required Debt Service Fund Deposits” means, for any period, all deposits required to be made to the Principal and Interest Accounts of the Debt Service Fund for such period under any provision of the Resolution, excluding, however, (i) amounts transferred or expected to be transferred from the Capitalized Interest Account, from interest or other investment earnings on the Project Fund or from amounts paid from other funds of the City that are not Revenues and are not transferred from other Funds or Accounts established under the Resolution and (ii) amounts transferred or irrevocably committed by resolution or other action of the Governing Body to be transferred from the PFC Revenues Account or the LOI Revenues Account. For special rules on the calculation of Required Debt Service Fund Deposits in respect of Bonds subject to a Qualified Swap or on which interest is deferred and compounded rather than being paid currently, see “Summary of Certain Provisions of the Resolution - Definitions” in Appendix B.

**Special Provisions.** With regard to the calculation of the Rate Covenant, the following special provisions should be noted:

(a) *Operating Surplus.* Under the Airline Agreements, the operating surplus, if any, of the Airport’s annual revenues over its requirements for Operation and Maintenance Expenses, debt service and other deposits required by the Resolution is required to be deposited to the General Fund and applied as follows: (1) first, an amount equal to 25% of the annual Debt Service Requirement to the Coverage Account maintained in the General Fund (see paragraph (b) below); (2) next, the surplus that is derived from Customer Facility Charges (“CFC”) Revenues in excess of expenses allocable to rental car operations to the CFC Reserve Account maintained in the General Fund; (3) the next remaining \$1,000,000 to the Capital Improvement Account maintained in the General Fund; (4) the next remaining \$500,000 to the Revenue Credit Account maintained in the General Fund; and (5) of the remainder, 60% to the Capital Improvement Account and 40% to the Revenue Credit Account. The amount so credited to the Revenue Credit Account for each fiscal year is deducted from airfield expense requirements in calculating landing

fee rates for the next succeeding fiscal year and within the first 180 days of such next succeeding fiscal year transferred to the Revenue Fund and included in Revenues for such next succeeding fiscal year for all purposes of the Resolution, including without limitation the calculation of Revenues Available for Bond Debt Service. The formula for determining the amount required under the Airline Agreement to be deposited into the Revenue Credit Account may be modified from time to time by the City with such consents of signatory air carriers as may be required under such agreements but without any need for the consent of the holders of the Bonds. Moreover, at its option, the City may deposit into the Revenue Credit Account in any fiscal year a greater amount than the deposit required by the Airline Agreements.

(b) *Coverage Account.* Within the General Fund the City maintains a Coverage Account, the balance of which as of the close of business on the last day of each fiscal year (but not more than 25% of Required Debt Service Fund Deposits) is counted for the purpose of determining compliance with the debt service coverage requirement of the Rate Covenant in the next succeeding fiscal year. The balance in the Coverage Account may be applied from time to time to meet any shortfall in Revenues and is available to pay required deposits into the Debt Service Fund or the Subordinated Debt Service Fund or into various reserves established under the Resolution. This requirement may be changed, and funds withdrawn from the Coverage Account by the City for other purposes of the General Fund, without the consent of the holders of the Bonds. As of June 30, 2011, \$3,275,222 was held for the credit of the Coverage Account. See “FINANCIAL INFORMATION – Summary of Historical Debt Service Ratio.”

(c) *Credits Against Debt Service Requirements.* For the purposes of the Rate Covenant, the debt service requirement is calculated after deducting amounts of debt service paid from sources other than Revenues. These will include Capitalized Interest, if any, and investment earnings on the Project Fund and, to the extent permitted by federal law and so applied by the City, PFC Revenues and Grant Receipts received pursuant to a letter of intent (“LOI”) Airport Improvement Program (“AIP”) grant from the Federal Aviation Administration of the U.S. Department of Transportation (“FAA”). Such deductions also may be made from time to time to the extent that the City applies funds from non-Airport sources to pay debt service on Bonds. The City has applied a significant portion of its PFC Revenues to pay debt service in this manner, including all of its PFC Revenues in fiscal year 2011. However, the City is not obligated to apply PFC Revenues to pay debt service and may elect to apply PFC Revenues in any manner permitted by federal law. See “FINANCIAL INFORMATION – Summary of Historical Debt Service Ratio.”

**Failure to Comply with Rate Covenant.** If in any fiscal year the City shall not comply with the Rate Covenant, then the City shall not be deemed to be in default under the Resolution so long as it shall specify to the Trustee the corrective steps which it has taken to ensure compliance with the Rate Covenant for the then current fiscal year; retain the Airport Consultant to review the adequacy of the City’s rates, fees, rentals and other charges with respect to the Airport Property and to recommend changes necessary for the City to be in compliance with the Rate Covenant by the end of the then current fiscal year and for the following fiscal year; and, to the extent permitted by law and existing contractual relations, use its best efforts to effect such changes as are so recommended by the Airport Consultant; provided, however, that if the City shall not satisfy the requirements described above for the first full fiscal year following its failure to satisfy such requirements, then notwithstanding the foregoing such failure shall constitute a default under the Resolution. See “Summary of Certain Provisions of the Resolution - Rate Covenant” in Appendix B.

For information concerning the City’s compliance with the Rate Covenant, see “FINANCIAL INFORMATION - Management’s Discussion of Airport Finances.”

### **Debt Service Reserve Fund**

The Resolution establishes a Debt Service Reserve Fund to be funded in an amount which equals the Aggregate Debt Service Reserve Fund Requirement. The term “Aggregate Debt Service Reserve Requirement” means an amount equal to the least of (i) the sum of 10% of the aggregate original net proceeds of each Series of Bonds Outstanding, (ii) 125% of the average annual aggregate Debt Service on such Bonds, or (iii) the maximum aggregate amount of Debt Service due on such Bonds in any succeeding Bond Year. The Resolution requires, as a condition to the issuance of a Series of Bonds, that the Debt Service Reserve Fund be fully funded in an amount equal to the sum of the Aggregate Debt Service Reserve Fund Requirement after giving effect to the issuance of

such Series and to the defeasance of any Bonds to be refunded from the proceeds of such issue. After the issuance of the Series 2012 Bonds and the refunding of the Refunded Bonds, the amount on deposit in the Debt Service Reserve Fund will be at least equal to the required amount, \$17,303,875.49. In lieu of depositing cash to the Debt Service Reserve Fund, the City may fund all or a portion of the additional amount required to be deposited into the Debt Service Reserve Fund with a Financial Guaranty. Currently, the Debt Service Reserve Fund is funded entirely in cash and investments. See “Appendix B - Summary of Certain Provisions of the Resolution - Debt Service Reserve Fund.”

For purposes of calculating the Aggregate Debt Service Reserve Fund Requirement, the Debt Service on any Series of Variable Rate Indebtedness shall be determined by reference to the Pro Forma Bond Issue for such Series set forth in the Supplemental Resolution authorizing such Series. See “Appendix B - Summary of Certain Provisions of the Resolution - Definitions - Pro Forma Bond Issue.” The Pro Forma Bond Issue fixed rate is not treated as the rate on a Series of Bonds for the purpose of compliance with the additional bonds test and rate covenant. See “Appendix B - Summary of Certain Provisions of the Resolution - Definitions - Debt Service.”

A Special Account has been established with respect to the Series 2008 Bonds. See “Appendix B - Summary of Certain Provisions of the Resolution - Establishment of Funds and Accounts.” Amounts on deposit in the Common Account in the Debt Service Reserve Fund may not be applied to pay the Principal Installments of and interest on the Series 2008 Bonds. Amounts on deposit in the Special Account established with respect to the Series 2008 Bonds may be applied solely to pay the Principal Installments of and interest on the Series 2008 Bonds. While the City maintains a letter of credit with respect to the Series 2008 Bonds, the amount required to be maintained in such Special Account shall be zero. The current letter of credit that secures the Series 2008 Bonds is scheduled to expire on June 26, 2013.

Moneys in the Debt Service Reserve Fund are available for the payment of principal and redemption price of and interest on all Bonds, except the Series 2008 Bonds, but not Subordinated Bonds, equally and ratably. See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE - Debt Service” for a table setting forth the debt service requirements on the City’s Outstanding Bonds. In the event that moneys are withdrawn from the Debt Service Reserve Fund, such withdrawal shall be replenished as nearly as practicable in twelve equal monthly installments commencing in the fiscal year following such withdrawal. See “Summary of Certain Provisions of the Resolution - Flow of Funds from the Revenue Fund” in Appendix B.

### **Other Reserves**

The Resolution also establishes an Operation and Maintenance Reserve Fund, a Renewal and Replacement Reserve Fund and an Insurance Reserve Fund. The annual requirement for each such reserve is funded in monthly installments. Under certain circumstances, moneys on deposit in the Renewal and Replacement Reserve Fund and the Insurance Reserve Fund are available to pay debt service on Bonds. Additionally, other reserves and funds established under the Resolution are generally available, with certain exceptions, to pay debt service on Bonds in the event Revenues are insufficient. See “Summary of Certain Provisions of the Resolution - Debt Service Fund,” “- Subordinated Debt Service Fund,” “-Priority of Funds in the Event of Debt Service Fund Shortfall” and “- Priority of Funds in the Event of Subordinated Debt Service Fund Shortfall” in Appendix B.

**Operation and Maintenance Reserve Fund.** The Operation and Maintenance Reserve Fund is funded from Revenues to equal the amount of the next three months Operation and Maintenance Expenses as set forth in the Operating Budget filed with the Trustee. Moneys in the Operation and Maintenance Reserve Fund may be transferred to the Operating Fund for the payment of Operation and Maintenance Expenses upon delivery to the Trustee of a Certificate of an Authorized Representative of the City. See “FINANCIAL INFORMATION - Management’s Discussion of Airport Finances” and “Summary of Certain Provisions of the Resolution - Operation and Maintenance Reserve Fund” in Appendix B.

**Renewal and Replacement Reserve Fund.** The Renewal and Replacement Reserve Fund is funded from Revenues to equal the amount of the Renewal and Replacement Reserve Fund Requirement, which currently is \$250,000. Moneys in the Renewal and Replacement Reserve Fund shall be applied to the cost of any Capital Improvement which is not provided for by moneys available in the Project Fund, the General Fund or the Operating Fund in accordance with the procedures set forth in the Resolution, including without limitation the costs of

unanticipated or emergency repairs or replacements of any part of the Airport Property which are properly chargeable to plant or property accounts under generally accepted accounting principles. See “Summary of Certain Provisions of the Resolution - Renewal and Replacement Reserve Fund” in Appendix B.

**Insurance Reserve Fund.** The Insurance Reserve Fund is funded from Revenues to equal the amount of the Insurance Reserve Fund Requirement, which is currently \$0. Moneys in the Insurance Reserve Fund may be applied by the City in the same manner as insurance proceeds, as provided in the Resolution. See “Summary of Certain Provisions of the Resolution - Insurance Reserve Fund” in Appendix B.

The adequacy of each of the Renewal and Replacement Reserve Fund Requirement and the Insurance Reserve Fund Requirement is required to be reviewed annually by the City and every third fiscal year by the Airport Consultant or the Independent Engineer in the case of the Renewal and Replacement Reserve Requirement and by the Independent Engineer or an insurance consultant in the case of the Insurance Reserve Fund Requirement.

### **General Fund**

The Resolution establishes the Airport’s General Fund, including the Coverage Account and the Revenue Credit Account therein. In addition, the Airline Agreements establish the CFC Reserve Account and the Capital Improvement Account in the General Fund. The General Fund is funded at the discretion of the City following all other deposits under the Resolution, as described under “Flow of Airport Funds” and “Coverage Covenants” above. Amounts in the General Fund may be used by the City solely for any lawful purpose relating to the Airport, including the payment of termination payments under Qualified Swaps. See “Summary of Certain Provisions of the Resolution - General Fund” in Appendix B.

### **Additional Indebtedness**

The Resolution contains certain conditions precedent to the issuance of Bonds, including that the City shall have complied with the Rate Covenant for any period of twelve consecutive months included wholly within the most recent period of 18 consecutive months preceding the date on which such Bonds are to be issued for which such information is available and either (i) that the City shall certify, which certificate shall be confirmed by the Accountant, that for any period of twelve consecutive months wholly included within the most recent period of 18 consecutive months preceding the date on which such Bonds are to be issued for which such information is available, the sum of Revenues Available for Bond Debt Service plus the Coverage Amount for such period of twelve consecutive months was at least equal to 125% of maximum annual Adjusted Debt Service on all Outstanding Bonds after giving effect to the issuance of such Bonds or Bonds to be refunded from the proceeds of such Bonds or (ii) that the Airport Consultant shall certify that in its estimation for each fiscal year during the period commencing with (and including) the fiscal year in which such Bonds are to be issued and ending with (and including) the later of the fifth subsequent fiscal year or the second fiscal year following the date on which all Projects financed in whole or in part by such Bonds are estimated to have been completed and placed in operation, the Rate Covenant will be satisfied, taking into account the particular Series of Bonds to be issued (and the refunding of Bonds to be refunded from the proceeds thereof), such estimations to be based on estimates by the Independent Engineer of the cost to complete and the time for completion and initial operation of such Projects and to be after giving effect, among other factors as the Airport Consultant shall consider relevant, to any estimated increases in Operation and Maintenance Expenses and in Revenues as the result of the completion of such Projects or any portion thereof.

The foregoing requirements need not be met for Bonds issued to refund other Bonds so long as debt service is not increased in any fiscal year and the latest maturity date of Bonds and Subordinated Bonds, if any, is not extended. The Resolution requires that upon the issuance of Bonds, for refunding purposes or otherwise, the Debt Service Reserve Fund be fully funded to the Aggregate Debt Service Reserve Fund Requirement. In addition, the Resolution permits the City to issue other Indebtedness including, but not limited to, Subordinated Bonds, revenue, grant and bond anticipation notes, Indebtedness secured by the General Fund, Indebtedness secured by PFC Revenues and certain other special facilities or other non-recourse Indebtedness. See “Summary of Certain Provisions of the Resolution - Conditions Precedent to Delivery of a Series of Bonds” in Appendix B.

## **Consequences of Events of Default**

Upon an Event of Default under the Resolution, the stated maturity of the Bonds is not subject to acceleration. See “Summary of Certain Provisions of the Resolution - Events of Default” in Appendix B. Under current law the City is not authorized to seek protection from creditors under Chapter 9 of the federal Bankruptcy Code.

## **Permitted Investments**

Moneys held for the credit of the Funds and Accounts established under the Resolution may, with certain exceptions, be invested only in “Investment Securities” as defined in the Resolution. See “Summary of Certain Provisions of the Resolution - Definitions” in Appendix B.

## **Status of Passenger Facility Charges**

The Revenues securing the Bonds do not include proceeds of PFCs assessed on enplaning passengers at the Airport. In order to accommodate both the requirements of the Resolution and federal law governing PFC Revenues, PFC Revenues are deposited into the PFC Fund. At the election of the City, and to the extent permitted by federal law, PFC Revenues may be applied to pay debt service on the Bonds, in which event such payments shall represent a reduction of the Required Debt Service Fund Deposits for purposes of determining compliance with the Rate Covenant and the conditions for issuance of Bonds. The City currently uses a significant portion of its PFC Revenues for the purpose of paying debt service on Bonds, including in fiscal year 2011, all of its PFC Revenues. Other PFC Revenues may be used for such purposes as the City may determine in accordance with federal law, including pay-as-you-go capital expenditures or use as security for stand-alone indebtedness, in either case relating to the Airport improvements eligible to be funded from PFC Revenues. See “CERTAIN INVESTMENT CONSIDERATIONS.”

## **Modifications of the Resolution**

The provisions in the Resolution are subject to modification in certain cases without the consent of the holders of the Bonds and in other cases if and when approved by the holders of the requisite percentages of the Bonds outstanding. See “Summary of Certain Provisions of the Resolution - Amendments” and “Insurer Deemed Holder of Secured Bonds for Certain Purposes” in Appendix B.

## **BOND INSURANCE**

*There follows certain information concerning AGM and the terms of the Policy to be issued by AGM. Information with respect to AGM and the Policy has been supplied by AGM. No representation is made by the City or the Underwriters as to the accuracy or adequacy of such information. The Policy does not constitute a part of the contract between the City and the holders of the Insured Bonds. Except for the payment of the premium on the Policy, the City has no responsibility with respect to such insurance in any way, including maintenance, enforcement or collection thereof. See “Appendix F – Specimen Municipal Bond Insurance Policy.”*

## **Bond Insurance Policy**

Concurrently with the issuance of the Series 2012 Bonds, AGM will issue its Policy for the Insured Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

## **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (“Holdings”). Holdings is an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM’s financial strength is rated “AA-” (stable outlook) by S&P and “Aa3” (on review for possible downgrade) by Moody’s Investors Service, Inc. (“Moody’s”). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

*Current Financial Strength Ratings.* On March 20, 2012, Moody’s issued a press release stating that it had placed AGM’s “Aa3” insurance financial strength rating on review for possible downgrade. AGM can give no assurance as to any further ratings action that Moody’s may take. Reference is made to the press release, a copy of which is available at [www.moodys.com](http://www.moodys.com), for the complete text of Moody’s comments.

On November 30, 2011, S&P published a Research Update in which it downgraded AGM’s financial strength rating from “AA+” to “AA-”. At the same time, S&P removed the financial strength rating from CreditWatch negative and changed the outlook to stable. AGM can give no assurance as to any further ratings action that S&P may take. Reference is made to the Research Update, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P’s comments.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012.

*Capitalization of AGM.* At March 31, 2012, AGM’s consolidated policyholders’ surplus and contingency reserves were approximately \$3,123,869,658 and its total net unearned premium reserve was approximately \$2,275,867,231, in each case, in accordance with statutory accounting principles.

AGM’s statutory financial statements for the fiscal year ended December 31, 2011, and for the quarterly period ended March 31, 2012, which have been filed with the New York State Department of Financial Services and posted on AGL’s website at <http://www.assuredguaranty.com>, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

*Incorporation of Certain Documents by Reference.* Portions of the following documents filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (filed by AGL with the SEC on February 29, 2012); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 (filed by AGL with the SEC on May 10, 2012).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption “– Assured Guaranty Municipal Corp.” above or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

*Miscellaneous Matters.* AGM or one of its affiliates may purchase a portion of the Insured Bonds or any uninsured bonds offered under this Official Statement and may hold such Insured Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Insured Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE”.

### **SOURCES AND USES OF FUNDS**

The proceeds of the sale of the Series 2012 Bonds and other available funds are expected to be used and applied as set forth below.

	Series 2012A <u>Bonds</u>	Series 2012B <u>Bonds</u>	<u>Total</u>
<b>Sources of Funds:</b>			
Principal amount	\$59,215,000.00	\$25,725,000.00	\$84,940,000.00
Net Original Issue Discount/Premium	5,114,357.90	2,635,731.25	7,750,089.15
Available funds from the Debt Service and Reserve Funds	<u>1,927,943.55</u>	<u>1,366,995.41</u>	<u>3,294,938.96</u>
<b>TOTAL SOURCES</b>	<b>\$66,257,301.45</b>	<b>\$29,727,726.66</b>	<b>\$95,985,028.11</b>
<b>Uses of Funds:</b>			
Deposit to the 2012 Defeasance Escrow Account for the Refunded Bonds	\$65,546,002.56	\$29,433,611.88	\$94,979,614.44
Deposit to the Project Fund to pay costs of issuance, including underwriters' discount	509,095.25	205,772.44	714,867.69
Bond Insurance Premium	<u>202,203.64</u>	<u>88,342.34</u>	<u>290,545.98</u>
<b>TOTAL USES</b>	<b>\$66,257,301.45</b>	<b>\$29,727,726.66</b>	<b>\$95,985,028.11</b>

### **PLAN OF REFUNDING**

The proceeds of the Series 2012 Bonds will be used to refund the Refunded Bonds, as described below and to pay costs of issuance of the Series 2012 Bonds.

A portion of the proceeds of the Series 2012 Bonds, together with amounts available under the Resolution, will be deposited in the 2012 Defeasance Escrow Account established under an Escrow Deposit Agreement (the “Escrow Deposit Agreement”) to be entered into between the City and The Bank of New York Mellon, as trustee for the Refunded Bonds and will be invested in United States Treasury obligations that will bear interest at such rates

and mature at such times and in such amounts so that sufficient moneys will be available to provide for the payment of the redemption price of and interest on the Refunded Bonds on the redemption dates and at the redemption prices set forth below. The refunding is contingent upon delivery of the Series 2012 Bonds.

#### Summary of Bonds Refunded by the Series 2012A Bonds

<u>Series</u>	<u>Original Maturity</u>	<u>Amount to be Refunded</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
1998A (Non-AMT)	January 1, 2017	\$ 4,615,000	July 20, 2012	100%
1998A (Non-AMT)	January 1, 2018	1,000,000	July 20, 2012	100
1998A (Non-AMT)	January 1, 2028	51,315,000†	July 20, 2012	100
2002B (Non-AMT)	January 1, 2032	7,010,000	July 20, 2012	100

†Partial refunding of a term bond due January 1, 2028.

#### Summary of Bonds Refunded by the Series 2012B Bonds

<u>Series</u>	<u>Original Maturity</u>	<u>Amount to be Refunded</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
2002A (AMT)	January 1, 2013	\$1,065,000	July 20, 2012	100%
2002A (AMT)	January 1, 2014	1,115,000	July 20, 2012	100
2002A (AMT)	January 1, 2015	1,170,000	July 20, 2012	100
2002A (AMT)	January 1, 2016	1,225,000	July 20, 2012	100
2002A (AMT)	January 1, 2017	1,285,000	July 20, 2012	100
2002A (AMT)	January 1, 2023	9,270,000	July 20, 2012	100
2002A (AMT)	January 1, 2030	13,505,000	July 20, 2012	100

### OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

#### Outstanding Bonds

The following table sets forth information concerning the Bonds previously issued under the Resolution and Outstanding as of May 1, 2012. Upon the issuance of the Series 2012 Bonds, the City will have no other Airport related debt outstanding other than the Outstanding Bonds (excluding the Refunded Bonds) and the Series 2012 Bonds.

<u>Series</u>	<u>Final Maturity</u>	<u>Original Principal Amount</u>	<u>Outstanding Principal Amount</u>
1998A (Non-AMT)	January 1, 2016	\$99,055,000	\$ 4,275,000
2005A (Non-AMT)	January 15, 2027	17,110,000	15,955,000
2008 (Variable Rate, AMT)	January 1, 2022*	30,255,000	23,500,000
2009A (Non-AMT)	January 1, 2030	64,830,000	63,695,000
2009B (Non-AMT)	January 1, 2015	20,705,000	11,940,000
2012A (Non-AMT)	January 1, 2032	59,215,000	59,215,000
2012B (AMT)	January 1, 2020	25,725,000	25,725,000

\* Letter of Credit expires June 26, 2013. See "Future Debt Issuance" below.

#### Future Debt Issuance

The Airport has an ongoing capital improvement program. The City does not currently expect to issue any Bonds for purposes of financing capital improvements at the Airport at least through fiscal year 2016. See "CAPITAL PROGRAM - Additional Capital Improvements."

The 2008 Bonds are secured by a letter of credit issued by RBS Citizens, National Association ("Citizens"), which is scheduled to expire on June 26, 2013. In anticipation of the expiration of the letter of credit in 2013, the

City is evaluating several options, including the possibility of extending the existing letter of credit, seeking alternate credit arrangements with Citizens, seeking a credit facility from another provider, or refinancing the 2008 Bonds.

### Debt Service

The following table sets forth debt service on the Outstanding Bonds previously issued under the Resolution after the refunding of the Refunded Bonds and the issuance of Series 2012 Bonds. The amounts shown are calculated for each fiscal year ending June 30. Pursuant to the Resolution, the City deposits the July 1 and July 15 interest payments, as applicable, by the last business day of the prior June. Therefore, interest due on July 1 and July 15 is included in the prior fiscal year ended June 30.

Fiscal Year Ending June 30	Outstanding Bonds <sup>1,2</sup>	Series 2012A Bonds			Series 2012B Bonds			Total Debt Service
		Principal	Interest	Debt Service	Principal	Interest	Debt Service	
2012	\$ 2,672,388		\$ 86,193	\$ 86,193		\$ 37,402	\$ 37,402	\$ 2,795,982
2013	12,940,350		2,820,856	2,820,856	760,000	1,216,450	1,976,450	17,737,656
2014	12,953,600		2,820,856	2,820,856	960,000	1,194,450	2,154,450	17,928,906
2015	12,947,500		2,820,856	2,820,856	990,000	1,160,250	2,150,250	17,918,606
2016	12,978,856		2,820,856	2,820,856	1,030,000	1,119,850	2,149,850	17,949,563
2017	8,587,363		2,820,856	2,820,856	5,320,000	966,250	6,286,250	17,694,469
2018	8,582,863		2,820,856	2,820,856	5,600,000	693,250	6,293,250	17,696,969
2019	8,579,163		2,820,856	2,820,856	5,885,000	406,125	6,291,125	17,691,144
2020	8,572,853	1,000,000	2,800,856	3,800,856	5,180,000	129,500	5,309,500	17,683,209
2021	8,571,913	6,490,000	2,618,606	9,108,606				17,680,519
2022	8,575,972	6,820,000	2,285,856	9,105,856				17,681,828
2023	8,002,378	7,170,000	1,936,106	9,106,106				17,108,484
2024	7,970,709	7,535,000	1,568,481	9,103,481				17,074,191
2025	7,916,534	7,930,000	1,181,856	9,111,856				17,028,391
2026	7,883,778	8,325,000	775,481	9,100,481				16,984,259
2027	14,848,597	2,100,000	527,981	2,627,981				17,476,578
2028	11,500,659	2,175,000	443,747	2,618,747				14,119,406
2029	3,658,431	2,270,000	352,069	2,622,069				6,280,500
2030	3,605,550	2,365,000	256,472	2,621,472				6,227,022
2031		2,465,000	156,853	2,621,853				2,621,853
2032		2,570,000	53,006	2,623,006				2,623,006
	\$171,349,456	\$59,215,000	\$34,789,559	\$94,004,559	\$25,725,000	\$6,923,527	\$32,648,527	\$298,002,541

<sup>1</sup> Interest on the Series 2008 Bonds is calculated at an assumed rate of 3.00%.

<sup>2</sup> Totals may not add due to rounding.

### THE CITY

The City is located on the Merrimack River in south central New Hampshire approximately fifty-eight miles north of Boston, Massachusetts. The City has a population of 109,565 according to the 2010 population estimate of the Office of State Planning and occupies a land area of 33.9 square miles. It is the largest city in northern New England.

The City was granted its City Charter in 1846. The administrative and executive powers of the City are vested in the office of the Mayor. The Board is the policy making and legislative body for the City. The Board is composed of fourteen members, one from each of the City's twelve wards and two elected at-large. The Board approves the City's budget and confirms the appointment of most City officials.

The current charter was adopted by referendum on November 5, 1996 and became effective on July 1, 1997. The charter provides the Mayor with expanded appointment powers and budget line-item veto power. It also vests all administrative power of the City with the Mayor. The Mayor nominates all department heads, except those

designated as City officers. Nominations must be confirmed by a majority of the Board. Department heads may be removed by the Mayor upon written notice of such removal and the basis for such action, subject to confirmation by at least nine Aldermen. City officers appointed by the Board may only be removed by a vote of at least nine Aldermen, after notice similar to that given with respect to department heads.

The following table sets forth certain information concerning the term of office of key City officials pertaining to the Airport.

<u>Title</u>	<u>Name</u>	<u>Selection</u>	<u>Term Expires</u>
Mayor	Theodore L. Gatsas	Elected	January 2014
Finance Officer	William Sanders	Appointed	Indefinite
Assistant Director – Accounting & Planning*	Guy Beloin	Appointed	Indefinite
Assistant Director - Treasury*	Sharon Wickens	Appointed	Indefinite
Airport Director	Mark P. Brewer, A.A.E.	Appointed	Indefinite

\* Appointed by Finance Officer.

The City owns, and through its Department of Aviation, operates the Airport. The Airport Director is the department head of the Department of Aviation (and is nominated by the Mayor and confirmed by the Board). The Airport operates as an enterprise fund. Transfers of funds to the City’s general fund are made for direct services provided by the City to the Airport. These transfers have averaged under \$50,000 per year for the past several years. See “FINANCIAL INFORMATION - Management’s Discussion of Airport Finances.”

## **THE AIRPORT**

### **Introduction**

The Airport opened in 1927 and was operated by the City until it became Grenier Army Air Corps Base in 1940. After the Second World War, it was operated by the United States Air Force as a joint use, military/civilian airfield. The Airport was deeded to the City over an eight year period between 1961 and 1968 as a public benefit transfer for airport purposes under federal law. The 1,200 acre Airport is located in both the City and the Town of Londonderry, New Hampshire approximately six miles south of the downtown area of the City in both Hillsborough and Rockingham Counties. The Airport is the largest commercial passenger and air cargo airport in northern New England.

The Airport is an origin and destination facility. The primary service area for the Airport consists of Hillsborough, Merrimack and Rockingham counties in New Hampshire. This area includes the State’s three most populated cities, Manchester, Nashua and Concord. The secondary service area includes most of the remainder of New Hampshire, southern Maine, eastern Vermont and northern Massachusetts north of Routes 2 and 128.

### **Governing Body**

By City Charter, responsibility for the day-to-day operations and administration of the Airport and all personnel matters rests with the Airport Director. Budget responsibility for the Airport is under the jurisdiction of the Board. See “FINANCIAL INFORMATION - Budgeting Process.” As a City department head, the Airport Director is appointed by the Board and reports to the Mayor. There is also a seven member advisory board, the Manchester-Boston Regional Airport Authority.

The City, acting through the Department of Aviation, has the authority, subject to applicable federal law, to set all rentals, fees and other charges for use of any Airport facilities, including without limitation, airline rates and charges, without any further action or approval by the Board or any other City, State or federal official or entity. See “CERTAIN INVESTMENT CONSIDERATIONS - Federal Law Affecting Airport Rates and Charges.”

### **Airport Management**

Brief resumes of the Airport’s senior management appear below:

**Mark Paul Brewer, A.A.E., *Airport Director***

Mark Brewer has been the Airport Director since January 2008. Mr. Brewer has over thirty years of progressive aviation and airport management experience. Prior to joining the Airport, Mr. Brewer held senior management positions at five East Coast airports including, Hyannis, Massachusetts; Fort Lauderdale, Florida; Salisbury, Maryland; Allentown, Pennsylvania; and Providence, Rhode Island, where he most recently served as President and CEO of the Rhode Island Airport Corporation. Mr. Brewer is currently a member of the American Association of Airport Executives (“AAAE”) Executive Committee and sits on the board for the International Association of Airport Executives. He has served as President of the Northeast Chapter of AAAE and as a member of AAAE’s Safety/Security Committee and Diversity Committee, as well as on its Board of Examiners. He has served as an associate on the TSA’s Security Technology Deployment Office, and was an industry representative on the TSA’s Airside Security Task Force. In addition, Mr. Brewer has also served on the Technical and Economic Committees of the Airports Council International - North America. Mr. Brewer has a Bachelor’s Degree in Air Commerce from the Florida Institute of Technology. Mr. Brewer is also an Accredited Airport Executive.

**J. Brian O’Neill, *Deputy Airport Director***

J. Brian O’Neill began working at the Airport in 1996. He was formerly employed by Porter McGee Public Relations where he served as Associate Counsel and Director of Community & Government Relations. Prior to joining Porter McGee, he was Vice President for the Greater Manchester Chamber of Commerce. Mr. O’Neill also served as the Assistant to the Mayor of the City. Mr. O’Neill is a graduate of the Whittemore School of Business and Economics at the University of New Hampshire and he received a BS degree in Business Administration. Mr. O’Neill also received an MBA degree from Southern New Hampshire University in 2004.

**Teresa M. Avampato, CPA, *Airport Chief Financial Officer***

Teresa M. Avampato has been employed at the Airport for approximately nine years. She was formerly employed by the City of Manchester in the Finance Department and her previous experience was in public accounting. Ms. Avampato is a Certified Public Accountant with the State of New Hampshire. Ms. Avampato is a graduate of Florida Atlantic University with a BBA degree in Accounting and a MAC (Master of Accounting) degree from Florida Atlantic University.

**Richard S. Fixler, *Assistant Airport Director, Engineering and Planning***

Mr. Fixler began work at the Airport in November of 1994. Prior to employment at the Airport, he was a Senior Civil Engineer and Construction Project Manager with Hoyle, Tanner & Associates in Bedford, New Hampshire, with responsibility for the construction phase of numerous airport improvement projects at many New England region airports, including the Airport. Mr. Fixler is a graduate of Northeastern University with a BS degree in Civil Engineering and an MBA degree. He is a licensed Professional Engineer in both civil and structural engineering in the State.

**David B. Bush, *Assistant Airport Director, Property and Contract Management***

David B. Bush has served as the Assistant Airport Director, Property and Contract Management since November of 1994. He was formerly employed by American Airlines at its corporate headquarters in Dallas/Fort Worth as Manager Administration Corporate Real Estate where he was responsible for the administration of all activities related to the acquisition of property and facility construction. Mr. Bush is a graduate of State University of New York – Stony Brook with a BS degree.

**Stephen J. Adams, Jr., A.A.E., *Assistant Airport Director, Operations and Facilities***

Stephen J. Adams, Jr., assumed his current position at the Airport in April, 1990. Mr. Adams is a graduate of La Salle University and worked in various capacities with the City of Philadelphia until taking a position at Philadelphia International Airport in 1976, serving as Airport Superintendent from 1982 until 1990. An accredited member of the American Association of Airport Executives, he served as President of the Northeast Chapter of

AAAE from 1995-1996, Mr. Adams has also served on the AAAE National Board of Directors 1995-1996 and from 2004-2008. He has served on numerous Regional and National AAAE Committees including the National Nominating Committee from 2000-2009. He has served as Chair of the AAAE Academic Relations Committee from 2007-2010, and previously as Vice-Chair from 2004-2007. Mr. Adams was the recipient of the NEC-AAAE F. Russell Hoyt Presidents Award, 2005. Mr. Adams served on the Town of Hopkinton, New Hampshire Economic Development Committee from 1998-2003.

**Thomas J. Malafronte, A.A.E., *Assistant Airport Director, Air Service Development and Marketing***

Thomas J. Malafronte began his career at the airport in January 1990. He has held several managerial positions in airport operations and served as Manager, Airport Operations and Facilities from 2001-2008. He assumed the position of Assistant Airport Director, Air Service Development and Marketing in May 2008. Mr. Malafronte is a graduate of Daniel Webster College with a BS degree in Business. He also holds an MBA degree from Franklin Pierce College. Mr. Malafronte is an Accredited Airport Executive and is a licensed pilot.

**Employee Matters**

The Airport Director has the sole responsibility for the hiring of all staff necessary to carry on operations at the Airport. Currently, there are 73 full time equivalent positions. Certain Airport operations and maintenance personnel and other staff who are not considered supervisory or professional are represented by Local Teamsters 633 of New Hampshire. The current collective bargaining agreement will expire on June 30, 2015. There has never been a work stoppage at the Airport and all bargaining has resulted in signed agreements. Strikes and other forms of job action by public employees are unlawful under current State law. The Airport believes its relationship with its employees is good.

**Airport Services**

The Airport receives a number of services through contractual arrangements. The Town of Londonderry provides law enforcement, security services and central communications services pursuant to a publicly bid, fixed price contract, which expires on June 30, 2016. The contract reimburses the Town for all costs for supplying law enforcement service through a dedicated Airport Division. In fiscal years 2010 and 2011, the cost of this service was \$2.2 million annually. The Airport also contracts out additional security services through U.S. Securities Association. The Airport is billed an hourly rate per type of position. In fiscal years 2010 and 2011, the cost of this service was \$510,000 and \$490,000, respectively.

Centurion Protection, Inc. provides aircraft fire fighting and rescue services pursuant to a fixed price contract which expires on July 31, 2013. The Airport provides all equipment and facilities and the company provides all services necessary to comply with FAA standards and requirements. Since September 11, 2001, Centurion Protection, Inc. has been providing security services in addition to the fire fighting and rescue services provided in the past. These new services include increased patrols of the ramps, fence lines and gates, all of which have increased the cost of the contract for the Airport. In fiscal years 2010 and 2011, the cost for these services was \$1.84 million and \$1.87 million, respectively.

J.C.M. Business Solutions, LLC provided terminal cleaning services, the contract for which expires on October 31, 2012. The cost for cleaning services in fiscal years 2010 and 2011 was \$1.5 million and \$1.4 million, respectively.

HVAC, elevator, escalator and jet bridge maintenance services are also contracted out. The City provides other administrative services and support to the Department of Aviation, including legal and accounting services. The Airport transfers funds to the City's general fund for certain of these direct services provided by the City to the Airport. These transfers have averaged under \$50,000 per year for the past several years.

The City currently has an Intermunicipal Agreement with the Town of Londonderry for a payment-in-lieu-of-taxes ("PILOT") for the City owned land and buildings and leased space within the Airport that would otherwise be subject to taxes due to Londonderry. The City paid \$574,343 in fiscal year 2010, \$585,604 in fiscal year 2011

and is expected to pay \$597,316 in fiscal year 2012 for such PILOT. The PILOT is increased annually by 2%. The PILOT will expire on March 9, 2032.

### **Airport Facilities**

The terminal building consists of a total of 17 gates, 14 of which are equipped with jet loading bridges, and ticket counters and hold rooms. The terminal occupies 306,000 square feet. In addition, the Airport has installed explosive detection system machines approved by the Transportation Security Administration (“TSA”) in order to comply with the checked baggage screening requirement imposed by the federal Aviation and Transportation Security Act (“ATSA”) signed into law in November 2001. In accordance with such requirements and a federal mandate effective January 2003, the Airport screens all checked baggage for explosives.

The Airport has two runways: 17/35, served by two full instrument landing systems and 6/24, a cross wind runway, served by one full instrument landing system. Runway 17/35 is 9,250 feet long by 150 feet wide. Runway 6/24 is 7,650 feet long and 150 feet wide.

The Airport has an approximately 4,000 space public parking garage adjacent to the terminal building. The garage, together with two short-term and five long-term surface parking lots, provide an aggregate of approximately 11,000 public parking spaces available for use at the Airport, as well as approximately 800 spaces utilized as rental car ready return space. The garage also includes a pedestrian walkway connecting it to the terminal.

### **AIRPORT ACTIVITY AND AGREEMENTS**

The FAA provides twenty-four hour air traffic control and automated flight service facilities at the Airport. The Airport provides twenty-four hour operation and maintenance of the airfield and other facilities and security. Airfield and roadway maintenance, including snow removal and equipment maintenance, are all performed by Airport employees. The Airport is fully certified under FAR Part 139 to conduct commercial operations.

### **Airlines Providing Service at the Airport**

Passenger and cargo service at the Airport as of March 2012 was provided by the following airlines:

#### **AIRLINES SERVING THE AIRPORT**

<u>Commercial Passenger Airlines</u>	<u>Cargo</u>
Continental/United Airlines <sup>(1)</sup>	FedEx
Delta Airlines <sup>(2)</sup>	United Parcel Service
Southwest Airlines	Wiggins Airways <sup>(4)</sup>
US Airways <sup>(3)</sup>	

<sup>(1)</sup> Includes Continental Express, which is operated by Express Jet, Commutair, or Comair. United service provided by United Express since October 25, 2009. United Express is operated by Trans States Airlines, Mesa, Go-Jet or Express Jet.

<sup>(2)</sup> Includes Delta Connection, which is operated by either Pinnacle Airlines or Express Jet. On April 1, 2012, Pinnacle Airlines Corp. announced that it and its subsidiaries, including Pinnacle Airlines, had filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court. Pinnacle Airlines currently continues to provide services to the Airport.

<sup>(3)</sup> Includes US Airways Express, which is operated by Piedmont Air, Republic or Air Wisconsin.

<sup>(4)</sup> Wiggins Airways offers both charter passenger and all cargo airline service.

Source: Airport records.

The cargo carriers listed above provide all-cargo service.

## Enplaned Passengers

The following table sets forth enplanements at the Airport for fiscal years 1997 through 2011\* and the nine months ended March 31, 2011 and March 31, 2012:

<b>ENPLANED PASSENGERS</b>				
<b>Fiscal Year Basis</b>				
<u>Year</u>	<u>Major airlines</u>	<u>Regional/commuter/ other airlines</u>	<u>Total</u>	<u>Annual percent increase/ (decrease)</u>
1997	336,107	184,460	520,567	--%
1998	423,866	206,943	630,809	21.2
1999	1,077,073	218,671	1,295,744	105.4
2000	1,281,698	235,321	1,517,019	17.1
2001	1,421,640	205,708	1,627,348	7.3
2002	1,450,532	191,776	1,642,308	0.9
2003	1,462,473	252,144	1,714,617	4.4
2004	1,543,179	352,229	1,895,408	10.5
2005	1,767,701	351,008	2,118,709	11.8
2006	1,662,282	421,541	2,083,823	(1.6)
2007	1,404,172	504,855	1,909,027	(8.5)
2008	1,477,766	501,306	1,979,072	3.5
2009	1,286,977	432,120	1,719,097	(12.9)
2010	1,038,487	423,914	1,462,401	(14.9)
2011	963,686	429,349	1,393,035	(4.7)

Source: Airport records.

<b>For the Nine-Month Period Ended March 31</b>				
<u>Year</u>	<u>Major airlines</u>	<u>Regional/commuter/ other airlines</u>	<u>Total</u>	<u>Percent increase/ (decrease)</u>
2011	727,351	310,769	1,038,120	--%
2012	666,718	322,755	989,886	(4.6)

Between fiscal year 1997 and fiscal year 2001, enplaned passengers at the Airport increased at an average rate of 33% per year. These increases were primarily attributable to new service by Southwest Airlines and other air carriers beginning service in mid-1998. Growth of enplaned passengers slowed between fiscal year 2001 and fiscal year 2005 to an average annual increase of 6.98%. During this period, the Airport continued to outperform the national average for growth in passenger enplanements. Passenger enplanements at the Airport decreased during fiscal years 2006 and 2007 due to airline bankruptcies, mergers and consolidations; increasing competition among New England airports, which provided more airline choices to passengers regionally; and reductions to airline seat capacity at the Airport. In fiscal year 2008, the Airport had a 3.5% increase in enplanements over the prior fiscal year, but remained below the record set in 2005.

In fiscal years 2009 and 2010, passenger activity decreased sharply due to a prolonged global recession, continued regional competition and reduced airline seat capacity. During fiscal year 2011 there was a further decrease in passenger enplanements of 4.7% compared with fiscal year 2010, which reflected weak economic recovery, increased competition among low cost carriers at Boston Logan International Airport and the impact of rising fuel prices on the nature of service offered by the airlines.

These factors have continued to affect passenger activity at the Airport in fiscal year 2012. Year-to-date data through March 31, 2012 shows a 4.6% decrease in enplanements as compared to the same period in fiscal year 2011.

## Airline Market Shares

The following tables set forth the airlines serving the Airport and their share of enplaned passengers for fiscal years 2007 through 2011. The order of the airlines reflects fiscal year 2007 enplanements.

### SEGMENTATION OF HISTORICAL ENPLANEMENTS FISCAL YEARS 2007 - 2011

	FY 2007		FY 2008		FY 2009		FY 2010		FY 2011	
	Enplaned passengers	Share of total								
<b>Major/national airlines:</b>										
Southwest Airlines	993,301	52.1%	1,121,235	56.8%	1,008,780	58.7%	850,035	58.1%	829,068	59.5%
US Airways	145,441	7.6	145,596	7.4	111,868	6.5	75,933	5.2	52,710	3.8
Northwest Airlines (1)	145,121	7.6	110,268	5.6	0	0.0	44,845	3.1	0	0.0
United Airlines	111,717	5.9	99,890	5.1	86,324	5.0	25,911	1.8	0	0.0
Continental Airlines	8,462	0.4	0	0.0	0	0.0	238	0.0	120	0.0
Delta Airlines (1)	130	0.0	777	0.0	80,005	4.7	41,525	2.8	81,788	5.9
Subtotal	1,404,172		1,477,766		1,286,977		1,038,487		963,686	
<b>Regional affiliates:</b>										
US Airways Express (2)	176,305	9.2%	183,844	9.3%	201,182	11.7%	183,873	12.6%	188,792	13.6%
Delta Connection (1)(5)	142,768	7.5	115,279	5.8	78,601	4.6	18,868	1.3	58,413	4.2
Continental Express (3)	98,967	5.2	106,138	5.4	103,955	6.0	100,688	6.9	90,252	6.5
United Express (4)	73,265	3.8	68,440	3.5	42,025	2.4	85,354	5.8	87,924	6.3
Air Canada (7)	8,851	0.5	8,235	0.4	5,452	0.3	4,285	0.3	3,011	0.2
Northwest Airlink (1)(6)	3,701	0.2	17,839	0.9	0	0.0	28,982	2.0	0	0.0
Other	998	0.1	1,531	0.1	910	0.1	1,228	0.1	957	0.1
Continental Connection (8)	0	0.0	0	0.0	0	0.0	636	0.0	0	0.0
Subtotal	504,855		501,306		432,120		423,914		429,349	
<b>Total</b>	<b>1,909,027</b>	<b>100.0%</b>	<b>1,979,072</b>	<b>100.0%</b>	<b>1,719,097</b>	<b>100.0%</b>	<b>1,462,401</b>	<b>100.0%</b>	<b>1,393,035</b>	<b>100.0%</b>

- Delta Airlines results for fiscal years 2009 through 2011 include Northwest Airlines.
- Operated by Chautauqua Airlines, Colgan Air, Mesa, PSA, TSA, Republic, Air Wisconsin and Piedmont Air.
- Operated by Express Jet.
- Operated by Atlantic Coast Airlines, Chautauqua, Trans States Airlines, GO Jet, Mesa and Air Wisconsin.
- Operated by Comair, Atlantic Southeast Airlines and Freedom Air.
- Operated by Pinnacle, Mesaba and Compass Airlines.
- Operated by Air Georgian.
- Operated by Commutair.

## Landed Weight

Fiscal year 2011 total landed weight was approximately 2.16 billion pounds, which represents a 3.0% decrease in landed weight compared with fiscal year 2010. In fiscal year 2011, cargo aircraft landed weight was over 504 million pounds, an increase from 482 million pounds in fiscal year 2010. The increase in cargo landed weight in fiscal year 2011 was due primarily to all-cargo carrier UPS's contract with L.L.Bean to ship all L.L.Bean's air cargo from the Airport. Additional cargo service is provided by the passenger airlines serving the Airport. Passenger landed weight in fiscal year 2011 was approximately 1.6 billion pounds, a decrease of 5.2% compared with 2010. This decrease resulted from the use of smaller passenger aircraft serving the Airport and reduced passenger enplanements in fiscal year 2011.

<u>Fiscal Year</u>	<u>Landed Weight (pounds)</u>		
	<u>Cargo</u>	<u>Passenger</u>	<u>Total</u>
2002	569,783,850	2,181,563,532	2,751,347,382
2003	526,027,833	2,334,506,632	2,860,534,465
2004	537,618,350	2,552,705,760	3,090,324,110
2005	534,549,450	3,004,670,714	3,539,220,164
2006	551,516,520	2,634,269,752	3,185,786,272
2007	550,224,510	2,411,972,086	2,962,196,596
2008	554,720,210	2,360,910,047	2,915,630,257
2009	497,360,080	2,066,305,670	2,563,665,750
2010	481,867,040	1,748,818,070	2,230,685,110
2011	504,471,380	1,658,088,361	2,162,559,741

Source: Airport records.

### Origin - Destination Patterns

The following table shows the top 30 domestic passenger origin - destination markets and the average percentage of passengers traveling to or from the Airport and such destinations in the 3 calendar months ended September 30, 2011:

#### PASSENGER ORIGINS AND DESTINATIONS AND AIRLINE SERVICE Manchester-Boston Regional Airport

<u>Rank</u>	<u>Origin-destination market</u>	<u>Distance (air miles)</u>	<u>Percent of passengers (a)</u>	<u>Average daily nonstop departures (b)</u>
1	Baltimore/Washington, MD	377	12.20%	8.3
2	Orlando, FL	1,142	7.90	2.6
3	Philadelphia, PA	290	7.90	10.3
4	Tampa, FL	1,204	5.77	1.6
5	Chicago Midway, IL	838	3.81	3.8
6	Las Vegas, NV	2,356	2.96	1.0
7	Phoenix, AZ	2,279	2.85	1.0
8	Denver, CO	1,728	2.53	0.0
9	Chicago O'Hare, IL	843	2.06	3.0
10	Detroit, MI	609	1.95	5.8
11	Ronald Reagan/Washington DC, VA	407	1.81	2.9
12	Los Angeles, CA	2,587	1.79	0.0
13	Nashville, TN	938	1.78	0.0
14	Raleigh-Durham, NC	625	1.68	0.0
15	Minneapolis/St. Paul, MN	1,092	1.59	0.0
16	Charlotte/Douglas, NC	737	1.58	1.0
17	Dallas/Ft. Worth, TX	1,552	1.50	0.0
18	San Francisco, CA	2,675	1.45	0.0
19	Atlanta, GA	952	1.45	1.9
20	San Diego, CA	2,565	1.35	0.0
21	Indianapolis, IN	802	1.26	0.0
22	Ft. Meyers, FL (Southwest Florida)	1,272	1.25	0.0
23	Salt Lake City, UT	2,076	1.24	0.0
24	Ft. Lauderdale, FL	1,263	1.22	0.0
25	Seattle-Tacoma, WA	2,459	1.22	0.0
26	St. Louis, MO (Lambert)	1,031	1.15	0.0
27	Jacksonville, FL	1,028	1.09	0.0
28	Columbus, OH	627	1.04	0.0
29	Kansas City, MO	1,237	1.03	0.0
30	Cleveland, OH	544	<u>1.02</u>	2.9
	Subtotal—top 30 domestic markets		77.45%	
	Other domestic markets		<u>22.55</u>	
	All domestic markets		100.00%	

- (a) Source: U.S. Department of Transportation, Origin-Destination Survey of Airline Passenger Traffic, Domestic, for the 3-month period ended September 30, 2011, except as noted. Table includes cities with 1% or more of total inbound and outbound domestic origin-destination passengers at the Airport, on the basis of a 10% sample of outbound passengers. This is the most recent data available.
- (b) Source: formerly APG DAT now DIIO, online database, March 2012. There are 46 daily departures to domestic destinations. Fractional departures reflect seasonal changes and less than seven day per week service.

## **Airline Agreements**

See “Appendix C - Summary of Certain Provisions of the Airline Agreements,” for the meanings of certain capitalized terms used within this subheading and for a more detailed description of the Airline Agreements.

The Airport generates revenues from various rental and fee payments made by the airlines and other users for their use of the Airport’s various facilities. Airline Agreements, all of which are substantially similar, with the airline signatory parties (the “Signatory Airlines”) provide the basis for use and occupancy of the Airport’s terminal, aprons and other airfield areas. The City currently has Airline Agreements with the following Signatory Airline currently serving the Airport: Delta Air Lines, Southwest Airlines and US Airways and/or their regional affiliates. The United/Continental Airline Agreement is in the final stages of approval with their legal departments. However, the combined carrier is currently operating as a Signatory Airline at the Airport. The current Airline Agreements will expire on June 30, 2015.

The rental and fee rates established under the Airline Agreements are set annually based on information from the City’s proposed Annual Budget for the Airport, the City’s accounting records that document revenue and expenses allocable to each Airport Cost Center, and activity reports prepared by the Signatory Airlines and other airlines to document total Landed Weight. The rental and fee rates established under the Airline Agreements consist primarily of Terminal Building Rentals, Apron Fees and Landing Fees.

Non-Signatory Airlines (any airline that owns or operates aircraft landing at the Airport that has not signed the Airline Agreement or does not conduct operations on behalf of a Signatory Airline) and all other aircraft operators are required to pay amounts equal to 125% of the calculated Signatory Airline Rates including but not limited to Landing Fee Rate, Terminal Rental Rate, Apron Rental Rate and Common Use Space Rental Rate for a Signatory Airline. In fiscal year 2011, the Signatory Airlines represented approximately 99.77% of the landed weight at the Airport.

The Airline Agreements provide for extraordinary adjustments to certain fees and rentals in the event total Landing Fees, Building Rent and Apron Fees for any quarter vary by more than five percent (5%) from projected levels. In such a situation the Landing Fee Rate, Building Rent and Apron Fees can be adjusted by the City for the balance of the fiscal year by an amount equal to the difference between projected and actual total Landing Fees as divided by the estimated total Landed Weight of all Signatory Airlines during the balance of the fiscal year.

In 2010, the Airline Agreement was extended for five years to its current expiration date of June 30, 2015. Several changes that are beneficial to the Airport were made to the Airline Agreements at that time. One was the addition of an “Extraordinary Coverage Protection” provision. This provision provides that, if the City estimates that it will not meet the requirements of the Rate Covenant during any fiscal year during the term of the Airline Agreements, the City may adjust the Terminal Building Rental Rate, the Apron Fee Rate and the Landing Fee Rate to meet such requirements, upon 30 days prior written notice to the Signatory Airlines. The City will deposit and retain such payments in the Coverage Account only to the extent necessary to meet requirements of the Rate Covenant and any excess will be credited back to the Signatory Airlines in proportion to the amounts paid by each airline.

Another change made to the Airline Agreement in 2010 was to increase from \$1 million to \$5 million the amount of capital expenditures paid from the Airport’s surplus funds that may be amortized and included in the calculation of airline rates and charges. This change has the effect of increasing the amount the Airport may charge the airlines and thus increases the Airport’s Revenues.

During any period between the expiration of an Airline Agreement and the execution of a new airline agreement or if, for any other reason, an agreement is not in effect with any airline serving the Airport, the City,

acting through the Department of Aviation, has the authority, subject to applicable federal law, to set airline rentals, fees and other charges without any further federal action or approval by the Board or any other City or State official or entity. See “CERTAIN INVESTMENT CONSIDERATIONS – Regulations and Restrictions Affecting the Airport – Federal Law Affecting Airport Rates and Charges.”

### **Airport Parking**

Parking facilities at the Airport include the parking garage with 4,000 spaces for public parking at a \$17.00 daily rate (\$85 per week maximum charge), one short-term surface lot with an aggregate of 130 spaces at rates of \$2.00 per half-hour (\$24.00 per day maximum charge) and four long-term surface lots with an aggregate of 6,691 spaces at rates of \$10.00 per day. The Airport also provides free parking at the cell phone lot.

Parking management services are provided at the Airport by Central Parking, which has agreed to merge with Standard Parking Corporation later in 2012. The company provides complete turnkey operation and maintenance of all parking facilities including shuttle bus operations which link the parking lots with the terminal building. Compensation under the contract is based on a fixed management fee plus expenses. The current parking management contract expires on June 30, 2016. The Airport has two two-year options to extend the contract, which, if exercised, would extend it through June 30, 2020.

### **Airport Concessions and Other Contracts**

The Airport has entered into Automobile Concession Agreements (the “Rental Car Agreements”) with Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National and Thrifty, which expired on November 30, 2011. The Airport is in the final stages of releasing a new request for proposals for rental car services.

Pursuant to the Rental Car Agreements, rental car companies pay 10% of gross revenues to the Airport in addition to space rental for remote lots, terminal space and quick turn around maintenance facilities.

In 1999, the Airport initiated a CFC of \$2.25 per rented car per day pursuant to the Rental Car Agreements. Under the Rental Car Agreements, the CFC is calculated based on the amortized cost of portions of the Airport’s prior capital projects related to the construction of the first level of the parking garage (which is dedicated to rental car operations) as well as the construction and operation of the pedestrian walkway and associated operation and maintenance expenses.

The remaining concession revenues are from food, vending, news and gift, advertising, telephone services, fuel and other miscellaneous concession revenues.

FedEx, United Parcel Service, Wiggins Airways and others pay land rental directly or indirectly to the Airport for their facilities. In addition, the Airport generates revenues from other less significant rental properties.

## **FINANCIAL INFORMATION**

### **General Information**

The City’s Department of Aviation maintains its financial records on a fiscal year basis ending June 30, using the accrual method of accounting. Financial statements are audited annually by a firm of independent certified public accountants. Financial statements for the fiscal years ended June 30, 2011 and 2010 are included in this Official Statement as set forth in Appendix A.

### **Summary of Historical Operating Statements**

The following table sets forth the historical operating statements of the Airport for the fiscal years 2007 through 2011 (audited) derived from the audited financial statements for the City’s Department of Aviation.

**Department of Aviation, City of Manchester  
Historical Operating Statements**

	Fiscal Year Ended June 30				
	2007	2008	2009	2010	2011
<b>Operating revenues:</b>					
Automobile parking fees	\$23,170,393	\$24,770,784	\$21,394,977	\$18,007,092	\$17,941,961
Rental of facilities	11,229,914	12,186,658	12,176,099	11,839,104	10,765,146
Landing fees	5,931,878	5,824,210	5,118,427	6,260,548	7,502,613
Concession and other operating income	<u>3,539,589</u>	<u>3,462,195</u>	<u>3,304,329</u>	<u>2,709,909</u>	<u>2,709,262</u>
<b>Total operating revenues</b>	<u>43,871,774</u>	<u>46,243,847</u>	<u>41,993,832</u>	<u>38,816,653</u>	<u>38,918,982</u>
<b>Operating expenses:</b>					
Salaries, wages and fringe benefits	6,734,194	6,940,286	7,196,392	7,476,449	7,519,571
Enforcement and fire protection	4,722,879	4,055,581	4,125,669	4,032,334	4,073,069
Purchased property services	15,302,680	16,566,549	14,031,562	11,970,285	12,002,590
General and administrative	1,823,347	3,034,162	2,437,093	2,068,215	1,639,688
Reimburse City of Manchester	71,381	34,620	40,711	40,101	26,900
Depreciation and amortization	<u>16,505,920</u>	<u>17,246,301</u>	<u>19,728,783</u>	<u>18,519,091</u>	<u>19,649,887</u>
<b>Total operating expenses</b>	<u>44,800,401</u>	<u>47,877,499</u>	<u>47,560,210</u>	<u>44,106,475</u>	<u>44,911,705</u>
<b>Operating income/loss</b>	(928,627)	(1,633,652)	(5,566,378)	(5,289,822)	(5,992,723)
<b>Nonoperating revenues (expenses):</b>					
Soundproofing program grant revenue	3,707,927	4,844,795	4,049,880	1,871,937	94,541
Soundproofing program expenses	(5,022,884)	(5,208,998)	(3,980,376)	(1,807,258)	-
Passenger facility charges (PFCs)	5,399,622	6,847,879	6,707,919	5,911,377	5,742,260
Customer facility charges (CFCs)	2,558,382	2,268,130	2,177,337	1,823,022	1,836,186
Interest income	2,522,716	2,622,663	464,823	806,071	667,128
Loss/Gain on disposal of property and equipment	837,705	1,300	41,150	(15,888)	3,050
Interest expense	(12,096,276)	(11,973,935)	(11,707,373)	(10,044,145)	(8,978,540)
Bond interest rate swap valuation adjustments	(36,172)	(207,548)	(2,657,683)	(879,390)	-
Loss on sale of securities				(2,586,242)	(351,704)
Bond fees	<u>(257,290)</u>	<u>(546,581)</u>	<u>(308,662)</u>	<u>(254,995)</u>	<u>(238,537)</u>
<b>Total nonoperating revenues (expenses), net</b>	<u>(2,386,270)</u>	<u>(1,352,295)</u>	<u>(5,212,985)</u>	<u>(5,175,511)</u>	<u>(1,225,616)</u>
<b>Net income before capital contributions</b>	<u>(3,314,897)</u>	<u>(2,985,947)</u>	<u>(10,779,363)</u>	<u>(10,465,333)</u>	<u>(7,218,339)</u>
<b>Capital contributions</b>					
Capital contributions	<u>20,333,025</u>	<u>17,325,965</u>	<u>2,962,442</u>	<u>4,747,164</u>	<u>8,810,475</u>
<b>Net capital contributions and transfers</b>				<u>4,747,164</u>	<u>8,810,475</u>
<b>Change in fund net assets</b>	<u>17,018,128</u>	<u>14,340,018</u>	<u>(7,816,922)</u>	<u>(5,718,169)</u>	<u>1,592,136</u>
<b>Fund net assets, beginning</b>	<u>168,803,006</u>	<u>185,821,134</u>	<u>200,161,152</u>	<u>192,344,230</u>	<u>186,626,061</u>
<b>Fund net assets, ending</b>	<u>\$185,821,134</u>	<u>\$200,161,152</u>	<u>\$192,344,230</u>	<u>\$186,626,061</u>	<u>\$188,218,197</u>

## Management's Discussion of Airport Finances

**Overview of Results for Fiscal Years 2007 through 2011.** The fiscal year of the Airport begins on July 1 and ends on June 30 of each year.

During the late 1990s to mid 2000s, Southwest Airlines was the dominant low cost carrier (LCC) serving New England and the Airport enjoyed a period of significant growth. Beginning in 2004, however, the entrance of JetBlue Airways and other LCCs at Boston Logan International Airport greatly increased competition in the region.

After many years of sustained growth in passengers, enplanements at the Airport have decreased during the past three years due to a weak global economy, fuel price uncertainty, numerous airline bankruptcies, mergers and consolidations and increasing airline competition in New England. Recently, declining enplanements have moderated significantly to a less than five percent decline for fiscal year 2011 as compared to fiscal year 2010 and the 9-month year-to-date results for fiscal year 2012 show a further decline of approximately 4.7%.

Operating revenues for the Airport, which consist of parking fees, facility lease agreements, passenger and customer facility charges, landing fees, concession fees and other operating income were \$38.9 million in fiscal year 2011 as compared to the \$38.8 million in fiscal year 2010. During the period from fiscal year 2007 through fiscal year 2011, annual operating revenues have declined primarily due to a reduction in aircraft landed weight and enplaned passengers. This decline is attributable to the downturn in the economy and capacity reductions in the overall airline industry, including reductions in airline seat capacity at the Airport.

Automobile parking revenue is the largest component of the Airport's operating revenues, averaging 50% of total operating revenues. Parking revenues declined slightly in fiscal year 2011 due to the decline in passengers at the Airport. Parking revenues totaled \$17.9 million in fiscal year 2011 as compared to a peak amount of \$24.7 million in fiscal year 2008. The Airport constantly monitors the parking rates of competing airports, particularly Boston Logan International Airport and T.F. Green Airport in Providence, Rhode Island. As a matter of policy, the Airport maintains parking rates lower than its regional competitors.

During the past several years, airline revenues (primarily landing fees and terminal lease agreements) have represented between 26% and 34% of total operating revenues. These percentages are derived from Airport revenues based on standard industry classifications, which differ slightly from the categories shown in the five-year Summary of Historical Operating Statements.

Operating expenses (net depreciation) for the Airport have declined at a rate greater than operating revenue declines due to a significant number of cost reduction measures and efficiency initiatives including, but not limited to: closure of underutilized surface parking lots to save electricity and plowing costs; reduction of parking, law enforcement, security, and custodial contracts; renegotiation of existing employment contracts (health insurance contributions); and deferral of certain non-essential planned capital expenditures.

During the past several years, the Airport's debt service coverage level on its outstanding bonds ranged from a high of 2.30 in fiscal year 2007 (as restated – see footnote (1) to "Historical Debt Service Coverage Ratio") to a low of 1.76 in fiscal year 2010. Its current level for fiscal year 2011 is 1.98. The Airport's Operation and Maintenance Reserve Account has been fully funded at its required level throughout the same time period and had a balance of \$9.8 million at the end of fiscal year 2011. The Airport also had an additional \$27.4 million of undesignated operating funds at the end of fiscal year 2011 and at year end the Airport had 537 days of cash on hand.

**Fiscal Year 2012 Budget and Discussion of Results to Date.** On June 15, 2011, the City adopted a \$46.3 million budget for the Airport for fiscal year 2012. The budget provides that the Airport will pay all of its operating expenses and debt service, and remain in compliance with its various obligations under the Bond Resolution, including the Rate Covenant.

The Airport reviews its results compared to budget on a monthly basis. On a budget basis, total revenues through March 31, 2012 were on target with the Airport's original \$46.3 million budget, and total expenses were 11% less than budgeted. The Airport has realized some cost savings beyond budgeted amounts in fiscal year 2012 due to several factors, including a new parking contract and a milder than expected winter. This resulted in the Airport's net revenues (the amount by which revenues exceed expenses) through March 31, 2012 being \$4.0 million greater than the budget for fiscal year 2012. All fiscal year 2012 information is unaudited and subject to change.

The Airport is in the process of finalizing its fiscal year 2013 budget. The Airport has recognized the level of enplanements and, as mentioned previously, has made permanent reductions in expenses, not just one-time reductions. Based on projected information from the airlines, the Airport expects a further decline in landed weight in fiscal year 2013. The Airport has budgeted further reductions in expenses (for example, by increasing employees' contributions to health insurance costs and other benefit plan design changes, and more energy initiatives); the fiscal year 2013 expense budget is proposed at \$45.9 million as compared to a \$46.3 million budget for fiscal year 2012.

### Summary of Historical Debt Service Coverage Ratio

The following table sets forth the Debt Service Coverage Ratio for the fiscal years 2007 through 2011. Such information is in the format set forth in the Resolution for determining the Debt Service Coverage Ratio and is derived from records of the City and the Airport.

	<b>Historical Debt Service Coverage Ratio</b>				
	Fiscal Year Ended June 30				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total Revenues and Coverage Amount	\$57,694,496	\$58,070,244	\$51,757,303	46,499,688	46,004,673
Operation and Maintenance Expenses	<u>(28,480,391)</u>	<u>(31,143,159)</u>	<u>(27,790,716)</u>	<u>(25,547,283)</u>	<u>(25,234,918)</u>
Revenues Available for Bond Debt Service and Coverage Amount	\$29,214,105	\$26,927,085	\$23,966,587	\$20,952,405	\$20,769,755
Required Debt Service Fund Deposits:					
Total Debt Service	\$18,570,960	\$18,516,264	\$18,060,209	\$18,218,535	\$17,013,540
PFC Revenue Applied to Debt Service	(5,880,000)	(6,365,284)	(5,388,900)	(6,345,864)	(6,498,324)
Net Debt Service	12,690,960	12,150,980	12,671,309	11,872,671	10,515,216
Debt Service Coverage Ratio <sup>(1)</sup>	2.30	2.22	1.89	1.76	1.98

<sup>(1)</sup>The Debt Service Coverage Ratios shown in the table above for fiscal years 2007 and 2008 are higher than the amounts shown in the Airport's audited financial statements for those years. In the audited financial statements for fiscal years 2007 and 2008, the required deposits to the Operation and Maintenance Reserve Fund and adjustments for bond financing costs were made prior to the calculation of the Debt Service Coverage Ratio. Such adjustments are not required by the Resolution.

### OTHER FINANCIAL INFORMATION

#### Budgeting Process

Financial accounting for the operations of the Airport is the responsibility of the Airport Chief Financial Officer and is subject to review and approval by the Board. The City accounts for the operations of the Airport as an enterprise fund. These operations are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis will be recovered or financed through user charges.

Annually, the Airport Chief Financial Officer prepares a preliminary estimate of revenues and expenses for the succeeding fiscal year. The estimate is forwarded to the respective signatory airlines for their review pursuant to the terms of the Airline Agreements. The estimate is also sent to the Mayor. The Mayor submits his budget, including the estimate for Airport Activity and Agreements, to the Board for review and appropriation pursuant to the City's budget and appropriation process.

The City Charter provides for the Mayor, and such other officials as the Mayor shall select, to prepare a budget for consideration by the Board. The Mayor's proposed budget must include certain prior period and

projected expense and revenue information as well as statements of anticipated tax levy and debt service requirements. The Mayor’s proposed budget is referred to a public hearing. After the public hearing the Board may adopt the proposed budget with or without amendment. If amendments are made, a second public hearing may be held prior to final adoption. The Mayor may veto the entire budget or line items thereof. In the event of a veto, all portions of the budget not vetoed are passed. If the Board fails to adopt appropriation resolutions for the ensuing fiscal year by June 30, the Mayor’s budget as originally proposed shall prevail.

The City Charter provides for supplemental appropriations, reductions of appropriations and transfers of appropriations under certain limited circumstances. The voters of the City adopted an amendment to the City Charter limiting annual budget increases. The amendment does not apply to the enterprise funds of the City, including the Aviation Department. State law permits the City to adopt biennial budgets, and it may choose to do so in the future.

### **Pension and Other Post Employment Benefits**

All eligible Department of Aviation employees are participants in the Manchester Employees Contributory Retirement System (the “Plan”). The Plan is a defined benefit pension plan covering all employees of the City of Manchester except police officers and fire fighters. Department of Aviation employees currently represent approximately 5.86% of the total participants in the Plan. The Plan also provides a monthly health insurance subsidy to eligible retirees. The monthly subsidy is based on years of service and ranges from \$31 to \$126 for pre-2006 retirees and \$63 to \$253 for retirees in 2006 and thereafter. The Plan is required to have an actuarial valuation prepared annually as of December 31. As of December 31, 2011, the most recent valuation date, the Plan was 60.2% funded. The actuarial accrued liability was \$264.0 million (\$248.4 million for pensions and \$15.6 million for health subsidies) and the actuarial value of assets was \$158.9 million, resulting in an aggregate unfunded actuarial accrued liability of \$105.1 million. The employer contribution rate for fiscal year 2013 is 19.72% of payroll compared to 18.58% in fiscal 2012. The employee contribution rate is 5.00% in 2012 and 2013. The actuarial assumed rate of return on Plan assets is currently 7.5% annually.

The following table sets forth information regarding the actual contributions made by the City in recent years. The amounts shown are combined for pension benefits and the related health subsidy program.

#### **Pension Benefits Trend Information**

<u>Valuation December 31</u>	<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contribution<sup>(1)</sup></u>	<u>Airport Contributions</u>	<u>Total City Contributions</u>
2011	2013	19.72%	\$1,012,091 <sup>(2)</sup>	\$9,255,971 <sup>(2)</sup>
2010	2012	18.58	686,027 <sup>(3)</sup>	9,471,499 <sup>(2)</sup>
2009	2011	18.50	896,817	8,508,451
2008	2010	18.10	852,620	7,062,994
2007	2009	14.75	699,879	6,646,801
2006	2008	14.51	684,708	6,760,377
2005	2007	12.04	536,859	5,413,826

<sup>(1)</sup> Annual Required Contribution is expressed as a percentage of payroll.

<sup>(2)</sup> Projected.

<sup>(3)</sup> Actual through March 31, 2012.

For additional information regarding the Plan, specific reference is made to Note 11 and required supplementary information related thereto in the Comprehensive Annual Financial Report of the City of Manchester, New Hampshire for the year ended June 30, 2011 (the “2011 CAFR”), which is available on the City’s website at: <http://www.manchesternh.gov/website/Departments/Finance/AnnualFinancialReport/tabid/297/Default.aspx>. The 2011 CAFR has also been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System. The Annual Actuarial Valuation Report dated December 31, 2011 for the Plan is available on the Plan’s website: [https://www.manchesterretirement.org/maxdocs/Actuarial\\_Valuation.pdf](https://www.manchesterretirement.org/maxdocs/Actuarial_Valuation.pdf).

The City also provides health insurance benefits to its employees and those benefits are currently funded on a pay-as-you-go basis. The Airport paid \$1,005,163 in fiscal year 2011 and \$759,106 through March 31, 2012, respectively, for these benefits for current Department of Aviation employees. City retirees are also able to participate in the City's plan provided that they pay 100% of the premiums. See Note 12 to the 2011 CAFR.

### **Investment Policies**

New Hampshire RSA Chapter 48:16, as amended, establishes the policy to which the City must adhere when investing City funds, including Airport funds. With approval of the Board, the Finance Officer, acting as Treasurer, may invest in obligations of the United States government, in savings bank deposits of banks incorporated under the laws of the State, in participation units on the New Hampshire Public Deposit Investment Pool, in certificates of deposit and repurchase agreements of banks incorporated under the laws of the State, or in banks recognized by the State Treasurer.

### **Financial Hedge Policy**

Swap and debt management policies have been implemented in connection with the Airport to provide a basis for oversight for all debt, including all short and long-term obligations, guarantees, and instruments that commit Airport revenues to future payments. These policies establish guidelines for managing interest rate exposure and approaches for overall debt structure, including benchmarks regarding total swap and variable rate debt exposure as a percentage of debt, form and term of payment agreements, credit rating of counterparties, collateralization, exposure limits, basis risk, selection of counterparty, and reporting requirements. Such policies are subject to amendment and change. The City currently has no swaps outstanding.

### **Risk Management and Insurance**

The Airport has in place a comprehensive airport liability insurance policy with ACE USA which provides a combined single policy limit of \$100 million. The Airport is also named as an additional insured on liability policies required to be maintained by all airline operators and Airport tenants. The City also has in place business interruption insurance with respect to the Airport with an annual policy limit of \$11 million. The City is self-insured for worker's compensation claims up to \$650,000 and health insurance claims up to \$200,000 per individual per claim year; claims beyond these limits are subject to a policy. The policy with ACE USA also includes Extended Coverage- War, Hijacking and Other Perils, Terrorism Endorsement. The City self-insures for the first \$100,000 of property damage claims and the Airport has property insurance coverage (buildings and contents) of \$200 million.

## **CAPITAL PROGRAM**

The Airport has a five-year rolling capital program. The projected costs of the current five-year capital program are approximately: \$6.6 million in fiscal year 2012, \$7.6 million in fiscal year 2013, \$8.5 million in fiscal year 2014, \$6.0 million in fiscal year 2015 and \$10.6 million in fiscal year 2016. The Airport's major facilities are relatively new in comparison to other airports around the country and its capital needs are primarily for improvements, not for expansion. In 2009, the FAA reclassified the Airport as a "small hub," which allows the Airport to undertake capital projects with 90% federal funding and 10% state and local funding. The Airport's significant projects over the next five years include: terminal ramp replacement, taxiway reconstruction and repaving, snow removal equipment and security enhancements.

Other future projects are expected to include certain equipment replacement and miscellaneous capital improvements. The City currently expects that future capital expansion and improvements at the Airport through fiscal year 2016 will be paid from available federal, state and Airport funds and not bond proceeds.

The Airport has implemented a voluntary residential sound insulation program in eligible neighborhoods surrounding the Airport. Under this program, homes which are located within an area approved by the FAA are eligible for sound insulation. The Airport began this program in 1993 and completed all eligible units in fiscal year 2010. As of fiscal year 2011, the program is suspended. As of the end of fiscal year 2010, the Airport and the FAA

had spent approximately \$54 million and had treated approximately 1,238 homes. The cost of the residential sound insulation program has been funded primarily from federal AIP grants, state grants, and Airport revenues.

In conjunction with the Airport's focus on reducing expenses, the Airport is also pursuing increases of non-airline revenues. One example of that effort is the Airport's recent acquisition in December 2011 of a 31 acre property, a portion of which was in the runway protection zone. This property is adjacent to the Airport entrance and cost \$10 million to acquire. The cost was funded with internal funds. The Airport received grant reimbursements of \$5.2 million to offset the total cost. This transaction eliminated the largest off-airport parking operation (estimated to be averaging \$1.2 million in annual revenues). The Airport anticipates a positive impact on Airport parking revenue from the closure of this competing facility. The Airport expects to be able to absorb the additional parking capacity without additional costs. Another example of efforts to increase additional non-airline revenue is the Airport has already leased a portion of the acquired property (3 acres) to an abutting property owner for additional annual revenues of approximately \$39,000 (with increases over the life of the lease).

### **New Master Plan Update**

The Airport is currently finalizing a Master Plan Update that began in 2009. Based on forecasts for growth included in the Master Plan Update, the Airport expects that no major new capital development will be needed at the Airport in the fiscal year 2012 through 2016 period.

### **FEDERAL PROGRAMS, REGULATIONS AND RESTRICTIONS AFFECTING THE AIRPORT**

**General.** 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 September 11, the Airport also has been required to implement enhanced security measures mandated by the FAA, the Department of Homeland Security and Airport management.

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 City, or whether such restrictions or legislation or regulations would adversely affect Revenues. See "—Passenger Facility Charges" and "—Federal Grants-in-Aid" below.

The FAA has jurisdiction over flying operations generally, including personnel, aircraft, ground facilities and other technical matters, as well as certain environmental matters. Under the FAA's noise reduction regulations, the air transportation industry was required to modify substantial numbers of its existing aircraft. Airport noise remains a significant federal and local issue at certain airports, which may require substantial capital investments by the industry and/or airport operators, including the Airport, from time to time to meet applicable standards. See "CAPITAL PROGRAM."

### **Federal Law Affecting Airport Rates and Charges**

Federal aviation law requires, in general, that airport fees be reasonable and that in order to receive federal grant funding, all airport generated revenues must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner that are directly and substantially related to air transportation of passengers or property. See "Federal Grants-in-Aid" below. Pursuant to the requirements of the Federal Aviation Administration Authorization Act of 1994 (the "1994 Aviation Act"), the USDOT and FAA promulgated regulations setting forth an expedited hearing process to be followed in determining the reasonableness of airport rates and charges (the "Procedural Regulations") and have also promulgated two policy statements, the first regarding airport rates and charges, effective June 21, 1996 (the "Rates and Charges Policy"), and the second, a final policy regarding the revenue retention requirement set forth at 49 U.S.C. § 47107(b) and §47133, dated February 16, 1999 (the "Revenue Retention Policy"). The Revenue Retention Policy reflects the FAA's position concerning the legally permissible uses of airport revenue.

While minor challenges have been brought against the FAA concerning aspects of the Rates and Charges Policy and Revenue Retention Policy, the City is not aware of any formal dispute involving the Airport over any existing or proposed rates and charges or use of Revenues. The City believes that the rates and charges methodology utilized by the Airport under its Airline Agreements and the rates and charges imposed by it upon air carriers and other aeronautical users are reasonable and consistent with applicable law. Furthermore, the City believes that the Airport's use of such Revenues is consistent with the Revenue Retention Policy. However, there can be no assurance that a complaint will not be brought against the City in the future challenging such methodology and the rates and charges established by the Airport and, if a judgment is rendered against the City, that rates and charges paid by aeronautical users of the Airport will not be reduced.

### **Passenger Facility Charges**

Under the Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508) (the "1990 PFC Act"), the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) ("AIR 21"), the Vision 100 - Century of Aviation Reauthorization Act (P.L. 108-176) ("Vision 100") and the FAA Modernization and Reform Act of 2012 (P.L. 112-95) ("FAA 2012 Reauthorization Act," and collectively with the 1990 PFC Act, AIR 21 and Vision 100, the "PFC Acts"), the FAA may authorize a public agency to impose a PFC of \$1.00, \$2.00, \$3.00, \$4.00 or \$4.50 on each passenger of an air carrier enplaned at any commercial service airport controlled by the public agency, subject to certain limitations. PFCs are available to airports to finance certain projects that (i) preserve or enhance capacity, safety or security of the national air transportation system, (ii) reduce noise resulting from an airport, (iii) furnish opportunities for enhanced competition among air carriers, (iv) reduce current or anticipated congestion or (v) reduce the impact of aviation noise on people living near the airport. Under certain circumstances, the FAA grants approval to commence collection of PFCs ("impose only" approval) before approval to spend the PFCs on approved projects ("use" approval) is granted. Approval to both collect and spend PFCs is referred to as an "impose and use" approval. Proposals to increase the permissible PFC above the current \$4.50 limit were not adopted in the final FAA 2012 Reauthorization Act.

No assurance can be given that PFCs will actually be received in the amount or at the time contemplated by the City. Actual PFC revenues will vary depending on actual levels of PFC-eligible passenger enplanements at the Airport. No assurance can be given that any level of enplanements will be realized. See "-Factors Affecting the Airline Industry" above. Furthermore, the City has not pledged any PFC revenues as security for the Bonds. In addition, the FAA may terminate the Airport's ability to impose PFCs, subject to informal and formal procedural safeguards, if (1) the Airport's PFC revenues are not being used for approved projects in accordance with the FAA's approval, the PFC Acts or the regulations promulgated thereunder or (2) the City otherwise violates the PFC Acts or regulations. The Airport's authority to impose a PFC may also be terminated if the City violates certain provisions of the Airport Noise and Capacity Act of 1990 (the "Noise Act") and its implementing regulations relating to noise and access restrictions for certain types of aircraft. The regulations under the Noise Act also contain procedural safeguards to ensure that the City's authority to impose a PFC would not be summarily terminated. No assurance can be given that the Airport's authority to impose a PFC may not be terminated by Congress or the FAA, or that the PFC program may not be modified or restricted by Congress or the FAA so as to reduce PFC revenues available to the Airport.

In 1992, the City received its first FAA approval to institute a \$3.00 passenger facility charge to finance certain projects on a pay-as-you-go basis. That charge was imposed from 1993 - 2007. During 2008, the FAA approved a \$4.50 PFC which has been imposed from 2008 to the present. Since 1992 the City has filed twenty-seven PFC applications for projects. The City has received FAA approval to impose and use a total of \$198.3 million of PFC revenues for debt service related to PFC-approved project costs and pay-as-you-go PFC-approved improvements. From inception through March 31, 2012, the City has collected \$80 million and expended \$77.8 million on approved projects.

### **Federal Grants-in-Aid**

The Airport and Airway Improvement Act of 1982 created the AIP program which is administered by the FAA and funded by the Federal Airport and Airway Trust Fund. This fund is financed by federal 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 enplaned passengers and discretionary funds are available at the discretion of the FAA based upon a national priority system. In addition, pursuant to the PFC Acts, an airport's annual federal entitlement grants are reduced by 50% following the imposition of PFCs of up to \$3.00 or 75% for PFCs in excess of \$3.00. Actual entitlement funds will vary with the actual number of passenger enplanements, with total appropriations for the AIP and with any revision of the existing statutory formula for calculating such funds. No assurance can be given that federal grants-in-aid will actually be received in the amount or at the time contemplated by the City. Since 1982 and through September 30, 2011, the Airport has received a total of \$62,454,878 (includes cargo entitlements) in entitlement funds and \$160,226,468 in discretionary funds. In addition, the Airport has received \$740,934 in economic recovery grants funded under the federal stimulus legislation.

The AIP Program was reauthorized through federal fiscal year 2015 by the FAA 2012 Reauthorization Act, which was enacted February 14, 2012, after a series of 23 short-term extensions and a two-week shutdown of the FAA in 2011. The FAA 2012 Reauthorization Act is the first long-term authorization for the FAA since 2007. The FAA 2012 Reauthorization Act authorized an aggregate amount of \$3.35 billion per year for the AIP program through federal fiscal year 2015, which is \$150 million per year less than the funding level for the past five years. The Airport is unable to predict the level of AIP funding it will receive under the FAA 2012 Reauthorization Act at this time. If there is a reduction in the amount of AIP grants awarded to the Airport, it could fund capital expenditures from other sources, or decrease or delay certain projects. No assurance can be given that AIP will be reauthorized beyond federal fiscal year 2015, or at what levels the AIP program may be funded in the future.

Before federal approval of any AIP grant applications can be given, eligible airports must provide written assurances that they will comply with a variety of statutorily specified conditions. One such assurance is the so-called "airport generated revenues" assurance which provides that all airport generated revenues will be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the applicant that are directly and substantially related to air transportation of passengers or property. The City falls within the group of airports for which the "airport generated revenues" assurance applies.

### **CERTAIN INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Series 2012 Bonds involve investment risk and may not be suitable for all investors. Prospective purchasers of the Series 2012 Bonds are urged to read this Official Statement, including all Appendices, in its entirety. The factors set forth below, among others, may affect the security of the Series 2012 Bonds.

#### **Factors Affecting the Airline Industry**

**General.** The Airport derives a substantial portion of its Revenues from fees paid by the Signatory Airlines. The financial strength and stability of these air carriers influence the level of aviation activity at the Airport and its Revenues. Key factors that affect airline traffic at the Airport and the financial condition of the airlines include local, regional, national and international economic and political conditions; international hostilities; world health concerns; aviation security concerns; airline service and routes; airline fares and competition; airline industry economics, including labor relations; availability and price of aviation fuel and other supplies; capacity of the national air traffic control and airport systems; capacity of the Airport and competition from other airports for origin and destination traffic; and business travel substitutes, including teleconferencing, videoconferencing and web-casting.

The airline industry is highly cyclical and is characterized by intense competition, high operating and capital costs and varying demand. Passenger and cargo volumes are highly sensitive to general and localized economic trends and the airline industry has been subject to volatility as a result. In recent years, recessions in 2001 and from 2007 to 2009, fluctuation in oil prices and certain other global events, including epidemics, the threat of terrorist attacks and ongoing conflicts in Iraq and Afghanistan, have had a significant, negative impact on the industry's profitability. The airlines have implemented initiatives to improve efficiency and reduce costs in light of reduced demand. These measures have included route rationalization, including route transfers to regional partners and the reduction or elimination, of service to some markets. The airlines have also simplified fleets, cut unused capacity, deferred new aircraft deliveries, implemented pay and benefit cuts and reduced workforces.

In recent years, several airlines have merged and/or reorganized under the U.S. Bankruptcy Code. Since 2001, United, Delta, Northwest Airlines and US Airways have reorganized under Chapter 11 and have each emerged from bankruptcy. Northwest was subsequently acquired by Delta in October 2008. In October 2010, Continental was acquired by United. See “—United/Continental Merger” below. In May 2011, Southwest acquired AirTran. See “—Southwest/AirTran Merger” below. American Airlines and parent AMR Corp. filed for bankruptcy in November 2011. It is possible that these or other airlines may seek to reorganize in or out of Chapter 11 in the future. See “—Effect of Airline Bankruptcies” below.

Following are some of the factors affecting the airline industry including costs of aviation fuel, economic conditions and passenger demand, international conflicts and labor matters.

**Cost of Aviation Fuel.** According to the Airlines for America (“A4A”), aviation fuel is the largest item of airline expense. Fuel costs may fluctuate in response to market forces and exposure to these fluctuations is largely outside of airline management control. According to the A4A, every penny increase paid for a gallon of aviation fuel costs the U.S. passenger airline industry \$190 million to \$200 million annually. From 2000 to 2007, the price of jet fuel more than doubled, and reached record highs in the first half of 2008. However, as the global economic recession caused demand for oil to decline in the latter half of 2008, the price also fell. Fuel prices increased again from 2009 through 2011, in part due to a weaker U.S. dollar and, more recently, due to increasing economic activity. International hostilities, political unrest in oil producing areas, natural disasters, the growth of developing economies and other factors can also affect the supply and demand for oil. Hedging agreements may be used by airlines to lock in fuel costs. However, significant increases in the cost of fuel for a prolonged period of time will likely have an adverse effect on airline industry profitability.

**Economic Conditions and Passenger Demand.** The air transportation industry is sensitive to the overall performance of the U.S. and world economies. The global recession that began in December 2007 caused a significant decrease in leisure and business travel. Although the recession officially ended in June 2009, the rate of U.S. economic growth remains slow and unemployment remains high. It is uncertain how long the weak economic recovery will persist, or whether other global economic issues will continue to adversely affect the airline industry. In addition, advances in telecommunications technologies, such as tele- and video-conferencing, have provided lower cost alternatives to some business travel, having the effect of reducing passenger demand.

**International Conflict and the Threat of Terrorism.** The threat of terrorism and international conflicts have had, and may continue to have, a negative impact on air travel. As a result of conflicts and terrorist threats, airlines have reduced the number of international flights, and airline revenues and cash flow were adversely affected. Security measures that have been implemented in response to terrorism have resulted in new security taxes and fees and longer passenger processing and wait times at airports, which add to the costs of air travel and make air travel less attractive to consumers relative to ground transportation, especially to short-haul destinations. The threat of terrorist attacks is likely to continue to have an adverse impact on air travel in the foreseeable future. The City cannot predict the likelihood of future attacks, any resulting air transportation disruptions or the impact on the Airport or the airlines operating at the Airport from such incidents or disruptions.

**Labor Matters.** Labor has always been a critical issue for major airlines. Most major airlines are heavily unionized. Many legacy carriers negotiated with unions over several decades in a regulated airline environment in which there was little competition and costs were passed through to passengers. This has generally resulted in higher wage scales, lower productivity and more costly defined benefit retirement plans than those found at low cost carriers. In addition, airline unions in some cases have negotiated restrictive clauses that can limit airlines’ abilities to pursue market- driven adjustments. Competition from low cost carriers and other economic pressures on airline profitability forced US Airways, United, American and Delta to restructure their labor costs. US Airways and United were only able to achieve labor cost savings through bankruptcy reorganizations. American’s bankruptcy proceedings are still ongoing, and include proposals to further reduce labor costs.

### **Effect of Airline Bankruptcies**

**General.** Neither the City nor the Airport is able to predict whether any airlines now serving the Airport will seek bankruptcy protection in the future, how long any airline in bankruptcy protection will continue operating at the Airport or whether any such airline will liquidate in the future. Additional bankruptcies, liquidations or major

restructurings of other airlines could occur. See “—Factors Affecting the Airline Industry” and footnote (2) of the table under the heading “AIRPORT ACTIVITY AND AGREEMENTS—Airlines Serving the Airport” above and “—Information Concerning the Airlines” below.

**Assumption or Rejection of Agreements.** In the event an airline that has executed an Airline Agreement or other agreement with the City seeks or has sought protection under the bankruptcy laws prior to October 17, 2005, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the City (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. For an Airline Agreement or leases of non-residential real property with an airline seeking protection under the bankruptcy laws on or after October 17, 2005, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the City within 120 days, or up to 90 days later if ordered by the court or later with the consent of the City. 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 City 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 or rent. 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 claim amounts allowed under the U.S. Bankruptcy Code, because claims generally are not paid in full in bankruptcy. Certain amounts unpaid as a result of a rejection of an Airline Agreement or other agreement in connection with an airline in bankruptcy, such as airfield, terminal, concourse and ramp costs would be passed on to the remaining airlines under their respective Airline Agreements, thereby increasing such airlines’ cost per enplanement, although there can be no assurance that such other airlines would be financially able to absorb the additional costs.

**PFCs Held by Airlines in Bankruptcy.** The FAA has approved the Airport’s applications to require the airlines to collect and remit to the Airport a \$4.50 PFC on each enplaning revenue passenger at the Airport. The PFC Acts provide that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the City) 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. Recent bankruptcy court decisions indicate that in a bankruptcy proceeding, it is likely that PFCs will not be treated as trust funds and that airports are not entitled to any priority over other creditors as to such funds. Therefore, the Airport cannot predict how a bankruptcy court might rule on this matter in the event of a bankruptcy filing by one of the airlines operating at the Airport.

It is possible that the City could be held to be an unsecured creditor with respect to unremitted PFCs held by an airline that has filed for bankruptcy protection. Additionally, neither the Airport nor the City can predict whether an airline operating at the Airport that files for bankruptcy protection would have properly accounted for the PFCs owed to the City or whether the bankruptcy estate would have sufficient moneys to pay the City in full for the PFCs owed by such airline. PFCs are not pledged to the repayment of Bonds (including the Series 2012 Bonds), but have been used in past years by the City to pay debt service.

### **Southwest/AirTran Merger**

On September 27, 2010, Southwest announced that it had entered into an agreement to acquire AirTran Holdings, Inc., the parent corporation of AirTran subject to obtaining the approval of AirTran’s shareholders and certain regulatory approvals. On May 2, 2011, Southwest announced the closing of its acquisition of AirTran Holdings, Inc. Southwest and AirTran received a single operating certificate from the FAA on March 1, 2012. AirTran did not serve the Airport prior to the merger, but does serve Portland, Maine. The financial impact, if any, of the acquisition on the Airport is uncertain, but until the expiration of the current Airline Agreement in 2015,

Southwest is not permitted to reduce its facilities at the Airport. See “—Information Concerning the Airlines” below.

### **United/Continental Merger**

On May 3, 2010, United Airlines and Continental Airlines announced their intent to merge into the world’s largest airline by passenger volume. The U.S. Department of Justice approved the merger on August 27, 2010. The shareholders of both airlines approved the transaction on September 20, 2010 and the transaction closed on October 1, 2010. The financial impact, if any, of the acquisition on the Airport is uncertain. Both airlines had entered into prior Airline Agreements with the Airport, but new Airline Agreements with respect to United and Continental were delayed as a result of the merger. The Airline Agreement with the combined carrier is currently in the final stages of approval with the combined airline’s legal department.

### **Aviation Security Concerns**

**Federal Aviation Security Laws.** As a result of the September 11, 2001 terrorist attacks, federal legislation created the TSA and required, among other things, checked bag screening and replacement of all passenger and baggage screeners with federal employees. Airports may “opt out” of using federal screeners to contract with TSA-approved private screening companies, but most large airports including the Airport, utilize TSA screeners. State or local law enforcement personnel and airport employees may provide security services not related to passenger or baggage screening. The federal government pays for TSA security screening by charging passengers a security service fee and federal law also authorizes the imposition of an Aviation Security Infrastructure Fee on air carriers.

Federal law mandates that certain security measures be undertaken at airports, including the following: (1) screening or inspection of all individuals, goods, property, vehicles and equipment before entry into a secured area of the airport, (2) security awareness programs for airport employees, and (3) screening all checked baggage for explosives with explosives detection systems or other means or technology approved by the Undersecretary of USDOT, deployment of sufficient explosive detection systems for all checked baggage, and operation of a system to screen, inspect or otherwise ensure the security of all cargo to be transported in all-cargo aircraft. In addition, the TSA has imposed additional unfunded mandates on the Airport through TSA security directives, which require: (1) transmittal to the TSA of personal information on all employees holding an airport-issued identification badge for the performance of Security Threat Assessment (“STA”) and retrieval of STA results prior to issuing badges and other forms of identification, (2) performance of inspections of all vendors and vendor products entering the sterile areas of the airport, and (3) reduction of the number of airport employees authorized to escort visitors in the secured areas. The Airport has been able to meet these requirements without significant financial or operational impact, and with the use of existing staffing.

### **Information Concerning the Airlines**

Many of the principal domestic airlines serving the Airport, or their respective parent corporations, are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the U.S. Securities and Exchange Commission (“SEC”). Certain information, including financial information concerning such airlines, or their respective parent corporations, is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. The SEC maintains a web site at <http://www.sec.gov> containing reports, proxy statements and other information regarding registrants that file electronically with the SEC. In addition, each airline is required to file periodic reports of financial and operating statistics with USDOT. Such reports can be inspected at the Office of Airline Information, Department of Transportation, Room 4201, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from USDOT at prescribed rates.

**Neither the City nor the Underwriters 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 DOT 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 website or links to other Internet sites accessed through the SEC's website.**

### **Forward-Looking Statements**

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,” “forecast,” “project,” “intend,” “propose,” “plan,” “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.

## **TAX MATTERS**

### **Opinion of Bond Counsel**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2012 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), except that no opinion is expressed as to such exclusion of interest on any Series 2012B Bond for any period during which the Series 2012B Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a “substantial user” of the facilities refinanced with the proceeds of the Series 2012B Bonds or a “related person,” (ii) interest on the Series 2012A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations and (iii) interest on the Series 2012B Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Series 2012 Bonds, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2012 Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the City, under existing New Hampshire law, interest on the Series 2012 Bonds is exempt from the New Hampshire personal income tax on interest.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2012 Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2012 Bonds, or under state and local tax law.

### **Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2012 Bonds in order that interest on the Series 2012 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2012 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2012 Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2012 Bonds from gross income under Section 103 of the Code.

## **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2012 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2012 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2012 Bonds.

Prospective owners of the Series 2012 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2012 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

### **Original Issue Discount**

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2012 Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2012 Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2012 Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Series 2012 Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2012 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2012 Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

### **Bond Premium**

In general, if an owner acquires a Series 2012 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2012 Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2012 Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the

excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

### **Information Reporting and Backup Withholding**

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2012 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2012 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2012 Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

### **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2012 Bonds under Federal or state law or otherwise prevent beneficial owners of the Series 2012 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2012 Bonds.

Prospective purchasers of the Series 2012 Bonds should consult their own tax advisors regarding the foregoing matters.

## **LITIGATION AND LEGAL DEVELOPMENTS**

To the best of the City's knowledge, there is no litigation now pending or threatened which seeks to restrain or enjoin the sale, execution, issuance or delivery of the Series 2012 Bonds or in any way contests the validity of the Series 2012 Bonds or any proceedings of the City taken with respect to the authorization, sale or issuance of the Series 2012 Bonds, or the pledge or application of any moneys provided for the payment of or security for the Series 2012 Bonds or that, in the judgment of the City, would materially adversely affect the ability of the City to pay debt service on the Series 2012 Bonds when due in accordance with the Resolution. The City is involved in various lawsuits arising in the ordinary course of operations of the Airport. Although the outcome of all existing claims is not presently determinable, the City estimates that the outcome of these matters (taking into account existing accruals for probable losses for such claims and insurance coverage) will not materially affect the financial position of the Airport or the City's ability to pay debt service on the Series 2012 Bonds.

## **RATINGS**

With respect to the Series 2012 Bonds other than the Insured Bonds, Fitch Ratings ("Fitch"), Moody's and S&P have assigned ratings of "A- (negative outlook)", "A3 (negative outlook)" and "BBB+ (stable outlook)", respectively. With respect to the Insured Bonds, Moody's and S&P are expected to assign ratings of "Aa3 (on

review for possible downgrade)” and “AA- (negative outlook)”, respectively, based on the Policy to be issued by AGM at the time of delivery of the Insured Bonds.

Such ratings and outlooks reflect only the respective views of such organizations and an explanation of the significance of such ratings and outlooks may be obtained from the rating agency furnishing the same. The above ratings are not a recommendation to buy, sell or own the Series 2012 Bonds, and there is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any or all of such rating agencies if, in its or their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2012 Bonds.

Additionally, due to the ongoing uncertainty regarding the debt of the United States of America, including without limitation, the general economic conditions in the country, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Series 2012 Bonds, could be subject to a rating downgrade. Furthermore, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, such as the Series 2012 Bonds.

#### **CERTAIN LEGAL MATTERS**

The unqualified approving opinions of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City, will be furnished upon delivery of the Series 2012 Bonds; the proposed forms of such opinions are set forth in Appendix D. Certain legal matters will be passed on for the City by the City Solicitor and for the Underwriters by their counsel, Edwards Wildman Palmer LLP, Boston, Massachusetts.

#### **FINANCIAL ADVISOR**

Public Financial Management, Inc., Largo, Florida, is serving as financial advisor to the City in connection with the issuance of the Series 2012 Bonds. The financial advisor is not obligated to undertake and has not undertaken to make an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading of municipal securities or any other negotiable instruments.

#### **CONTINUING DISCLOSURE**

In accordance with the requirements of Rule 15c2-12 (the “Rule”) promulgated by the SEC, the City will enter into a Continuing Disclosure Agreement with respect to the Series 2012 Bonds for the benefit of the beneficial owners of the Series 2012 Bonds, substantially in the form attached as Appendix E to this Official Statement (the “Continuing Disclosure Agreement”), pursuant to which the City will agree to provide, or cause to be provided to the MSRB on or before nine months after the end of each fiscal year: (i) certain annual financial information, including audited financial statements, if available, and operating data of the Airport of the type included in this Official Statement under the headings “THE AIRPORT,” “AIRPORT ACTIVITY AND AGREEMENTS,” (including, without limitation, the information contained in the table entitled “Manchester-Boston Regional Airport—Segmentation of Historical Enplanements”), “CAPITAL PROGRAM” and “FINANCIAL INFORMATION” (including, without limitation, the information contained in the tables appearing under the subheadings “Summary of Historical Operating Statements” and “Summary of Historical Debt Service Coverage Ratio”) (such information may be reorganized by the Airport as provided in the Continuing Disclosure Agreement) and (ii) timely notice of the occurrence of certain enumerated material events. The notices include notices of any of the following events with respect to the Series 2012 Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material events affecting the tax-exempt status of the Series 2012 Bonds; (7) modifications to rights of holders of the Series 2012 Bonds; (8)

bond calls (other than mandatory sinking fund redemptions), if material, and tender offers; (9) defeasances; (10) release, substitution or sale of property securing repayment of the Series 2012 Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Airport; (13) the consummation of a merger, consolidation, or acquisition involving the Airport or a sale of all or substantially all of the assets of the Airport, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of the Trustee, if material. In addition, the City will undertake, for the benefit of the holders of the Series 2012 Bonds, to provide to the MSRB in a timely manner, notice of any failure by the City to provide the annual financial information and annual financial statements by the date required in the Continuing Disclosure Agreement.

The Underwriters' obligation to purchase the Series 2012 Bonds shall be conditioned upon their receiving, at or prior to the delivery of the Series 2012 Bonds, an executed copy of the Continuing Disclosure Agreement. See "Appendix E - Form of Continuing Disclosure Agreement."

The foregoing is intended to set forth a general description of the type of financial information and operating data that will be provided. However, the Continuing Disclosure Agreement may be amended in accordance with its terms, including without the consent of holders of the Bonds under certain circumstances. In addition, the references to the sections of this Official Statement as a means of identifying such financial information and operating data shall not prevent the City from reorganizing such material in subsequent official statements or annual information reports.

The City has previously entered into undertakings with respect to other debt of the City and the Outstanding Bonds and, in the prior five years, has complied in all material respects with such undertakings.

## **UNDERWRITING**

Morgan Keegan & Company, Inc., or its successor in interest, ("Morgan Keegan"), as representative of the Underwriters for the Series 2012 Bonds, has agreed, subject to certain conditions, to purchase all of the Series 2012 Bonds from the City pursuant to the Bond Purchase Agreement for the Series 2012 Bonds at a price equal to the principal amount of the Series 2012 Bonds, plus net original issue premium, less an underwriting discount of \$287,078.05. The Underwriters are obligated to purchase all the Series 2012 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement for the Series 2012 Bonds, the approval of certain legal matters by counsel and certain other conditions.

The Series 2012 Bonds may be offered and sold by the Underwriters to certain dealers (including dealers depositing the Series 2012 Bonds in unit investment trusts or mutual funds, some of which may be managed by the Underwriters) and certain dealer banks and banks acting as agents at prices lower (or yields higher) than the initial public offering prices (or yields) set forth on the inside cover page of this Official Statement. Subsequent to such initial public offering, the Underwriters may change the public offering pricing (or yields) as they may deem necessary in connection with the offering of the Series 2012 Bonds.

On April 2, 2012, Raymond James Financial, Inc. ("RJF"), the parent company of Raymond James & Associates, Inc. ("Raymond James"), acquired all of the stock of Morgan Keegan from Regions Financial Corporation. Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of RJF and, as such, are affiliated broker-dealer companies under the common control of RJF, utilizing the trade name "Raymond James | Morgan Keegan" that appears on the cover of this Preliminary Official Statement. It is anticipated that the businesses of Raymond James and Morgan Keegan will be combined.

Morgan Keegan has entered into a distribution arrangement with Raymond James for the distribution of the Series 2012 Bonds at the original issue prices. Such arrangement generally provides that Morgan Keegan will share a portion of its underwriting compensation or selling concession with Raymond James.

**INDEPENDENT ACCOUNTANTS**

The financial statements of the City’s Department of Aviation as of and for the year ended June 30, 2011 and comparative data for fiscal year 2010 included in Appendix A of this Official Statement have been audited by McGladrey & Pullen, LLP, New Haven, Connecticut, independent accountants (the “Auditors”), as stated in their report appearing in Appendix A. Such report speaks only as of its date, and only to matters expressly set forth therein. The Auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the Auditors been requested to give their consent to inclusion of their report in Appendix A. Except as stated in their report, the Auditors have not been engaged to verify the financial information set forth in Appendix A and are not passing on and do not assume the sufficiency, accuracy or completeness of the financial information presented therein.

**MISCELLANEOUS**

The references in this Official Statement to the Resolution, statutes, contracts and other documents are brief outlines or partial excerpts of certain provisions of the documents. These outlines or excerpts do not purport to be complete, and reference is made to the documents, copies of which are available at the offices of the City, for full and complete statements of their provisions. All estimates used in this Official Statement are intended only as estimates and not as representations.

This Official Statement includes a description of the City, the Airport facilities and certain financial and operational factors relating to the City and the Airport, and a description of the Series 2012 Bonds and the security therefor. Except where noted, all information presented in this Official Statement has been provided by the City and the Airport. The following appendices are included as part of this Official Statement: Appendix A - Financial Statements of the City’s Department of Aviation for the fiscal year ended June 30, 2011 and comparative information for the fiscal year ended June 30, 2010, with a report thereon by McGladrey & Pullen LLP; Appendix B - Summary of Certain Provisions of the Resolution; Appendix C - Summary of Certain Provisions of the Airline Agreements; Appendix D - Proposed Forms of Bond Counsel Opinions; and Appendix E - Form of Continuing Disclosure Agreement. Appendix A has been prepared by McGladrey & Pullen LLP, auditor for the City; Appendices B, C, D and E have been prepared by Hawkins Delafield & Wood LLP, Bond Counsel to the City.

**AUTHORIZATION**

The execution and delivery of this Official Statement by the Mayor, the Finance Officer and the Airport Director have been duly authorized by the Board of Mayor and Aldermen of the City.

**CITY OF MANCHESTER, NEW HAMPSHIRE**

By: /s/ Theodore L. Gatsas  
Mayor

By: /s/ William Sanders  
Finance Officer

By: /s/ Mark P. Brewer  
Airport Director

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**APPENDIX A**

**AUDITED FINANCIAL STATEMENTS OF THE CITY'S DEPARTMENT OF AVIATION FOR  
THE YEAR ENDED JUNE 30, 2011 AND COMPARATIVE DATA FOR FISCAL YEAR 2010**

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**Financial Statements**  
**City of Manchester, New Hampshire**  
**Department of Aviation**  
*Years Ended June 30, 2011 and 2010*  
*With Report of Independent Auditors*

**City of Manchester, New Hampshire  
Department of Aviation**

**Financial Statements**

**Years ended June 30, 2011 and 2010**

**Contents**

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	2
Financial Statements	
Statements of Fund Net Assets .....	14
Statements of Revenues, Expenses and Changes in Fund Net Assets .....	16
Statements of Cash Flows.....	17
Notes to Financial Statements.....	18



## INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Mayor and Aldermen  
City of Manchester, New Hampshire

We have audited the accompanying financial statements, as listed in the table of contents, of the Department of Aviation of the City of Manchester, New Hampshire (the "DA"), an enterprise fund of the City of Manchester, New Hampshire, as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the DA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States. 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 audits provide a reasonable basis for our opinion.

The financial statements present only the Department of Aviation of the City of Manchester, New Hampshire and do not purport to, and do not, present fairly the financial position of the City of Manchester, New Hampshire as of June 30, 2011 and 2010, and the changes in its financial position and, where applicable, cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Aviation of the City of Manchester, New Hampshire as of June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis is not a required part of the basic financial statements. We have applied certain limited procedures, which consist principally of inquiries of 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.

In accordance with "Government Auditing Standards," we have also issued under separate cover reports dated March 27, 2012 and February 9, 2011 on our consideration of the City of Manchester's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with "Government Auditing Standards," and should be considered in assessing the results of our audits.

*McGladrey & Pullen, LLP*

New Haven, Connecticut  
March 27, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Year Ended June 30, 2011**

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The management of the City of Manchester's Department of Aviation (Manchester Airport) is pleased to offer readers of the Airport's financial statements this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2011 (FY2011).

#### **Overview of the Financial Statements**

This overview discussion will serve as an introduction to the Airport's audited financial statements, which follow this MD&A section. These audited financial statements are comprised of two components: 1) basic financial statements and 2) notes to the financial statements.

**Basic Financial Statements** – The basic financial statements provide a broad overview of the Airport's finances presented in a manner similar to a private sector business. The basic financial statements are prepared using proprietary fund (enterprise fund) accounting. The Airport is operated under one enterprise fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting are used. Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include Statements of Fund Net Assets, Statements of Revenues, Expenses, and Changes in Fund Net Assets, and Statements of Cash Flows. These are followed by Notes to the Financial Statements.

The Statements of Fund Net Assets present information on all of the Airport's assets and liabilities/net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Airport's financial position is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Fund Net Assets detail the Airport's operating revenues and expenses for two fiscal years, combined with nonoperating revenues (expenses) and capital contributions to determine each fiscal year's change in Net Assets. Fiscal year operating income and change in net assets amounts are contained in this statement with comparative amounts from the previous year.

The Statements of Cash Flows report changes in cash and cash equivalents for two fiscal years resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

The basic financial statements include only the Department of Aviation (Manchester Airport). There are no other city departments or government agencies whose financial statements should be combined with those of the Airport.

Following this MD&A are the financial statements (discussed above) together with notes thereto. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. These notes are an integral part of the financial statements and should be read in their entirety.

The MD&A will now discuss the core components of the Airport's activity this past fiscal year.

## **Financial Highlights Summary**

Manchester-Boston Regional Airport experienced a decrease of (5.0%) in passenger enplanements in FY2011, as enplanements decreased by 69,366 from FY2010. Manchester-Boston Regional Airport is not alone in this decrease, as many airports in the small and medium hub categories experienced reductions in capacity, either from the airlines substituting regional jets for mainline jets or by the airlines eliminating service altogether. Operating loss increased from (\$5,289,822) in FY2010 to (\$5,992,723), an increase of .3% over FY2010. The operating loss increase was due primarily to increased depreciation expense. Due to active airport management the operating expenses for FY2011 (net of depreciation expense) decreased by approximately \$325,566 or 1%.

For FY2011, the signatory landing fee rate was increased to \$3.25/1000 lbs. of maximum certificated aircraft landed weight (an increase of 17%). The terminal square footage rental rate was decreased to \$53.32/sq. ft. during FY2011 (a decrease of 7%). Daily parking rates were maintained during FY2011. The garage parking rate remained \$17 a day with a weekly maximum of \$85. The long term lots remained at \$10 a day.

Next, are condensed financial tables that summarize the major categories of the Airport's financial performance, as contained in the basic financial statements following this MD&A.

## Summary of Operations and Changes in Net Assets

	<u>FY2011</u>	<u>FY2010</u>
Operating Revenues	\$ 38,918,982	\$ 38,816,653
Operating Expenses	<u>(25,261,818)</u>	<u>(25,587,384)</u>
Operating Income before Depreciation and non-operating items	13,657,164	13,229,269
Depreciation	<u>(19,649,887)</u>	<u>(18,519,091)</u>
Operating (loss) before non-operating items	(5,992,723)	(5,289,822)
Other Non-Operating Income and (Expenses), net	<u>(1,225,616)</u>	<u>(5,175,511)</u>
Net loss before capital Contributions	<u>(7,218,339)</u>	<u>(10,465,333)</u>
Capital contributions	<u>8,810,475</u>	<u>4,747,164</u>
Change in fund net assets	<u>\$ 1,592,136</u>	<u>\$ (5,718,169)</u>

## Financial Position Summary

Net Assets may serve over time as a useful indicator of the Airport's overall financial health. The Airport's total net assets exceeded liabilities by \$188,218,197 at June 30, 2011, a \$1,592,136 or 1% increase from June 30, 2010.

	<u>FY2011</u>	<u>FY2010</u>
<b>ASSETS:</b>		
Current and other assets	\$ 78,404,453	\$ 77,724,707
Capital assets, net of depreciation	<u>337,806,737</u>	<u>347,261,249</u>
TOTAL ASSETS	<u>416,211,190</u>	<u>424,985,956</u>
<b>LIABILITIES:</b>		
Current liabilities	8,750,313	10,890,619
Long-term debt outstanding	210,771,364	219,321,420
Current maturities debt outstanding	8,435,000	8,035,000
Non-current liabilities	<u>36,316</u>	<u>112,856</u>
TOTAL LIABILITIES	<u>227,992,993</u>	<u>238,359,895</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of debt	132,208,799	132,630,585
Restricted net assets	49,064,832	46,181,608
Unrestricted net assets	<u>6,944,566</u>	<u>7,813,868</u>
TOTAL NET ASSETS	<u>\$ 188,218,197</u>	<u>\$ 186,626,061</u>

## Summary of Cash Flow Activities

A summary of the major sources and uses of cash and cash equivalents for the past two fiscal years follows. Cash equivalents are bank deposits and highly liquid investments maturing in three months or less.

	<u>FY2011</u>	<u>FY2010</u>
Cash flow from Operating Activities	\$ 11,620,398	\$ 11,261,796
Cash flow from Investing Activities	667,128	806,071
Cash flow from Noncapital Financing Activities	7,772,136	7,204,096
Cash flow from Capital and Related Financing Activities	<u>(19,659,895)</u>	<u>(18,166,352)</u>
Net decrease in Cash and Cash Equivalents	399,767	1,105,611
Cash and Cash Equivalents:		
Beginning of year	<u>68,388,691</u>	<u>67,283,080</u>
End of year	<u>\$ 68,788,458</u>	<u>\$ 68,388,691</u>

The Airport's available cash and cash equivalents increased .58% from \$68,388,691 at the end of FY2010 to \$68,788,458 at the end of FY2011.

## Airport Activities and Highlights

The table below depicts key airport/aviation measurement yardsticks commonly used in assessing an airport's performance.

	<u>FY2011</u>	<u>FY2010</u>
Enplanements (people)*	1,393,035	1,462,252
% increase/(decrease)	(4.7%)	(15.0%)
Landed Weight (lbs.)**	2,162,559,741	2,230,685,110
% increase/(decrease)	(3.0%)	(13.0%)
Cargo Shipped (lbs.) ***	175,613,201	166,578,853
% increase/(decrease)	5.4%	.1%
Parking Revenue (\$)	\$ 17,941,961	\$ 18,007,092
% increase/(decrease)	(.19%)	(15.9%)

\*Enplanements is a common airport/airline measurement statistic. It represents the number of people actually boarding an aircraft at Manchester versus the number of passengers who enplane and deplane at Manchester.

\*\*Landed Weight is the actual total aircraft landed weight during the year. Manchester Airport collects \$3.25 for each 1000 lbs. of landed weight (primarily commercial aircraft).

\*\*\*The two major cargo shippers are FEDEX and UPS.

As of June 30, 2011, Manchester-Boston Regional Airport was served by the following commercial passenger air carriers: Air Canada, Continental/Continental Express, Delta/Delta Connection, Southwest Airlines, United Express, US Airways and US Airways Express.

## Small Hub Status

During FY2011, Manchester Airport was classified as a small hub airport as defined by the FAA, it is ranked the 76<sup>th</sup> largest commercial service airport in the country.

## The Airline Agreement and Airport Rates and Charges

The Airport has entered into use and lease agreements (the Airline Agreement) with the aforementioned major carriers serving Manchester—collectively the Signatory Airlines. Due to the merger process between Continental Airlines and United Airlines, the Airport is not yet in receipt of their agreed upon agreements. The Airline Agreement establishes procedures for the annual adjustment of Signatory Airline Terminal Building Rental, Landing Fee, and Apron Fee rates charged for the use and occupancy of the passenger terminal and airfield facilities.

As set forth in the Airline Agreement, terminal building square footage fees are based on compensatory ratemaking methodologies and the apron square footage rate and landing fees are based on residual ratemaking methodologies. Airline rates and charges are calculated annually prior to the new fiscal year. The airlines are invited each year to attend a “rates and charges” meeting, at which the rates for the upcoming fiscal year are explained in detail. Should unforeseen circumstances arise that require a change of rates and charges during the fiscal year, the Airline Agreement gives the Airport the ability to adjust rates and charges to ensure adherence to its financial covenants. No such adjustments were required in FY2010 or FY2011. A comparison of the last three fiscal years’ rates and charges follows:

<b>Signatory Airline Rates</b>	<b><u>FY2011</u></b>	<b><u>FY2010</u></b>	<b><u>FY2009</u></b>
Landing Fees (per 1,000 lbs. MGLW)*	\$3.25	\$2.78	\$1.98
Terminal Rental Rates (per square foot)	\$53.32	\$57.49	\$57.49
Apron Fee Rental (per square foot)	\$0.54	\$0.56	\$0.56

\* The landing fee for any non-signatory airline/aircraft is fixed at 125% of the signatory fee.

## Airline Cost Per Enplaned Passenger

Airline Cost per Enplaned Passenger, another common measurement statistic, is used by the airline industry to assess individual airport cost structures. It is calculated based on what specific charges an airline pays to the airport’s governing body, e.g., landing fees, terminal rental fees, apron fees, etc. The airport industry norm averages between \$6 and \$10 per enplaned passenger. Manchester’s average Airline Cost per Enplaned Passenger for the last three fiscal years follows:

	<b><u>FY2011</u></b>	<b><u>FY2010</u></b>	<b><u>FY2009</u></b>
Airline Cost Per Enplaned Passenger	\$7.33	\$7.74	\$6.31

**Passenger Facility Charges (PFCs) and Customer Facility Charges (CFCs)**

PFCs and CFCs are special categories of non-operating revenue in place at Manchester Airport and other airports. In 1992, the FAA approved the Airport’s application to impose a \$3.00 PFC per eligible enplaned passenger. During FY2008, the FAA approved a \$4.50 PFC. Through FY2011, the FAA has approved the use of \$198,329,503 for FAA-approved projects, such as debt service for runway rehabilitations and extensions, snow removal equipment, residential sound insulation, etc. Airlines collect the \$4.50 PFC when they sell a ticket and then make monthly remittances directly to the Airport after deducting a small administrative charge for each \$4.50 PFC. This administrative charge increased effective May 1, 2004 from \$0.08 per PFC collected to \$0.11. Since inception in 1993 through June 30, 2011, the Airport has collected \$75,940,984 in PFCs and expended \$73,678,442 on approved projects. The existing PFC expiration date, based on currently approved projects and projected annual enplanements, is December 1, 2017.

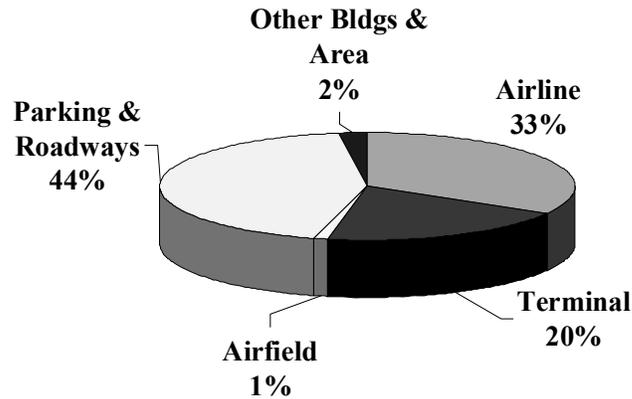
CFCs are collected through agreements with rental car companies servicing Manchester Airport. A rate of \$2.25 per rental car day is charged to each rental car customer and remitted monthly to the Airport by the rental car companies. At CFC initiation in July 1999, the rate was \$1.50, but was subsequently raised to \$2.25 later that year. CFCs are used to partially offset airport operating costs of areas used by rental car companies; including the Pedestrian Bridge/Walkway, as well as Airport debt service related to that portion of the parking garage used by rental car companies. A summary of the PFC and CFC revenues collected for the last three fiscal years follows:

	<u>FY2011</u>	<u>FY2010</u>	<u>FY2009</u>
PFC Revenue	\$5,742,260	\$5,911,377	\$6,707,919
CFC Revenue	\$1,836,186	\$1,823,022	\$2,177,337

Next, is a discussion of Airport Revenues and Expenses in standard categories used throughout the aviation industry. These are categories used in each of the Airport’s bond offering statements and differ slightly from municipal GAAP categories enumerated in the audited financial statements. Similarly, certain line item totals are slightly different, but have no appreciable effect on the Airport’s FY2011 financial statistics.

## REVENUES

The following chart depicts the Airport's major sources and percentage of Operating Revenues for FY2011:

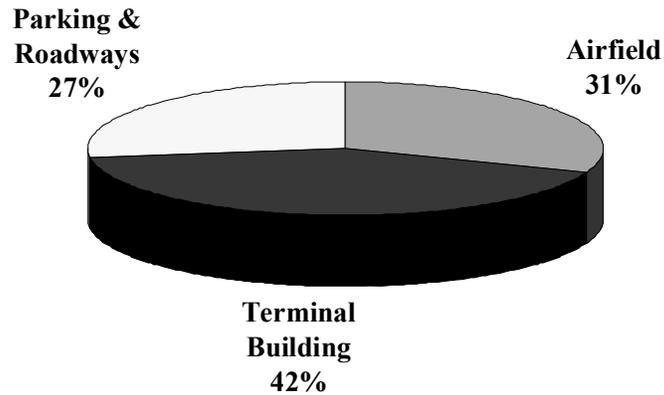


A summary of FY2011 revenues, and the amount and percentage of change in relation to FY2010 follows:

	FY2011 Amount	Percent of Total	Increase (Decrease)	Percent Increase (Decrease)
<b>Operating:</b>				
Airline	\$ 13,326,810	28.3 %	\$ (122,477)	(0.9) %
Terminal	7,911,909	16.8	63,055	0.8
Airfield	394,094	0.8	18,816	5.0
Parking & Roadways	17,489,410	37.1	51,113	0.3
Other Bldgs & Area	874,284	1.9	55,249	6.7
<b>Total Operating</b>	<b>39,996,507</b>	<b>84.8</b>	<b>65,756</b>	<b>0.2</b>
<b>Non-Operating:</b>				
Passenger Facility Charges	5,742,260	12.2	(169,117)	(2.9)
Miscellaneous	761,710	1.6	52,786	7.4
Interest Income	667,128	1.4	(138,943)	(17.2)
<b>Total Non-Operating</b>	<b>7,171,098</b>	<b>15.2</b>	<b>(255,274)</b>	<b>(3.4)</b>
<b>TOTAL REVENUES</b>	<b>\$ 47,167,605</b>	<b>100.0 %</b>	<b>\$ (189,518)</b>	<b>(0.4) %</b>

## EXPENSES

The following chart depicts the Airport's major cost centers and percentage of Operating Expenses for FY2011:



A summary of FY2011 expenses, and the amount and percentage of change in relation to FY2010 follows:

	FY2011 Amount	Percent of Total	Increase (Decrease)	Percent Increase (Decrease)
<b>Operating:</b>				
Airfield	7,779,832	14.4 %	\$ 36,723	0.5 %
Terminal Building	10,580,665	19.5	(95,198)	(0.9)
Parking & Roadways	6,901,321	12.7	1,550,338	29.0
Other Bldgs & Area	0	0.0	(1,817,429)	(100.0)
<b>Total Operating</b>	<b>25,261,818</b>	<b>46.7</b>	<b>(325,566)</b>	<b>(1.3)</b>
Depreciation	19,649,887	36.3	1,130,796	6.1
<b>Non-Operating:</b>				
Interest Expense	8,978,540	16.6	(1,465,605)	(14.0)
Bond Fees	238,537	0.4	(16,458)	(6.5)
<b>Total Non-Operating</b>	<b>9,217,077</b>	<b>17.0</b>	<b>(1,482,063)</b>	<b>(13.9)</b>
<b>TOTAL EXPENSES</b>	<b>54,128,782</b>	<b>100.0 %</b>	<b>(676,833)</b>	<b>(1.2) %</b>

## **Airport Capital Program**

The following is a general description of the Airport's current capital program which encompasses projects undertaken in FY2011 and additional capital projects expected to be undertaken in the future. In total, this capital program was and continues to be financed through a variety of sources as discussed below.

### **Airside Improvements**

#### *Replacement of In-ground Snow Melters*

The Airport completed the replacement of the terminal ramp in-ground snow melters. The project was funded under two separate federal grants. The first grant (AIP81), issued in 2010, covered the procurement of the replacement snow melting equipment. Under this grant, \$1,422,000 was expended during FY2011. The demolition of the original snow melters and the installation of the new melters was covered under a FY2011 grant (AIP83). The total project costs under AIP83 is \$1,887,800, of which 95% is funded by the FAA and the remaining 5% is funded by the State of NH. The same funding percentages applied to AIP81 as well.

The project was substantially completed in December of 2010.

#### *eALP*

The Airport was granted FAA funding under a pilot program to develop and electronic airport layout plan (eALP). This plan will produce valuable survey data that can be utilized in the development of a GIS system for the Airport. The cost of this project is \$710,500, with 95% funding be provided by the FAA and the balance coming from the State of NH under federal grant AIP82. The project commenced in September of 2011 and is expected to be completed in 1 year.

### **Property Acquisition**

#### *RPZ Property Acquisition*

The Airport was able to acquire a large parcel of property that included an Inn, Conference Center, and other miscellaneous buildings and parking lots. This property was eligible for federal (FAA) funding due to the location of the Inn within the runway protection zone (RPZ) of Runway 06. This acquisition was partially funded through a series of federal grants. The balance of the acquisition was funded with Airport capital funds. Two grants were issued in FY2011, AIP85 and AIP88, that included federal (95%) and State (5%) funding for this acquisition in the amount of \$4,212,764.

Acquisition of this property was necessary in order to remove the Inn (non-compatible land use) from the RPZ. It will also eliminate a competing parking operation and portions of the property being acquired will be suitable for future development.

## **Equipment Replacement**

### *Acquisition of 24ft. Ramp Plow*

The Airport replaced a 38 year old, less reliable piece of equipment with a new, more flexible piece of equipment. The new plow will meet current EPA emissions standards and can be used all year round, with bucket and forklift attachments, for various other tasks at the Airport. This upgrade is part of an ongoing effort by the Airport to maintain a fleet of reliable, efficient, and maintainable snow removal equipment. The cost of the plow was \$366,154 and was paid for with federal and state funds under FAA grant AIP85.

## **Terminal & Buildings**

### *Terminal PA System Upgrades*

The Airport installed upgrades to the passenger terminal PA system. The age of the original system made it difficult to get parts for repairs. The new system significantly improves the previous system, providing both enhanced clarity and increased flexibility in use. The project was partially funded under federal grant AIP85.

## **Roadway & Parking Improvements**

### *Garage Solar PV Project*

The Airport received a grant from the FAA (AIP89) under the FAA's VALE (Voluntary Airport Low Emissions) program for a solar photo-voltaic (PV) installation to be constructed on the top level of the Airport's parking garage. This installation is expected to reduce operating costs (electric) by approximately \$100,000 per year and is to be constructed using canopies, minimizing the impact to parking on the top floor. The total project cost is \$3,517,500, with 95% funding to be provided by the FAA and the balance being funded from Airport capital funds.

This project will reduce air emissions while saving the Airport approximately \$2.5M over the life of the project.

*The grand total of all projects awarded for construction and design, equipment replacement, and property acquisition in FY2011 was estimated to be approximately \$10.8 million.*

*All projects were financed through a combination of federal AIP grants, State of New Hampshire Grants and Airport capital funds.*

## **Long-Term Debt**

As just discussed, Manchester Airport issued several debt instruments in the form of long-term fixed and variable rate bonds in the past decade to finance the majority of its Master Plan Capital Program.

The **Series 1998 Bonds** (\$124,275,000), which financed the initial portion of the Airport's Master Plan capital program, are fixed rate bonds with an aggregate true interest cost (TIC) of 4.816% and mature in 2028. These bonds are General Airport Revenue Bonds backed solely by the Airport's revenue streams. As of June 30, 2011, the outstanding balance of these bonds was \$61,205,000.

The **Series 2002 Bonds** (\$69,665,000), which financed continuing requirements of the Airport’s Capital Program, are fixed rate bonds. They are General Airport Revenue Bonds backed solely by the Airport’s revenue streams. These bonds have an aggregate TIC of 5.39% and mature in 2032. The Airport fully redeemed the variable rate portion of these bonds (26,915,000—Series 2002C) in the year 2008 using the revenue stream provided by the FAA’s LOI multi-year payment schedule. As of June 30, 2011, the outstanding balance of these bonds was \$36,665,000.

The **Series 2005 Bonds** were issued in early July 2005. The Series 2005 Bonds (\$76,325,000) financed continuing requirements of the Airport’s Capital Program (\$17,110,000--Series 2005A), and advance refunded a portion of the outstanding Series 1998 and Series 2000 Bonds (\$59,215,000--Series 2005B). The TIC for the Series 2005A General Airport Revenue Bonds is 4.50%. These bonds mature in 2027. The Series 2005A new money bonds were issued as traditional fixed rate debt. The Series 2005B refunding bonds were issued as multi-modal securities with the initial mode structured as a 4-1/2 year put bond to match the term of the refunding escrow. The 2005B Bonds were refinanced to fixed rate debt in December 2009. The refinancing included the termination of the interest rate swap. As of June 30, 2011, the outstanding balance of the 2005A bonds was \$16,120,000.

The **Series 2008 Bonds** were issued in June of 2008. The original 1992 Bond Issue (\$42,730,000) that financed the construction of the new terminal complex, which opened in 1994, was in the form of a State of New Hampshire Guaranteed Airport Revenue Bonds. These bonds were redeemed on January 1, 2002 via the issuance of the Series 2001 Bonds (\$38,340,000). Those bonds were subsequently redeemed in June 2008 via the issuance of the Series 2008 Bonds (\$30,225,000), which are Variable Rate, General Airport Revenue Bonds backed solely by the Airport’s revenue streams; insured with a bank letter of credit. The average variable rates are at approximately less than .40%. As of June 30, 2011, the outstanding balance of these bonds was \$25,315,000.

The **Series 2009 Bonds** were issued in December of 2009. The bonds are General Airport Revenue Bonds (Manchester Airport Project – Series 2009 A & B): Issued in two series: \$64,830,000 of 2009A to refund all of the 2005B bonds and \$20,705,000 of 2009B to refund a portion of the previously outstanding 1998A bonds and all of the 2000A bonds. Lots A & B totaling \$85,535,000, comprised of \$42,880,000 term bonds and \$42,655,000 serial bonds, were sold at interest rates from 2.00% to 5.31%, due semi-annually on January 1 and July 1. As of June 30, 2011, the outstanding balance of these bonds was \$81,070,000.

The following table summarizes long-term debt balances as of June 30, 2011.

<b>Series 1998 Bonds</b>	<b>Series 2002 Bonds</b>	<b>Series 2005 Bonds</b>	<b>Series 2008 Bonds</b>	<b>Series 2009 Bonds</b>	<b>Total Outstanding</b>
<b>\$61,205,000</b>	<b>\$36,665,000</b>	<b>\$16,120,000</b>	<b>\$25,315,000</b>	<b>\$81,070,000</b>	<b>\$220,375,000</b>

All the above Series Bond issuances are fully insured, except for the 2008 Bonds which are backed by a letter of credit.

## **Credit Ratings**

The Airport has sought credit ratings for each of its bond issues from the three major rating agencies. Over time, these agencies have become very familiar with Manchester-Boston Regional Airport, its capital program, its finances, and its overall operating successes.

<b>Current Stand-Alone Ratings*</b>	<b>S&amp;P</b>	<b>Moody's</b>	<b>Fitch</b>
	<b>BBB+</b>	<b>A3</b>	<b>A-</b>

\*Most bonds are fully insured. The above table reflects the ratings of each agency, without insurance as of June 2011.

In summary, the rating agencies collectively continue to look favorably on Manchester-Boston Regional Airport.

## **Request for Information**

This financial report is designed to provide a general overview of the Airport's finances. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed in writing to the Airport Director, Manchester Boston-Regional Airport, One Airport Road, Suite 300, Manchester, NH 03101-3395.

**City of Manchester, New Hampshire  
Department of Aviation**

**Statements of Fund Net Assets**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>Assets</b>		
Current assets:		
Federal and state grants receivable	\$ 2,677,126	\$ 2,530,712
Due from other funds	191,364	-
Inventory	453,147	380,901
Prepaid expenses	605,706	698,138
Total current assets	<u>3,927,343</u>	<u>3,609,751</u>
Current Restricted assets:		
Cash and Investments	68,788,458	68,388,691
Accounts receivable	2,924,420	2,248,832
Passenger facility charges receivable	645,297	890,860
Total current restricted assets	<u>72,358,175</u>	<u>71,528,383</u>
Deferred bond issuance costs, net of accumulated amortization of \$547,986 in 2011 and \$432,052 in 2010	2,118,935	2,586,573
Capital assets		
Land	42,719,245	42,719,245
Buildings	169,782,936	169,782,936
Improvements	273,712,718	272,653,872
Vehicles	13,844,446	13,474,969
Equipment	8,375,405	4,819,949
Construction-in-progress	8,719,066	3,945,712
Building Improvements	5,720,392	5,355,075
Total property and equipment	<u>522,874,208</u>	<u>512,751,758</u>
Less accumulated depreciation	<u>(185,067,471)</u>	<u>(165,490,509)</u>
Property and equipment, net	<u>337,806,737</u>	<u>347,261,249</u>
<b>Total assets</b>	<u><u>\$ 416,211,190</u></u>	<u><u>\$ 424,985,956</u></u>

**City of Manchester, New Hampshire  
Department of Aviation**

**Statements of Fund Net Assets**

	<b>June 30, 2011</b>	<b>June 30, 2010</b>
<b>Liabilities</b>		
Current liabilities:		
Due to other funds of the City of Manchester	\$ -	\$ 83,335
Other accrued liabilities	1,397,630	2,044,528
Total current liabilities	1,397,630	2,127,863
Current liabilities payable from restricted assets:		
Accounts and contracts payable	2,743,440	3,318,033
Accrued interest payable	4,609,243	5,444,723
Current portion of revenue bonds payable	8,435,000	8,035,000
Total current liabilities payable from restricted assets	15,787,683	16,797,756
Total current liabilities	17,185,313	18,925,619
Noncurrent liabilities:		
Revenue bonds payable, net of current portion	210,771,364	219,321,420
Deposits	36,316	112,856
Total noncurrent liabilities	210,807,680	219,434,276
<b>Fund Net Assets</b>		
Invested in capital assets (net of related debt)	132,208,799	132,630,585
Restricted net assets	49,064,832	46,181,608
Unrestricted net assets	6,944,566	7,813,868
Total retained earnings	56,009,398	53,995,476
Total fund net assets	\$ 188,218,197	\$ 186,626,061

*The accompanying notes are an integral part  
of these financial statements*

**City of Manchester, New Hampshire  
Department of Aviation**

**Statements of Revenues, Expenses, and Changes  
in Fund Net Assets**

	<b>Year ended June 30, 2011</b>	<b>Year ended June 30, 2010</b>
<b>Operating revenues:</b>		
Automobile parking fees	\$ 17,941,961	\$ 18,007,092
Rental of facilities	10,765,146	11,839,104
Landing fees	7,502,613	6,260,548
Concession and other operating income	2,709,262	2,709,909
<b>Total operating revenues</b>	<b>38,918,982</b>	<b>38,816,653</b>
<b>Operating expenses:</b>		
Salaries, wages and fringe benefits	7,519,571	7,476,449
Enforcement and fire protection	4,073,069	4,032,334
Purchased property services	12,002,590	11,970,285
General and administrative	1,639,688	2,068,215
Reimburse City of Manchester	26,900	40,101
Depreciation and amortization	19,649,887	18,519,091
<b>Total operating expenses</b>	<b>44,911,705</b>	<b>44,106,475</b>
<b>Operating loss</b>	(5,992,723)	(5,289,822)
<b>Nonoperating revenues (expenses):</b>		
Soundproofing program grant revenue	94,541	1,871,937
Soundproofing program expenses	-	(1,807,258)
Passenger facility charges	5,742,260	5,911,377
Customer facility charges	1,836,186	1,823,022
Interest income	667,128	806,071
Gain (Loss) on disposal of property and equipment	3,050	(15,888)
Interest expense	(8,978,540)	(10,044,145)
Bond interest rate swap valuation adjustments	-	(879,390)
Loss on sale of securities	(351,704)	(2,586,242)
Bond fees	(238,537)	(254,995)
<b>Total nonoperating revenues (expenses), net</b>	<b>(1,225,616)</b>	<b>(5,175,511)</b>
<b>Net loss before capital contributions</b>	(7,218,339)	(10,465,333)
<b>Capital contributions</b>		
Capital contributions	8,810,475	4,747,164
<b>Net capital contributions and transfers</b>	<b>8,810,475</b>	<b>4,747,164</b>
<b>Change in fund net assets</b>	1,592,136	(5,718,169)
<b>Fund net assets, beginning</b>	186,626,061	192,344,230
<b>Fund net assets, ending</b>	<b>\$ 188,218,197</b>	<b>\$ 186,626,061</b>

*The accompanying notes are an integral part  
of these financial statements*

**City of Manchester, New Hampshire  
Department of Aviation**

**Statements of Cash Flows**

	<b>Year ended June 30, 2011</b>	<b>Year ended June 30, 2010</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 38,166,855	\$ 38,043,398
Cash payments for goods and services	(18,969,091)	(19,387,733)
Cash payments to employees for services	(7,577,366)	(7,393,869)
<b>Net cash provided by operating activities</b>	<b>11,620,398</b>	<b>11,261,796</b>
<b>Cash flows from noncapital financing activities:</b>		
Passenger and customer facility charges	7,677,595	7,139,417
Amounts from federal and state governments for soundproofing program	94,541	1,871,937
Soundproofing program related expenses	-	(1,807,258)
<b>Net cash provided by noncapital         activities</b>	<b>7,772,136</b>	<b>7,204,096</b>
<b>Cash flows from capital and related financing activities:</b>		
Contributed capital by federal and state governments	8,810,475	4,099,389
Proceeds from refunding bonds	-	85,535,000
Premium	-	1,262,856
Payments of deferred charges	(379,840)	(759,270)
Acquisition and construction of capital assets	(10,241,510)	(5,904,201)
Interest paid on outstanding debt obligations	(9,814,020)	(13,206,380)
Payments on bond arbitrage & financing	-	(743,799)
Principal paid on revenue bonds	(8,035,000)	(7,295,000)
Payment to escrow for refunding	-	(81,154,947)
<b>Net cash used in capital and related         financing activities</b>	<b>(19,659,895)</b>	<b>(18,166,352)</b>
<b>Cash flows from investing activities:</b>		
Interest on investments	667,128	806,071
<b>Net cash provided by investing activities</b>	<b>667,128</b>	<b>806,071</b>
<b>Net increase in cash and cash equivalents</b>	<b>399,767</b>	<b>1,105,611</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>68,388,691</b>	<b>67,283,080</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 68,788,458</b>	<b>\$ 68,388,691</b>
<b>Reconciliation of operating (loss) to net cash provided by operating activities</b>		
Operating (loss)	\$ (5,992,723)	\$ (5,289,822)
Adjustments to reconcile operating (loss) to cash provided by operating activities:		
Depreciation and amortization	19,649,887	18,519,091
<b>Change in Assets and Liabilities</b>		
Increase in receivables	(675,588)	(774,280)
Decrease in prepaid expenses	92,432	51,518
Increase in inventory	(72,246)	(70,097)
Decrease in accounts payable	(574,593)	(536,415)
Decrease in accrued liabilities	(589,101)	(572,516)
(Decrease) Increase in compensated absences	(57,795)	82,580
(Decrease) Increase in other liabilities	(76,540)	1,025
Decrease in interfund liabilities	(83,335)	(149,288)
<b>Net cash provided by operating activities</b>	<b>\$ 11,620,398</b>	<b>\$ 11,261,796</b>

*The accompanying notes are an integral part  
of these financial statements*

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

**1. Significant Accounting Policies**

**Reporting Entity**

The Department of Aviation (DA), a fund of the City of Manchester, New Hampshire (the City), is reported as an enterprise fund in proprietary fund financial statements and a business type activity in the City's government wide financial statements. The DA operates the Manchester Airport.

The financial statements present only the DA as a separate City department and do not purport to, and do not, present fairly the financial position of the City, and the changes in its financial position, and cash flows where applicable, as of and for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Basis of Accounting**

The DA financial statements are prepared using the accrual basis of accounting; revenues are recorded when earned and expenses are recorded as incurred.

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash Equivalents**

For purposes of the Statements of Cash Flows, cash equivalents represent investments with an initial maturity, when purchased, of three months or less. Included in cash equivalents are amounts reported as restricted.

**Inventory**

The inventory is stated at the lower of moving average cost method or market

**Investments**

Investments are carried at fair value, based on quoted market prices.

**Capital Assets**

Capital assets, consisting of property and equipment, are stated at cost (see Note 5), with the exception of property received from the federal government, which is stated at fair value at the date of transfer. Depreciation is computed using the straight-line method over estimated useful lives of the assets as follows:

Buildings	13 to 50 years
Improvements	3 to 50 years
Equipment	5 to 20 years
Vehicles	5 to 15 years

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

**1. Significant Accounting Policies (continued)**

Expenditures for property and equipment and for major renewals or betterments which extend the estimated useful life of the assets, are capitalized; maintenance and repairs are charged to expense as incurred. Assets with values greater than or equal to \$5,000 and a useful life greater than or equal to one year are capitalized. At the time property and equipment are sold, retired or disposed of, the costs of such assets and related accumulated depreciation are removed from the accounts, with any gain or loss reported as nonoperating.

**Revenue Bond Issuance Costs / Discounts**

Bond issuance costs are deferred and amortized over the lesser of the new or old bond term using the interest method. Bond discounts and premiums are deferred and amortized by the interest method, with the unamortized balance included within bonds payable.

**Restricted Assets and Net Assets**

The City issues bonds pursuant to the 1998 General Airport Bond Resolution (the Bond Resolution), supplemented through 2009. This Bond Resolution requires the DA to establish and maintain restricted accounts, and abide by specific procedures for bond issuance and payments of principal or interest. As detailed in Notes 3 and 4 to the financial statements, the “bond fund” is used to accumulate resources for periodic debt service payments on maturity dates. The “bond reserve account” represents resources set aside in the event of deficiencies in the bond fund. The “operations and maintenance reserve account” is kept at a level to fund three months of future operating expenses. The “renewal and replacement account” contains funds intended to meet unanticipated or emergency repairs. The Airline Agreement with signatory airlines requires a “coverage account” to provide additional resources if needed to satisfy any additional bond coverage requirements.

Passenger facility charges (PFCs) represent approximately \$4.50 per passenger ticket collected by airline carriers and remitted to DA per enplaned passenger. PFC funds are restricted, to be used for financing eligible airport projects approved by the Federal Aviation Administration (FAA).

Other components of net assets include:

**Net assets invested in capital assets, net of related debt** – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

**Unrestricted net assets** – This category represents the net assets of the fund which are not restricted for any project or other purpose. When both restricted and unrestricted resources are available for use it's the DA's policy to use restricted resources before unrestricted.

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

**1. Significant Accounting Policies (continued)**

**Grants**

Certain expenditures for airport capital improvements are funded through the Airport Improvement Program of the FAA. The funding provided under these government grants is considered earned when eligibility requirements are met.

Grants for capital asset acquisition, facility development and eligible long-term planning studies are reported in the statements of revenues, expenses and change in net assets after non-operating revenues and expenses as capital contributions net of expenditures made on behalf of third parties.

Revenues from other grants are recognized as non-operating revenue as soon as all eligibility requirements imposed by the grantor have been met.

**Risk Financing**

*Self-Insurance*

The DA is self-insured for health care, workers' compensation and comprehensive general liability claims, as are all City departments. Claims paid by the City on behalf of the DA are charged to the DA. For estimated unpaid claims an accrual of \$0 was recorded for health care claims and \$9,998 was recorded for workers' compensation claims, as of June 30, 2011. For estimated unpaid claims an accrual of \$11,832 was recorded for health care claims and \$4,918 was recorded for workers' compensation claims as of June 30, 2010. The amount paid for health care, workers' compensation and comprehensive general liability claims for the years ended June 30, 2011 and 2010 were \$1,084,290 and \$1,325,012, respectively. Coverage has not been materially reduced, nor have settled claims exceeded commercial coverage in any of the last three fiscal years. Accident and health claims are administered through a private carrier. The DA is self-insured under the City's policy. Accident and health claims are administered through a private carrier. The City maintains a stop-loss policy with limits of \$210,000 per year, per claim.

Fiscal Year Ended	Claims Payable July 1	Claims Changes in Estimates	Claims Paid	Claims Payable June 30
2011	\$ 16,750	\$ 1,084,290	\$ 1,091,042	\$ 9,998
2010	\$185,079	\$ 1,325,012	\$ 1,493,341	\$ 16,750

*Other*

The DA has comprehensive airport liability policies with insurance companies, which provide coverage generally up to \$100,000,000 for each occurrence and in the aggregate in any one annual period of insurance. Claims are subject to a deductible of \$1,000 for each occurrence up to a maximum of \$5,000 during any one annual insurance period.

Property coverage is maintained by the DA with a commercial insurer and provides for a deductible of \$100,000 for each claim, with individual building maximums based on value.

Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

**1. Significant Accounting Policies (continued)**

**Proprietary Fund Accounting**

The DA follows Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". This Statement provides guidance on the applicability of accounting pronouncements from other standard setting organizations. Under the DA's election, it must apply all GASB pronouncements and the following pronouncements issued before November 30, 1989 unless they contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

**Compensated Absences**

Every continuing full-time employee is entitled to paid vacation and sick leave on the basis of the employee's scheduled workweek and years of service. Vacation and sick leave are computed at the end of each completed week of service.

Vacation and sick leave are cumulative for not more than the prescribed number of days. The maximum annual accrual ranges from 10 to 25 days for vacation and 15 days for sick leave. The maximum cumulative accrual ranges from 20 to 50 days for vacation and up to 120 days for sick leave. Unused vacation is payable upon retirement or termination. Upon termination under satisfactory conditions, non-affiliated employees with 15 or more years of continuous service are paid up to 80 days of accrued sick leave, whereas affiliated employees with 20 or more years of continuous service are paid up to 80 days.

Vested sick leave and accumulated vacation leave are recorded as an expense and liability as the benefits accrue to employees. Nonvested sick leave is recognized to the extent it is expected to be paid.

**Soundproofing Program**

Soundproofing of residential and certain other properties situated with 65DNL noise contours was funded principally with FAA grants, state grants and PFC's. Soundproofing started in Fiscal Year 1994. The Airport completed all eligible units in FY2010 and as of FY2011 the program is suspended.

**Capitalized Interest**

Interest is capitalized on property and equipment acquired with tax-exempt debt. Interest capitalized each year is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

**Revenue**

Rental revenue includes revenue from terminal fees charged to airlines and is recognized when earned under terms of the lease agreement. Concession revenue includes car rental concessions and parking fees and is recognized when earned under term of the concession agreement.

Landing fees are recognized when earned in accordance with the agreement with signatory airlines, based on landed weight of aircraft.

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

**1. Significant Accounting Policies (continued)**

Intergovernmental revenues from federal or state grants are recognized when eligibility requirements of the grant program have been met.

**Operating Revenues and Expense**

Revenues from airlines, concessions, rental cars and parking are reported as operating revenues. Transactions which are capital, financing or investing-related are reported as non-operating revenues or capital contributions. All expenses related to operating the Airport are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

**2. Cash and Investments**

Deposits: The DA follows the City's policy that deposits can include demand and savings accounts and certificates of deposits. The City follows the State of New Hampshire's policy that requires each depository to maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk based capital ratio.

Investments: The investment policies of the City conform to the policies as set forth by the State of New Hampshire. The DA follows the City's policies for investments. The City policy allows investments in the following: (1) U.S. Treasury securities maturing in less than one year; (2) fully insured or collateralized certificates of deposit at commercial banks and savings and loan associations (collateral limited to U.S. treasury bills, FNMA and GNMA securities); and (3) repurchase agreements collateralized by U.S. government obligations.

Interest Rate Risk: The DA follows the City's policies for interest rate risk. The City limits its exposure to fair value losses arising from changes in interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Concentrations: The DA follows the City's policies for concentrations. The City's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity.

The responsibility for custodial credit risk of deposits and investments and other risks and policies related to investments rest with the City as a whole; accordingly, separate disclosure is not possible. The City of Manchester's "Comprehensive Annual Financial Report" provides the detailed disclosure for deposits and investment risks.

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

**3. Restricted Assets**

Custodial credit risk:

Deposits: This is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Investments: This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Cash and investments of the Department of Aviation consist of the following at June 30, 2011:

**Cash and Cash Equivalents**

Deposits with financial institutions	\$ 68,788,458
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**Total cash and investments**

<u>\$ 68,788,458</u>
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Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Credit Risk: Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

**3. Restricted Assets**

Restricted assets are segregated into the following accounts:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Accounts receivable	\$ 2,964,033	\$ 1,382,223
Bond fund	9,427,709	8,981,966
Bond reserve account	15,219,529	18,170,479
Operations and maintenance reserve account	9,832,000	9,832,000
Renewal and replacement account	250,000	250,000
Passenger facility charges	4,302,121	5,054,435
Coverage account	3,275,222	3,275,222
Customer facility charge reserve account	986,194	520,000
Capital improvement account	20,862,796	20,671,485
Revenue credit account	2,024,000	1,909,000
Rebate Fund	-	194,437
Deposits	36,316	112,856
	<u>\$ 69,179,920</u>	<u>\$ 70,354,103</u>

**4. Restricted Net Assets**

In accordance with the Airline Agreement and FAA requirements, restricted accounts are established. At June 30, 2011 and 2010, net assets of \$53,674,075 and \$51,626,331 respectively, are restricted as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Restricted for revenue bond operations and maintenance	\$ 9,832,000	\$ 9,832,000
Restricted for revenue fund	2,964,033	1,382,223
Restricted for PFCs	4,302,121	5,054,435
Restricted for bond fund	9,427,709	8,981,966
Restricted for coverage account	3,275,222	3,275,222
Restricted for CFC's	986,194	520,000
Restricted for capital improvement account	20,862,796	20,671,485
Restricted for revenue credit account	2,024,000	1,909,000
Total restricted net assets	<u>\$ 53,674,075</u>	<u>\$ 51,626,331</u>
Less accrued interest on bonds payable	<u>(4,609,243)</u>	<u>(5,444,723)</u>
Total restricted net assets, net of related debt	<u>\$ 49,064,832</u>	<u>\$ 46,181,608</u>

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

Capital asset activity for the years ended June 30, 2011 and 2010 follows:

	<b>Beginning Balance <u>July 1, 2010</u></b>	<b><u>Increases</u></b>	<b><u>Retirements</u></b>	<b><u>Transfers</u></b>	<b>Ending Balance <u>June 30, 2011</u></b>
Capital assets, not being depreciated:					
Land	\$ 42,719,244	\$ -	\$ -	\$ -	\$ 42,719,244
CIP	<u>3,902,412</u>	<u>10,072,440</u>	<u>-</u>	<u>(5,299,086)</u>	<u>8,675,766</u>
Total capital assets not being depreciated:	<u>46,621,656</u>	<u>10,072,440</u>	<u>-</u>	<u>(5,299,086)</u>	<u>51,395,010</u>
Capital assets being depreciated:					
Buildings	175,138,010	70,153	-	295,165	175,503,328
Improvement other than buildings	272,697,173	-	(47,012)	1,105,858	273,756,019
Vehicles	13,474,969	75,374	(72,048)	366,151	13,844,446
Equipment	<u>4,819,950</u>	<u>23,543</u>	<u>-</u>	<u>3,531,912</u>	<u>8,375,405</u>
Total capital assets being depreciated:	<u>466,130,102</u>	<u>169,070</u>	<u>(119,060)</u>	<u>5,299,086</u>	<u>471,479,198</u>
Less total accumulated depreciation	<u>165,490,509</u>	<u>19,649,010</u>	<u>(72,048)</u>	<u>-</u>	<u>185,067,471</u>
Capital Assets, Net	<u>\$ 347,261,249</u>	<u>\$ (9,407,500)</u>	<u>\$ (47,012)</u>	<u>\$ -</u>	<u>\$ 337,806,737</u>
	<b>Beginning Balance <u>July 1, 2009</u></b>	<b><u>Increases</u></b>	<b><u>Retirements</u></b>	<b><u>Transfers</u></b>	<b>Ending Balance <u>June 30, 2010</u></b>
Capital assets, not being depreciated:					
Land	\$ 42,719,244	\$ -	\$ -	\$ -	\$ 42,719,244
CIP	<u>770,804</u>	<u>5,638,537</u>	<u>-</u>	<u>(2,506,929)</u>	<u>3,902,412</u>
Total capital assets not being depreciated:	<u>43,490,048</u>	<u>5,638,537</u>	<u>-</u>	<u>(2,506,929)</u>	<u>46,621,656</u>
Capital assets being depreciated:					
Buildings	174,833,758	16,218	-	288,034	175,138,010
Improvement other than buildings	271,247,838	-	(23,412)	1,472,747	272,697,173
Vehicles	12,704,384	24,437	-	746,148	13,474,969
Equipment	<u>4,606,807</u>	<u>225,009</u>	<u>(11,866)</u>	<u>-</u>	<u>4,819,950</u>
Total capital assets being depreciated:	<u>463,392,787</u>	<u>265,664</u>	<u>(35,278)</u>	<u>2,506,929</u>	<u>466,130,102</u>
Less total accumulated depreciation	<u>145,951,777</u>	<u>19,557,622</u>	<u>(18,890)</u>	<u>-</u>	<u>165,490,509</u>
Capital Assets, Net	<u>\$ 360,931,058</u>	<u>\$ (13,653,421)</u>	<u>\$ (16,388)</u>	<u>\$ -</u>	<u>\$ 347,261,249</u>

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

**6. Rental of Facilities**

Each year, the DA calculates the Terminal building rental rates as defined in the Airline Agreements, which include the space leased by each airline. This rate is based primarily on projected operating costs of the ensuing year. Future amounts relating to such agreements are not included below.

The DA has leasing arrangements with various non-airline parties for the use of land, buildings, office, and retail space within the boundaries of the airport area and the Terminal. Such leases range in length from three to 27 years. Non-terminal rentals are generally based upon set minimum rental fees, with additional payments based either upon defined escalator clauses for land, buildings and office rentals or upon stated percentages of gross receipts for retail space rentals.

Minimum future revenue from noncancelable rental agreements in effect at June 30, 2011 is as follows:

<b>Year</b>	<b>Amount</b>
2012	\$ 1,013,054
2013	1,013,161
2014	882,732
2015	884,746
2016	910,123
Thereafter	14,601,072
<b>Total</b>	<b><u><u>\$ 19,304,888</u></u></b>

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

**7. Bonds Payable**

**Revenue Bonds Payable**

The City issues bonds pursuant to a 1998 General Airport Revenue Bond Resolution ( the Bond Resolution), supplemented through 2009. The Bond Resolution requires the DA to establish and maintain restricted accounts, and follow certain procedures for bond issuance and payments. Notes 3 and 4 to the financial statements list various restricted balances related to outstanding bonds. The DA deposits all revenues into a “revenue fund,” which is used first to pay operating expenses and then to fund the restricted bond accounts.

The Bond Resolution further requires the DA to collect sufficient fees in each fiscal year so that Net Revenues (as defined) are at least equal to (a) 125% of current bond debt service, or (b) annual debt service, plus the operating reserve requirement, plus all other deposits required for the bond reserve and renewal / replacement accounts.

After each fiscal year, the DA is required to review its fees to ensure anticipated revenues are sufficient to meet the above requirements. If this review discloses any risk of future noncompliance, the DA must engage an independent industry specialist to undertake a study of its fee schedules. Within 90 days after the beginning of the fiscal year, the specialist’s recommended fees, at a level adequate to meet the above requirements, must be implemented.

Revenue bond activity for the years ended June 30, 2011 and 2010 follows:

	<b>Beginning Balance <u>June 30, 2010</u></b>		<b><u>Increases</u></b>		<b><u>Decreases</u></b>		<b>Ending Balance <u>June 30, 2011</u></b>		<b>Due Within <u>One Year</u></b>
General Airport									
Revenue Bonds	\$ 228,410,000	\$	-	\$	(8,035,000)	\$	220,375,000	\$	8,435,000
Less deferred amounts:									
Issuance discounts									
premiums and deferred loss	(1,053,580)		(115,056)		-		(1,168,636)		
<i>Total Bonds Payable</i>	<u>\$ 227,356,420</u>	<u>\$</u>	<u>(115,056)</u>	<u>\$</u>	<u>(8,035,000)</u>	<u>\$</u>	<u>219,206,364</u>		

	<b>Beginning Balance <u>June 30, 2009</u></b>		<b><u>Increases</u></b>		<b><u>Decreases</u></b>		<b>Ending Balance <u>June 30, 2010</u></b>		<b>Due Within <u>One Year</u></b>
General Airport									
Revenue Bonds	\$ 230,965,000	\$	4,740,000	\$	(7,295,000)	\$	228,410,000	\$	8,035,000
Less deferred amounts:									
Issuance discounts									
premiums and deferred loss	(2,269,614)		4,858,385		(3,642,351)		(1,053,580)		
<i>Total Bonds Payable</i>	<u>\$ 228,695,386</u>	<u>\$</u>	<u>9,598,385</u>	<u>\$</u>	<u>(10,937,351)</u>	<u>\$</u>	<u>227,356,420</u>		

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

**7. Bonds Payable (continued)**

Revenue Bonds payable are as follows:

	<u><b>June 30, 2011</b></u>	<u><b>June 30, 2010</b></u>
General Airport Revenue Bonds (Manchester Airport Project - Series 1998): Issued \$124,275,000 revenue bonds in October 1998 at interest rates ranging from 4.0% to 5.125%, due semi-annually, on January 1 and July 1, in varying installments from 1999 through 2028.	\$ 61,205,000	\$ 61,205,000
City of Manchester General Airport Revenue Bonds - Series 2000: Issued \$55,990,000 revenue bonds in April 2000 at interest rates ranging from 4.9% to 5.625%, due semi-annually, on January 1 and July 1, in varying installments from 2001 through 2030, on a combination of serial and term bonds.	-	710,000
General Airport Revenue Bonds (Manchester Airport Project - Series 2002 A,B & C): Issued in the aggregate amount of \$69,665,000 revenue bonds in June 2002. Lots A and B totaling \$42,750,000, comprised of \$12,965,000 serial bonds and \$22,775,000 term bonds, were sold at interest rates from 3.00% to 5.125%, due semi-annually, on January 1 and July 1 and Lot C LOI revenue bonds issued in the amount of \$26,915,000 have been paid off. Interest is paid monthly, with principal maturity paid from July 2002 through 2032.	36,665,000	37,640,000
General Airport Revenue Bonds (Manchester Airport Project - Series 2005A): Issued \$17,110,000 revenue bonds in July 2005 at interest rates ranging from 3.0% to 5.0%, due semi-annually, on January 15 and July 15, in varying installments from 2006 through 2027.	16,120,000	16,285,000
City of Manchester General Airport Revenue Bonds - Series 2008: Issued \$30,225,000 in June 2008, which are Variable Rate, General Airport Revenue Bonds back solely by the Airport's revenue streams; and insured with a bank letter of credit. The average variable rates are at approximately less than .40%. Interest is paid monthly while principal maturities are paid January 2009 through 2022.	25,315,000	27,035,000

**City of Manchester, New Hampshire  
Department of Aviation**

**Notes to Financial Statements**

**7. Bonds Payable (continued)**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
General Airport Revenue Bonds (Manchester Airport Project - Series 2009 A & B): Issued in two series: \$64,830,000 of 2009A to refund all of the 2005B bonds and \$20,705,000 of 2009B to refund a portion of the previously outstanding 1998A bonds and all of the 2000A bonds. Lots A and B total \$85,535,000, comprised of \$42,880,000 term bonds and \$42,655,000 serial bonds, were sold at interest rates from 2.00% to 5.31%, due semi-annually on January 1 and July 1.	81,070,000	85,535,000
Total Revenue Bonds payable	220,375,000	228,410,000
Add: Bond premiums	696,204	1,068,204
Less: Bond discounts	(1,329,156)	(1,541,078)
Less: Deferred loss	(535,684)	(580,706)
Less: current portion	<u>(8,435,000)</u>	<u>(8,035,000)</u>
Total Revenue Bonds payable – non-current	<u>\$ 210,771,364</u>	<u>\$ 219,321,420</u>

**Debt Service Requirements**

The following schedule of debt maturities is based upon the terms of the various debt agreements as assumes that the 2008 airport variable rate demand bonds in the amount of \$25,315,000 are remarketed and the Letter of Credit is renewed over the term of the bonds. The Letter of Credit expires in June 2013 and if not renewed the bonds would be payable at that time.

Aggregate debt service requirements subsequent to June 30, 2011 are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 8,435,000	\$ 9,560,211	\$ 17,995,211
2013	8,835,000	9,224,831	18,059,831
2014	9,250,000	8,866,056	18,116,056
2015	9,665,000	8,499,638	18,164,638
2016	10,135,000	8,108,213	18,243,213
2017-2021	58,275,000	34,306,876	92,581,876
2022-2026	69,720,000	21,712,312	91,432,312
2027-2031	43,295,000	5,607,294	48,902,294
2032	<u>2,765,000</u>	<u>138,250</u>	<u>2,903,250</u>
Debt Service requirement	220,375,000	106,023,681	326,398,681
Add: bond premium	696,204	-	696,204
Less: bond discount	(1,329,156)	-	(1,329,156)
Less: deferred loss	<u>(535,684)</u>	<u>-</u>	<u>(535,684)</u>
Net Debt Service requirement	<u>\$ 219,206,364</u>	<u>\$ 106,023,681</u>	<u>\$ 325,230,045</u>

**City of Manchester, New Hampshire**  
**Department of Aviation**

**Notes to Financial Statements**

**7. Bonds Payable (continued)**

The City has pledged future airport revenues, net of specified operating expenses, to repay \$220,375,000 in airport revenue bonds. Pledged revenues total \$40,817,401 and include certain operating and non-operating revenues and account balances under restricted assets. Proceeds from the bonds were used for various airport construction projects. The bonds are payable solely from the airport net revenues and payable through 2032. The current year coverage ratio is 1.98. The total principal and interest remaining to be paid on the bonds is \$326,398,681. Principal and interest paid for the current year was \$17,013,540.

Included in long-term debt is \$25,315,000 of General Airport Revenue Demand Bonds maturing serially through January 1, 2022 secured by a pledge of and lien on Revenues, subject to the payment of Operations and Maintenance Expenses, and the provisions of the Resolution regarding the application of Revenues. The Bonds were issued pursuant to certain proceedings of the City, RSA Chapter 33-B and the General Airport Revenue Bond Resolutions of the City, adopted as of October 1, 1998, as amended, and as adopted as of June 26, 2008. The proceeds of the bonds were used to (a) refund \$30,255,000 outstanding principal amount of the City's General Airport Revenue Bonds, Series 2001 maturing January 1, 2022 and (b) pay costs incurred to issue the bonds.

The bonds are subject to purchase on the demand of the holder on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, from and including the Interest Accrual Date immediately preceding the date of purchase through and including the day immediately preceding the date of purchase, unless the date of purchase shall be an Interest Payment Date, in which case, at a purchase price equal to the principal amount thereof upon delivery to the Trustee at its Corporate Trust Office of an irrevocable written notice which states the principal amount of such Series 2008 Bond and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee. The Trustee Shall promptly send a copy of any such notice delivered to it pursuant to the Resolution by facsimile to the Remarketing Agent and the Letter of Credit Bank, as the case may be.

Under an irrevocable letter of credit issued by Citizens Bank, the trustee or the remarketing agent is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The letter of credit is valid through June 26, 2013 and carries a variable interest rate equal to 1% plus the institution's prime lending rate and the rate payable on the bonds.

The City is required to pay Citizens Bank quarterly commitment fees for the letter of credit computed on the Available Amount of the Letter of Credit at a rate per annum equal to the Letter of Credit Fee Rate of 0.70 percent per annum. The City has paid an issuance fee of \$15,500. In additions, the remarketing agent receives an annual fee of seven and one-half basis points on the weighted average of the principal amount of the Bonds outstanding during each three-month period.

**City of Manchester, New Hampshire**  
**Department of Aviation**

**Notes to Financial Statements**

**8. Employee Benefits**

Employees of the DA are entitled to certain benefits through the City which include health care and pension benefits. Information with respect to these benefits is contained in the City's basic financial statements. The benefits are included in Salaries, wages and fringe benefits under Operating expenses in the Statements of Revenues, Expenses, and Changes in Fund Net Assets. Costs are allocated based on the number of active employee participants. Specific allocation of liabilities is not performed and the City's General Fund would be responsible for payment.

**9. Interfund Transactions**

During the years ended June 30, 2011 and 2010, the DA recorded \$26,900 and \$40,101, respectively, representing City services for legal, accounting and administrative support. In addition, due to the pooling of substantially all cash by the City, the DA is able to borrow operating funds from the General Fund of the City. No borrowing occurred during the periods ending June 30, 2011 and 2010.

**10. Major Customers**

A significant portion of the DA's earnings and revenues are directly or indirectly attributed to the activity of a number of major airlines.

The DA's earnings and revenues could be materially and adversely affected should any of these major airlines discontinue operations and should the DA be unable to replace those airlines with similar activity. The level of operations is determined based upon the relative share of enplaned passengers. The major airlines are as follows:

	FY2011	FY2010
Southwest Airlines	60%	58%
US Airways	17%	18%

**11. Issued But Not Effective Professional Standards**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2011 that have effective dates that may impact future financial presentations. Management is currently assessing the impact, if any, that the adoption of these standards will have on future financial statements of the City.

- ◆ GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, was issued in December 2009. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefits (OPEB) plans (that is, agent employers). This Statement amends Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, to permit certain OPEB plans to use an alternative measurement method. Consistent

**City of Manchester, New Hampshire**  
**Department of Aviation**

**Notes to Financial Statements**

with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, requirement that a defined benefit OPEB plan obtain an actuarial valuation. In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. The provisions of this Statement will be effective for the City beginning with its year ending June 30, 2012.

- ◆ GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. Issued November 2010, will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.
- ◆ GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and amendment of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statement to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes on ly those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.
- ◆ GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's

**City of Manchester, New Hampshire**  
**Department of Aviation**

**Notes to Financial Statements**

Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.

- ◆ GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued in July 2011, will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, Basic Financial Statements.
  
- ◆ GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, issued July 2011, will be effective for eth City beginning with its year ending June 30, 2012. This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectability of swap payment is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied.

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**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**

The following is a brief summary of certain provisions of the General Resolution including certain terms used in the General Resolution and used but not elsewhere defined in the Official Statement. This summary does not purport to be complete and reference is made to the General Resolution (including the supplements thereto) for full and complete statements of its terms and provisions.

**Definitions**

“Accountant” shall mean McGladrey & Pullen, LLP or any other independent certified public accountant (or a firm thereof) selected by the City, which may be the accountant regularly auditing the books of the City.

“Adjusted Debt Service” for any period of time, with respect to any or Series of Indebtedness, shall mean, as of any date of calculation, the Debt Service for such period of time with respect to such Series except that, if any Refundable Principal Installment of such Series is included in Debt Service for such period of time, Adjusted Debt Service shall mean Debt Service determined as if such Refundable Principal Installment had been payable over a period extending from the due date of such Refundable Principal Installment through the date identified in the Supplemental Resolution authorizing such Series (which date may be no later than the last date on which such Series could have been stated to mature under applicable law as in effect on the date of issuance of such Series), in installments which would have required level annual payments of the sum of Principal Installments and interest over such period. Interest deemed payable in any period of time after the actual due date of any Refundable Principal Installment of any Series of Secured Bonds shall be calculated at the applicable Refundable Principal Installment Pro Forma Interest Rate.

“Aggregate Debt Service Reserve Fund Requirement” shall mean an amount equal to the least of (i) the sum of 10% of the aggregate original net proceeds of each Series of Bonds Outstanding, (ii) 125% of the average annual aggregate Debt Service on such Bonds, or (iii) the maximum aggregate amount of Debt Service due on such Bonds in any succeeding Bond Year. For purposes of this definition, “net proceeds” of a Series of Bonds shall mean the face amount of such Series minus original issue discount plus any premium received on the sale of such Series.

For purposes of calculating the Aggregate Debt Service Reserve Fund Requirement, (1) the Debt Service on any Series of Variable Rate Indebtedness shall be determined by reference to the Pro Forma Bond Issue for such Series set forth in the Supplemental Resolution authorizing such Series and (2) there shall be excluded any Bonds secured by a Special Account of the Debt Service Reserve Fund established by a Supplemental Resolution.

“Airport Consultant” shall mean Jacobs Consultancy or any other individual or firm employed by the City in such capacity pursuant to the Resolution.

“Airport Property” shall mean the airport facilities of the City presently known as Manchester-Boston Regional Airport and presently located within the corporate boundaries of the City and the Town of Londonderry, together with all buildings and facilities and all equipment, appurtenances, property, rights, easements and interests acquired or leased by the City in connection with the construction or the operation thereof, and all extensions, enlargements, improvements, renewals and replacements thereof.

“Authorized Representative” shall mean, with respect to the City, the Finance Officer of the City and, when used in reference to an act or document, shall also mean any other person authorized by the Governing Body to perform such act or sign such document.

“Average Annual Adjusted Debt Service” shall mean, with respect to any Series of Secured Bonds, the sum of Adjusted Debt Service for each year in which such Secured Bonds will be Outstanding divided by the number of years that such Secured Bonds will be Outstanding.

“Bond” or “Bonds” shall mean any bonds, notes or other evidences of indebtedness, as the case may be, authenticated and delivered pursuant to the Resolution in the manner described under the heading “Conditions Precedent to Delivery of a Series of Bonds” and shall also mean any Parity Bond Anticipation Notes and any Parity Reimbursement Obligation incurred with respect to Bonds, but shall not mean Subordinated Bonds, other Bond Anticipation Notes or other Indebtedness.

“Bond Anticipation Notes” shall mean any of the notes issued in anticipation of a Series of Secured Bonds pursuant to the Resolution and shall include, unless the context otherwise indicates, Parity Bond Anticipation Notes and Subordinated Parity Bond Anticipation Notes.

“Bond Counsel’s Opinion” shall mean an opinion signed by Ropes & Gray, or any attorney or firm of attorneys of nationally recognized standing in the field of law relating to revenue bonds of public instrumentalities, selected by the City and satisfactory to the Trustee and may be an attorney or firm regularly providing services to the City.

“Business Day” shall mean any day other than a Saturday, a Sunday or any other day on which any Fiduciary is authorized or required by law to be closed for business.

“Capital Improvements” shall mean extensions, improvements, enlargements, betterments, alterations, renewals, repairs and replacements of the Airport Property or other property of the City (including land, equipment and other real or personal property), which (i) are used or useful in connection with the Airport Property or any part thereof, (ii) are constructed, acquired or made by or on behalf of the City subsequent to the date of adoption of the Resolution, and (iii) are properly chargeable (whether or not so charged by the City) according to generally accepted accounting principles, as additions to property or plant accounts.

“Capitalized Interest” shall mean, for any particular Series of Indebtedness, that portion of the proceeds of such Series, if any, required by the Supplemental Resolution authorizing such Series to be deposited in a Subaccount established for such Series in the Capitalized Interest Account in the Debt Service Fund or the Subordinated Debt Service Fund, as the case may be, for the purpose of funding the payment of a portion of the interest to come due on such Series.

“City” shall mean the City of Manchester, New Hampshire, a New Hampshire municipal corporation, or any other political subdivision or public instrumentality of the State which shall succeed to the powers of the City relating to the Airport Property.

“Code” shall mean the Internal Revenue Code of 1986, as amended, including any regulations promulgated thereunder or applicable thereto.

“Completion Secured Bond” shall mean any Bond or Subordinated Bond authenticated and delivered on original issuance pursuant to the Resolution for the purpose of paying costs of completing a Project for which Bonds or Subordinated Bonds, respectively, have previously been issued, or thereafter authenticated and delivered in lieu of or substitution for such Bond or Subordinated Bond pursuant to the Resolution.

“Consultant” shall mean the Accountant, the Airport Consultant, the Independent Engineer or any other 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 Governing Body to perform acts and carry out duties provided for such Consultant in the Resolution.

“Costs” as applied to any Project, shall mean all or any part of the cost, paid by or on behalf of or reimbursable by or to the City, of undertaking and carrying out such Project.

“Coverage Amount” shall mean, for any Fiscal Year or other period, the lesser of (a) the principal balance of the Coverage Account as of the close of business on the day immediately preceding such Fiscal Year or other period or (b) 25% of the Required Debt Service Fund Deposits for such Fiscal Year or other period.

“Credit Facility” shall mean a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution, which provides for payment of all or a portion of the Principal Installments or interest due on any Series of Secured Bonds or provides funds for (i) the direct payment of the Principal Installments of and interest on such Secured Bonds when due or (ii) the payment of the Principal Installments of and interest on such Secured Bonds in the event amounts otherwise pledged to the payment thereof are not available when due or (iii) the payment of the Tender Option Price of any Option Bond which may be tendered to the City for purchase or payment in accordance with the Supplemental Resolution authorizing such Option Bond (in any case, regardless of whether such Credit Facility provides funds for any other purpose).

“Debt Service” for any period of time shall mean, as of any date of calculation and with respect to any Series of Indebtedness, an amount equal to the sum of (i) interest payable during such period of time on Indebtedness of such Series (including any interest payable on any Parity Bond Anticipation Notes), except to the extent that such interest is to be paid from amounts representing Capitalized Interest and (ii) the Principal Installments of the Indebtedness of such Series payable during such period of time. Such interest and Principal Installments for such Series shall be calculated on the assumption that (x) no Indebtedness of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment thereof upon stated maturity or upon mandatory redemption by application of Sinking Fund Installments and (y) as to any future period, Variable Rate Indebtedness will bear interest at the greatest of (A) the rate or rates which were assumed by the City in the current Operating Budget to be borne by such Variable Rate Indebtedness during such period or (B) the weighted average of the actual rate or rates borne by such Variable Rate Indebtedness over the preceding six months, or (C) but only for the first Fiscal Year in which such Variable Rate Indebtedness is Outstanding, the interest rate stipulated by the City in the Supplemental Resolution authorizing such Indebtedness.

“Defeasance Obligations” shall mean the obligations described in clause (a), (b) or (i) of the definition of Investment Securities in the Resolution; provided that such obligations shall not be redeemable prior to the maturity date or stated redemption date relied upon in satisfying the conditions of the Resolution with respect to defeasance.

“Depository” shall mean any bank or trust company selected by the City, as the case may be, as a depository of moneys to be held under the provisions of the Resolution, and may include the Trustee.

“Designated Debt” shall mean any Indebtedness with respect to which there shall be in effect a Swap. “Event of Default” shall mean any event specified as such in the Resolution.

“Fiduciary” shall mean the Trustee or any Paying Agent or Depository.

“Financial Guaranties” shall mean one or more of the following: (i) irrevocable, unconditional and unexpired letters of credit issued by banking institutions the senior long-term debt obligations of which (or the holding company of any such banking institution) have (at the time of issue of such letter of credit) a rating in either of the two highest categories from each of S&P and Moody’s (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, a rating in either of the two highest categories of such Rating Agency; or (ii) an irrevocable and unconditional policy or policies of insurance in full force and effect issued by municipal bond insurers or multiline insurers the obligations insured by which are eligible for a rating in either of the two highest categories from each of S&P and Moody’s (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, a rating in either of the two highest categories of such Rating Agency; in each case providing for the payment of sums for the payment of Principal Installments of and interest on Secured Indebtedness in the manner provided in the Resolution; and providing further that any such Financial Guaranty must be drawn upon on a date which is at least seven days prior to the expiration date of such Financial Guaranty in an amount equal to the deficiency which would exist if the Financial Guaranty expired, unless a substitute Financial Guaranty is acquired prior to such expiration date as provided in a related Supplemental Resolution.

“Fiscal Year” shall mean the twelve-month period commencing July 1 of any calendar year and ending June 30 of the succeeding calendar year or such other twelve-month period as may be authorized by the City. In the event that a different fiscal year is authorized, references in the Resolution to July 1 or June 30 shall refer, respectively, to the first and last day of such fiscal year.

“Fitch” shall mean Fitch Ratings and its successors.

“Fixed Rate Indebtedness” shall mean, as of any date of determination, any Indebtedness bearing interest at a fixed rate for the remainder of its term.

“Governing Body” shall mean the Department of Aviation of the City or other City office or department or delegee of the Mayor duly and lawfully charged with the supervision of the operation of the Airport Property or any other matter relating to the Resolution and, where applicable, shall mean the Board of Mayor and Aldermen; and in the event that the ownership or operation of the Airport Property shall be transferred as provided by law to any public entity other than the City, the duly authorized governing body of such public entity.

“Government Obligations” shall mean direct general obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

“Grant Agreements” shall mean any and all agreements between the City and the United States of America or the State, or any agency, department, bureau, commission or other instrumentality of either thereof, all as the same may be amended or supplemented from time to time, providing for or relating to the provision of Grant Receipts to the City.

“Grant Receipts” shall mean any money received by or on behalf of the City under or pursuant to a Grant Agreement as or on account of a grant or contribution in aid of or with respect to any Project.

“Indebtedness” shall mean any indebtedness for borrowed money of the City relating to the Airport Property including without limitation all Bonds, Subordinated Bonds, Bond Anticipation Notes, Reimbursement Obligations and Special Indebtedness and the Prior Bonds.

“Independent Engineer” shall mean Edwards and Kelcey, Inc. or any other independent architect or engineer or firm of architects or engineers employed by the City pursuant to the Resolution.

“Insurance Reserve Fund Requirement” shall mean the amount recommended to the City by an Independent Engineer or an insurance consultant pursuant to the Resolution as necessary to adequately reserve against risks for which the City does not currently maintain insurance in compliance with the Resolution.

“Investment Securities” shall mean and include any of the following securities, if and to the extent the same are at the time legal investments by the City of the funds to be invested therein and conform to the policies set forth in any investment guidelines adopted by the City or by a duly appointed committee of the Governing Body and in effect at the time of the making of such investment:

- (a) Government Obligations;
- (b) Certificates or receipts representing direct ownership of future interest or principal payments on Government Obligations or any obligations of agencies or instrumentalities of the United States of America which are backed by the full faith and credit of the United States, which certificates or receipts are issued directly by the United States Department of the Treasury or by the agency or instrumentality issuing such obligations;
- (c) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following: Federal Home Loan Mortgage Corporation; Student Loan Marketing Association; Federal Home Loan Banks; Federal National Mortgage Association; Government National Mortgage Association; Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Export-Import Bank of the United States; Federal Land Banks; or any other agency or instrumentality of the United States of America; or the International Reconstruction Development Bank;
- (d) All other obligations issued or unconditionally guaranteed as to the timely payment of principal and interest by an agency of person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to City granted by Congress;

(e) (i) Interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or other savings institution (including the Trustee), provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation or (ii) interest-bearing time or demand deposits or certificates of deposit with any bank, trust company, national banking association or other savings institution (including the Trustee), provided such deposits and certificates are in or with a bank, trust company, national banking association or other savings institution whose long-term unsecured debt is rated in one of the three highest long-term rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in any of the three highest rating categories of such Rating Agency;

(f) Repurchase agreements collateralized by securities described in subparagraph (a), (b) or (c) above with any primary dealer recognized by a Federal Reserve Bank or any commercial bank the long-term unsecured debt of which (or of the corporate parent of which), in either case, is rated in one of the three highest long-term rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in any of the three highest rating categories of such Rating Agency; provided that (1) a specific written repurchase agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the City or the Trustee, as the case may be, or an independent third party acting solely as agent for the City or the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and the City or the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the City or the Trustee, (3) if the repurchase agreement has a term of more than 30 days, then the City or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five Business Days of such valuation and the term shall have been approved by the Series 1998 Bonds bond insurer, and (4) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to (a) at least 102% or (b) so long as the bond insurance policy for the Series 1998 Bonds is in effect, at least 104% or, in the case of collateral securities issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, at least 105%;

(g) Money market funds registered under the federal Investment Company Act of 1940 and rated in the highest category by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the highest rating category of such Rating Agency;

(h) Shares of investment companies or cash equivalent investments which are authorized to invest only in assets or securities described in subparagraphs (a), (b), (c), (d) and (f) above;

(i) Obligations the interest on which is excluded from gross income for purposes of federal income taxation that have been advance-refunded prior to their maturity and that are fully and irrevocably secured as to principal and interest by Government Obligations, or Government Obligations which have been stripped of their unmatured interest coupons or interest coupons stripped from Government Obligations, held in trust for the payment thereof which obligations are rated in the highest rating category by each Rating Agency;

(j) Short-term or long-term obligations the interest on which is excludable from gross income for Federal income tax purposes and that are rated in any of the two highest rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in any of the two highest rating categories of such Rating Agency, or shares of investment companies or cash equivalents which are authorized to invest primarily in such obligations; and

(k) any other investment authorized pursuant to an amendment or supplement to the Resolution. Obligations of any Fiduciary or an affiliate thereof may be Investment Securities, provided that they otherwise qualify.

“LOI-Approved Secured Bonds” means those Secured Bonds or portion thereof used to finance Project Costs approved for financing by LOI Revenues in accordance with applicable law.

“LOI Fund” means the LOI Fund established pursuant to Section 502(b) of the Resolution.

“LOI Project Account” means the LOI Project Account established within the LOI Fund established pursuant to Section 502(b) of the Resolution.

“LOI Revenues” means grants received by the City from the Federal Aviation Administration in accordance with a letter of intent, so-called, or any other similar revenues, and all investment earnings on funds deposited in the LOI Fund.

“LOI Revenues Account” means the LOI Revenues Account established within the LOI Fund established pursuant to Section 502(b) of the Resolution.

“Moody’s” shall mean Moody’s Investors Service Inc. and its successors.

“Net Revenues” shall mean with respect to a period of time all Revenues accrued in such period in accordance with generally accepted accounting principles less the Operation and Maintenance Expenses incurred or payable during such period in accordance with generally accepted accounting principles; provided, however, that the proceeds of revenue anticipation notes shall not constitute Revenues and the principal amount of such notes shall not constitute Operation and Maintenance Expenses for the purpose of calculating Net Revenues.

“Operating Budget” shall mean the Operating Budget with respect to the operations of the Airport Property duly adopted by the City as provided in the Resolution, as amended from time to time in accordance with the Resolution.

“Operation and Maintenance Expenses” shall mean the City’s expenses, whether or not annually recurring, of maintaining, repairing and operating the Airport Property including, without limiting the generality of the foregoing, amounts for administrative expenses including costs of salaries and benefits and amounts required to finance pension benefits earned by employees; cost of insurance; payments for engineering, financial, accounting, legal and other services; any lawfully imposed taxes or other assessments on the Airport Property or income from or operations at the Airport Property and reserves for such taxes or assessments, any payments in lieu of taxes for the Airport Property or income from or operations at the Airport Property and reserves for such in lieu of taxes; any administration or service fees; payments under any hedge agreement relating to the purchase price of goods or services required for the operation of the Airport (excluding Swaps) which have been designated by the City as Operation and Maintenance Expenses for purposes of the Resolution in such agreement; costs of issuance not financed in the Costs of a Project paid by the City; and payments of interest on revenue anticipation notes and other current expenses; but not including depreciation, recognition upon disposal or other retirement of a capital asset, reserves for unusual and extraordinary maintenance or repair, Debt Service payable from any Fund or Account established under the Resolution, and expenses relating to facilities not financed by debt secured by Revenues.

“Option Bonds” shall mean Secured Bonds which by their terms may be tendered by and at the option of the owner thereof for purchase or payment by the City prior to the stated maturity thereof.

“Outstanding” when used with reference to Bonds or any other Indebtedness, shall mean, as of any date, all Bonds or other evidences of Indebtedness theretofore or thereupon being authenticated and delivered under the Resolution except:

- (a) any Bonds or other evidences of Indebtedness canceled by the Trustee at or prior to such date;
- (b) any Bond or other evidence of Indebtedness (or portion thereof) for the payment or redemption of which there shall be set aside and held in trust either:
  - (i) moneys in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest,
  - (ii) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as are necessary to provide moneys (whether as principal or interest) in an amount

sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest, or

(iii) any combination of (i) and (ii) above,

and, if such Bond or other evidence of Indebtedness or portion thereof is to be redeemed, for which notice of redemption has been given as provided in the Resolution, or the applicable Supplemental Resolution, or provision satisfactory to the Trustee has been made for the giving of such notice;

(c) any Bond or other evidence of Indebtedness in lieu of or in substitution for which other Bonds or other evidences of Indebtedness have been authenticated and delivered; and

(d) any Bond or other evidence of Indebtedness deemed to have been paid as provided in the Resolution.

“Owner” or “holder” or words of similar import shall mean, when used with reference to a Bond or another evidence of Indebtedness, the person in whose name the Bond or other evidence of Indebtedness is registered.

“Parity Bond Anticipation Notes” shall mean Bond Anticipation Notes the interest on which is payable from and secured by a pledge of, and a lien on, the Revenues on a parity with the lien created by the Resolution to secure the Bonds.

“Parity Reimbursement Obligation” shall mean a Reimbursement Obligation the payment of which is secured by a pledge of, and a lien on, Revenues on a parity with the lien created in favor of a class of Secured Bonds by the Resolution.

“Paying Agent” shall mean any paying agent for the Secured Bonds of any Series, and its successor or successors and any other person which may at any time be substituted in its place pursuant to the Resolution.

“Payment Date” shall mean, with respect to any Series of Secured Bonds, each date on which interest or a Principal Installment or both shall be due and payable on any of such Outstanding Secured Bonds according to their respective terms.

“PFC-approved Secured Bonds” shall mean those Secured Bonds or portion thereof used to finance Project Costs approved for financing by PFC Revenues in accordance with applicable law.

“PFC Fund” shall mean the PFC Fund established pursuant to Section 502(b) of the Resolution.

“PFC Project Account” shall mean the PFC Project Account established within the PFC Fund pursuant to Section 502(b) of the Resolution.

“PFC Revenues” shall mean any passenger facility charges or similar taxes levied by or on behalf of the City pursuant to the federal Aviation Safety and Capacity Expansion Act of 1990, as from time to time amended, and any successor thereto, and all investment earnings on funds deposited in the PFC Fund.

“PFC Revenues Account” shall mean the PFC Revenues Account established within the PFC Fund pursuant to Section 502(b) of the Resolution.

“Principal Installment” shall mean, as of any date of calculation and with respect to any Series of Secured Indebtedness, so long as any obligations of such Series are Outstanding, (i) the principal amount of obligations of such Series due on a certain future date for which no Sinking Fund Installments have been established or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for obligations of such Series. For the purposes of the preceding sentence, “Principal Amount” shall include (x) any amount designated in, or determined pursuant to, the applicable Supplemental Resolution, as the “principal amount” with respect to any Bonds or Subordinated Bonds which do not pay full current interest for all or any part of their term, (y) the Tender

Option Price of any Option Bonds which may be tendered to the City for purchase or payment prior to the stated maturity thereof in accordance with the terms of the Supplemental Resolution authorizing such Option Bonds, unless such amount is secured by a Credit Facility which is not in default and (z) the principal amount of any Parity Reimbursement Obligation. Principal Installment shall, however, not include the principal of Bend Anticipation Notes.

“Prior Bond Guaranty” shall mean the Guarantee Agreement dated as of May 1, 1992 between the City and the State, as amended as of the date of the Resolution and as further amended from time to time as permitted under the Resolution.

“Prior Bond Indenture” shall mean the Loan and Trust Agreement dated as of May 1, 1992 among the Business Finance Authority of the State of New Hampshire, the City and State Street Bank and Trust Company, as Trustee, as amended from time to time as permitted under the Resolution.

“Prior Bonds” shall mean the Business Finance Authority of the State of New Hampshire State Guaranteed Airport Revenue Bonds (Manchester Airport Project - Series 1992) issued in the initial aggregate principal amount of \$42,730,000.

“Pro Forma Bond Issue” shall mean, when used with reference to the Aggregate Debt Service Reserve Fund Requirement or the Subordinated Debt Service Reserve Fund Requirement in connection with a Series of Variable Rate Indebtedness, the hypothetical fixed rate long-term bond issue set forth in the Supplemental Resolution authorizing such Series, having (i) the same maturities (and sinking fund provisions, if any) as the Series of Variable Rate Indebtedness to which it relates and (ii) such interest rate or rates as the City shall reasonably deem to be the equivalent of the rates which would have been borne by such Series of Variable Rate Indebtedness if such Series had been issued as a Series of Fixed Rate Indebtedness; provided that such interest rate shall be not less than 80% of the “30-year revenue bond index” then most recently published by The Bond Buyer or, if such index is no longer published such other substantially comparable index as determined by the City with the approval of the Trustee.

“Project” shall mean any undertaking or other activity by or on behalf of the City to maintain, equip, improve or enlarge the Airport Property.

“Qualified Swap” shall mean 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 the calculation of Adjusted Debt Service or Required Debt Service Fund Deposits 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 City as a Qualified Swap with respect to such Bonds.

“Qualified Swap Provider” shall mean a financial institution whose senior long-term debt obligations, or whose obligations under any Qualified Swap are (i) guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated by each of S&P and Moody’s (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, by such Rating Agency in one of the three highest rating categories of each such Rating Agency, respectively, or (ii) fully secured by obligations described in clause (a) or (c) of the definition of Investment Securities which are (a) 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, (b) 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, (c) subject to a perfected first lien on behalf of the City, and (d) free and clear from all third-party liens.

“Rates and Charges” shall mean all charges, whether denominated as charges, fees, rates, rentals, assessments or otherwise, established by the Governing Body for the services provided by the Airport Property or for the use, lease or license of any portion thereof, including without limitation landing and parking fees and terminal and concession rents and charges.

“Rating Agencies” shall mean Moody’s, S&P and Fitch and their respective successors and assigns if such rating agencies are maintaining a rating on the Secured Bonds at the request of the City, and shall also include any other rating agency nationally recognized for skill and expertise in rating the credit of obligations such as the Secured Bonds and which is maintaining a rating on the Secured Bonds at the request of the City.

“Rebate Fund Requirement” means, as of any date of calculation, an amount equal to the aggregate of the amounts, if any, specified in each Supplemental Resolution authorizing the issuance of a Series of Indebtedness as the amount required to be maintained in the Rebate Fund with respect to such Indebtedness.

“Record Date” shall mean, unless otherwise determined by a Supplemental Resolution for a particular Series of Secured Indebtedness, the fifteenth day of the month immediately preceding any month in which there occurs a Payment Date.

“Redemption Price” shall mean, when used with respect to a Secured Bond or portion thereof, the principal amount thereof plus the applicable premium, if any, payable upon either optional or mandatory redemption thereof pursuant to the Resolution.

“Refundable Principal Installment” shall mean any Principal Installment for any Series of Bonds or Subordinated Bonds which the City intends to pay with proceeds of Refunding Secured Bonds or other moneys which are not Revenues and which shall have been identified as a Refundable Principal Installment in the Supplemental Resolution authorizing such Series of Bonds or Subordinated Bonds; provided, however, that such Principal Installment shall be a Refundable Principal Installment only until the date of adoption of the Rates and Charges for the Fiscal Year in which such Principal Installment comes due unless the City shall have delivered to the Trustee a certificate of an Authorized Representative to the effect either (i) that it has made provision for the payment of such Principal Installment from a source other than Revenues or (ii) that it expects to be able to issue Refunding Secured Bonds providing for the payment of such Principal Installment on or before the stated maturity date thereof.

“Refundable Principal Installment Pro Forma Interest Rate” shall mean, when used with reference to a Refundable Principal Installment, such hypothetical fixed interest rate as the City shall designate in the Supplemental Resolution authorizing such Refundable Principal Installment, based on then prevailing interest rates for obligations such as the Bonds or the Subordinated Bonds, as the case may be, to be the net interest cost which would have been borne by the Bonds or the Subordinated Bonds, as the case may be, constituting such Refundable Principal Installment if they had been payable on a level debt service basis over a period from the due date of such Refundable Principal Installment through the date identified in the Supplemental Resolution authorizing such Refundable Principal Installment.

“Refunding Secured Bond” shall mean any Secured Bond authenticated and delivered on original issuance pursuant to the Resolution for the purpose of refunding any Prior Bonds or any Outstanding Secured Bonds, or thereafter authenticated and delivered in lieu of or substitution for such Secured Bond pursuant to the Resolution.

“Regularly Scheduled Swap Payments” shall mean the regularly scheduled payments under the terms of a Swap which are due absent any termination, default or dispute in connection with such Swap.

“Reimbursement Obligation” shall mean the obligation of the City described in the Resolution to reimburse the issuer of a Credit Facility for amounts paid by such issuer thereunder together with interest thereon, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument.

“Renewal and Replacement Reserve Fund Requirement” shall mean \$250,000 for each Fiscal Year through the Fiscal Year ending June 30, 2002 and thereafter shall mean the amount shown on the Operating Budget then in effect as required to be the balance of the Renewal and Replacement Reserve Fund for the Fiscal Year.

“Required Debt Service Fund Deposits” shall mean for, any period of time, all deposits required to be made to the Principal and Interest Accounts of the Debt Service Fund for such period whether pursuant to the flow of funds provisions, application of investment earnings provisions (including earnings retained in the Debt Service

Fund pursuant to the Resolution) or any other provision of the Resolution; provided, however, that such deposits shall not include (a) amounts transferred or expected to be transferred from the Capitalized Interest Account, from interest or other investment earnings on the Project Fund (pursuant to the Resolution) or from amounts paid from other funds of the City that are not Revenues and are not transferred from other Funds or Accounts established under the Resolution or (b) amounts transferred or irrevocably committed by resolution or other action of the Governing Body to be transferred from the LOI Revenues Account or the PFC Revenues Account.

Notwithstanding the foregoing, (a) for purposes of computing the Required Debt Service Fund Deposits of Bonds which constitute Synthetic Fixed Rate Debt, the interest rate payable thereon shall, if the City so elects, be that rate as provided for by the terms of the Swap or the net interest rate payable pursuant to offsetting indices, as applicable, and (b) for purposes of computing the Required Debt Service Fund Deposits of Bonds with respect to which a Qualified Swap has been entered into whereby the City has agreed to pay the floating variable rate thereunder, if the City so elects, no fixed interest rate amounts payable on the Bonds to which such Swap pertains shall be included and the interest rate payable thereon shall be that rate as provided by the terms of the Swap, except that for any future period such rate shall be estimated in the manner provided for estimating interest on Variable Rate Indebtedness in the definition of “Debt Service” in the Resolution.

In addition, for purposes of computing the Required Debt Service Fund Deposits of any Series of Bonds as to which interest is deferred and compounded rather than being paid currently during any period of calculation required by the Resolution, such calculation shall be made as if interest on such Bonds accrued and was deemed paid at a rate determined on the date of such calculation by a nationally known investment banking firm selected by the City (which firm may be an owner or underwriter of any Bonds) to be the rate which, if earnings at such rate were compounded on the initial public sale price as set forth in the Supplemental Resolution authorizing such Bonds in the manner required by the terms of such Bonds through the maturity date or earlier date on which such compounding is scheduled to cease, would produce the amount of such Bonds scheduled to mature on such maturity date or the accrued value of such Bonds scheduled to exist on such earlier date, as the case may be. For purposes of computing Required Debt Service Fund Deposits at any time with respect to any such Series of Bonds then outstanding, such calculation shall be made in accordance with the provisions of the Supplemental Resolution authorizing the issuance of such Series of Bonds.

“Revenues” shall mean and include all receipts, revenues, rentals, investment earnings, income and other moneys received by or on behalf of the City from or in connection with the ownership or operation of all or any part of the Airport Property, whether existing at the date of adoption of the Resolution or thereafter coming into existence and whether held by the City at such date or thereafter acquired, including, without limitation, all tolls and charges, landing fees, terminal rentals, real property rentals, concession fees, parking receipts, interest income, proceeds of business interruption insurance and condemnation awards from temporary takings, but not including (i) proceeds of insurance (except business interruption insurance, if any) and of condemnation awards (except awards for temporary takings), (ii) proceeds of the sale of the Secured Bonds or any other Indebtedness, (iii) Grant Receipts, PFC Revenues or special deposits described in the Resolution, (iv) proceeds of the sale of any portion of the Airport Property permitted by the Resolution, (v) moneys derived from facilities financed with the proceeds of Indebtedness permitted under the Resolution to finance a facility for a particular person to the extent that such moneys are pledged to the payment of such Indebtedness under a separate resolution, indenture or other agreement of the City, (vi) interest income or other investment earnings on the Project Fund or the PFC Fund or (vii) any Swap Termination Payments paid to the City pursuant to a Swap; provided, that there shall be included in “Revenues” amounts transferred from the Revenue Credit Account to the Revenue Fund pursuant to the Resolution.

“Revenues Available for Bond Debt Service” shall mean, with respect to a twelve-month period, the difference of (a) Net Revenues for such period minus (b) the principal of and interest on the Prior Bonds required to be paid during such period (excluding any such amounts payable solely because of an optional redemption of Prior Bonds).

“Revenues Available for Subordinated Debt Service” shall mean with respect to a Fiscal Year, Revenues Available for Bond Debt Service less Required Debt Service Fund Deposits on all Series of Bonds Outstanding during such Fiscal Year.

“S&P” shall mean Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., and its successors.

“Secured Bonds” or “Secured Indebtedness” shall mean all Bonds and all Subordinated Bonds.

“Series” or “Series of Secured Bonds” shall mean all of the Secured Bonds or other Indebtedness authenticated and delivered on original issuance identified pursuant to the Supplemental Resolution authorizing such Secured Bonds or other Indebtedness as a separate Series of Secured Bonds or other Indebtedness and any Secured Bonds or other Indebtedness thereafter authenticated and delivered in lieu of or in substitution therefor regardless of variations in maturity, interest rate or other provisions.

“Series 1998 Bonds” means the City of Manchester, New Hampshire General Airport Revenue Bonds, Series 1998A (Non-AMT), Series 1998B (AMT) and Series 1998C (Federally Taxable) issued by the City on October 15, 1998.

“Sinking Fund Installment” shall mean, as of any particular date of calculation, the amount required by the Resolution or any Supplemental Resolution to be paid by the City on a future date for the retirement of the principal amount of Outstanding Bonds or Subordinated Bonds which are stated to mature subsequent to such future date, but does not include any amount payable by the City by reason only of the maturity of a Bond or Subordinated Bond.

“Special Indebtedness” shall mean Indebtedness not secured from or payable from Revenues and Indebtedness issued in anticipation of Revenues, each as permitted by the Resolution.

“Subordinated Bond Coverage Requirement” shall mean the requirement, if any, set forth in a Supplemental Resolution authorizing the issuance of a Series of Subordinated Bonds.

“Subordinated Bonds” shall mean bonds or indebtedness issued or incurred pursuant to the Resolution which have a lien subordinate to the lien of the Bonds on the Revenues and shall also mean any Subordinated Parity Bond Anticipation Notes and any Parity Reimbursement Obligation incurred with respect to Subordinated Bonds.

“Subordinated Debt Service Reserve Fund Requirement” shall mean the aggregate of the amounts, if any, required to be deposited in the Subordinated Debt Service Reserve Fund pursuant to all Supplemental Resolutions authorizing the issuance of Subordinated Bonds.

“Subordinated Parity Bond Anticipation Notes” shall mean Bond Anticipation Notes the interest on which is payable from and secured by a pledge of, and a lien on, the Revenues on a parity with the lien created by the Resolution to secure Subordinated Bonds.

“Supplemental Resolution” shall mean a resolution of the City authorizing the issuance of a Series of Bonds or Subordinated Bonds or otherwise amending or supplementing the Resolution, adopted in accordance with the Resolution.

“Swap” shall mean any financial arrangement between the City 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; and (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” shall mean a party to a Swap with the City.

“Swap Termination Payment” shall mean an amount payable to the City or a Swap Provider, in accordance with a Swap, to compensate the other party to the 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 Swap.

“Synthetic Fixed Rate Debt” means Indebtedness 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 such maturity or maturities, or (b) consists of an arrangement in which two inversely related variable-rate securities are issued in equal principal amounts with interest based on offsetting indices resulting in a combined payment which is economically equivalent to a fixed rate.

“Tax Exempt Indebtedness” shall mean Indebtedness the interest on which is excluded from gross income of the holder thereof for federal income tax purposes which was accompanied by a favorable Bond Counsel’s Opinion regarding such exclusion on the date of such Indebtedness.

“Tender Option Price” shall mean, with respect to any Option Bond tendered for purpose or payment in accordance with the Supplemental Resolution authorizing such Option Bond, an amount equal to the principal amount of such Option Bond.

“Variable Rate Indebtedness” shall mean, as of any date of determination, any Indebtedness on which the interest rate borne thereby may vary during any part of its remaining term. (Section 101)

### **The Pledge Effected by the Resolution**

(a) Under the Resolution, there are pledged for the payment of the Bonds, in accordance with their terms and the provisions of the Resolution, subject only to the prior pledge created by the Prior Bond Indenture and to the provisions of the Resolution permitting the application thereof for or to the purposes and on the terms and conditions therein set forth: (i) all Revenues and (ii) all moneys or securities in any of the Funds, Accounts and Subaccounts established under the Resolution (except the Revenue Fund, the Operating Fund, the Rebate Fund, the Note Payment Fund, the PFC Fund and the Subordinated Debt Service Reserve Fund) together with the investment earnings thereon except to the extent such earnings are required to be deposited in the Rebate Fund pursuant to a Supplemental Resolution.

(b) Subject only to the prior pledge created by the Prior Bond Indenture and to the prior pledge created for the payment of the Bonds as described in the preceding paragraph (a), and on the terms and conditions set forth therein with respect to such prior pledge, the property described in clauses (i) and (ii) of said paragraph (a) (except moneys or securities in the Debt Service Fund and the Debt Service Reserve Fund) and the Subordinated Debt Service Reserve Fund are further pledged under the Resolution to the payment of the Subordinated Bonds. (Section 501)

### **Conditions Precedent to Delivery of a Series of Bonds**

The Bonds of a Series shall be executed by the City for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the City or upon its order, but only upon the receipt by the Trustee of certain documents and opinions relating to such Bonds and:

(a) any Series of Refunding Secured Bonds issued as described under the heading “Conditions Precedent to Delivery of Refunding Secured Bonds”, any Series of Completion Secured Bonds with respect to which the conditions related in subsection (c) below are satisfied, or any Parity Bond Anticipation Notes,\

(i) a certificate of an Authorized Representative of the City, confirmed by the certificate of an Accountant, certifying that for any period of twelve consecutive months included wholly within the most recent period of 18 consecutive months preceding the date on which such Bonds are to be issued for which such information is available (A) Revenues Available for Bond Debt Service for such period of twelve consecutive months were at least equal to the sum of Required Debt Service Fund Deposits plus deposits required to be made under the

Resolution to the Debt Service Reserve Fund, the Subordinated Debt Service Fund, the Subordinated Debt Service Reserve Fund, the Operation and Maintenance Fund, the Renewal and Replacement Fund, the Insurance Fund and the Rebate Fund (excluding deposits to the Subordinated Debt Service Fund made from Capitalized Interest, interest or other earnings on the Project Fund, amounts paid from other funds of the City that are not Revenues and are not transferred from other Funds or Accounts established under the Resolution or amounts transferred from the PFC Revenues Account) for such twelve-month period and (B) the sum of Revenues Available for Bond Debt Service plus the Coverage Amount for such period of twelve consecutive months was at least equal to 125% of the Required Debt Service Fund Deposits on all then-outstanding Bonds for such twelve-month period; and

(i) either

(A) a certificate of an Authorized Representative of the City, confirmed by the certificate of an Accountant, certifying that for any period of twelve consecutive months included wholly within the most recent period of 18 consecutive months preceding the date on which such Bonds are to be issued for which such information is available, the sum of Revenues Available for Bond Debt Service plus the Coverage Amount for such period of twelve consecutive months was at least equal to 125% of maximum annual Adjusted Debt Service on all Outstanding Bonds after giving effect to the issuance of such Bonds (and to the refunding of any Prior Bonds or Bonds to be refunded from the proceeds thereof); provided, however, that solely for the purpose of making such certification (x) in computing the Adjusted Debt Service of Bonds which constitute Synthetic Fixed Rate Debt, the interest rate payable thereon shall, if the City so elects, be that rate as provided for by the terms of the Swap or the net interest rate payable pursuant to offsetting indices, as applicable, (y) in computing the Adjusted Debt Service of Bonds with reference to which a Qualified Swap has been entered into whereby the City has agreed to pay the floating variable rate thereunder, if the City so elects, no fixed interest rate amounts payable on the Bonds to which such Swap pertains shall be included and the interest rate payable thereon shall be that rate as provided by the terms of the Swap, except that for any future period such rate shall be estimated in the manner provided for estimating interest on Variable Rate Indebtedness in the definition of "Debt Service" in the Resolution, and (z) for purposes of computing the Adjusted Debt Service of any Series of Bonds as to which interest is deferred and compounded rather than being paid currently during any period of calculation required by the Resolution, such calculation shall be made as if interest on such Bonds accrued and was deemed paid at a rate determined on the date of such calculation by a nationally known investment banking firm selected by the City (which firm may be an owner or underwriter of any Bonds) to be the rate which, if earnings at such rate were compounded on the initial public sale price as set forth in the Supplemental Resolution authorizing such Bonds in the manner required by the terms of such Bonds through the maturity date or earlier date on which such compounding is scheduled to cease, would produce the amount of such Bonds scheduled to mature on such maturity date or the accrued value of such Bonds scheduled to exist on such earlier date, as the case may be (and for purposes of computing Adjusted Debt Service at any time with respect to any such Series of Bonds then outstanding, such calculation shall be made in accordance with the provisions of the

Supplemental Resolution authorizing the issuance of such Series of Bonds); or

- (B) a certificate of the Airport Consultant estimating that, for each Fiscal Year during the period commencing with (and including) the Fiscal Year in which such Bonds are to be issued and ending with (and including) the later of the fifth subsequent Fiscal Year or the second Fiscal Year following the date on which all Projects financed in whole or in part by such Bonds are estimated to have been completed and placed in operation, the requirements set forth in clauses (1) and (2) of the preceding subparagraph (i) shall be met, taking into account the particular Series of Bonds to be issued (and the refunding of any Prior Bonds or Bonds to be refunded from the proceeds thereof), such estimations to be based on estimates by the Independent Engineer of the cost to complete and the time for completion and initial operation of such Projects and to be after giving effect, among other factors as the Airport Consultant shall consider relevant, to any estimated increases in Operation and Maintenance Expenses and in Revenues as the result of the completion of such Projects or any portion thereof;

(b) a certificate of the Authorized Representative of the City, dated as of the date of such delivery, stating that there is no Event of Default by the City with respect to the performance of any of the covenants, conditions, agreements or provisions contained in the Resolution, provided, however, that the City need deliver no such certification with respect to compliance with covenants as to Rates and Charges for a Series of Refunding Secured Bonds issued as described under the heading “Conditions Precedent to Delivery of Refunding Secured Bonds”; and

(c) in the case of any Series of Completion Secured Bonds which are Bonds, a certificate of the Authorized Representative of the City, dated as of the date of such delivery, stating (i) that the aggregate principal amount of the Bonds of such Series does not exceed an amount equal to 15% of the aggregate principal amount of Bonds previously issued for a Project the Costs of completing which are to be paid from the proceeds of such Completion Secured Bonds and reasonably allocated to such Project, (ii) that all of the proceeds of such prior Bonds reasonably allocable to such Project have been or will be used to pay Costs of such Project, (iii) that the then estimated Costs of such Project exceed the sum of the Costs of such Project already paid plus moneys available in the Project Fund therefor (including unspent proceeds of such prior Bonds) and (iv) that the nature and purpose of such Project have not changed materially from those contemplated at the time of the issuance of the prior Bonds. (Section 206)

### **Conditions Precedent to Delivery of a Series of Subordinated Bonds**

The Subordinated Bonds of a Series shall be executed by the City for issuance and delivery to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the City or upon its order, but only upon the receipt by the Trustee of the items, opinions and certificates required by the provisions described under the heading “Conditions Precedent to Delivery of a Series of Bonds”, except for paragraphs (a) and (b) under such heading and by the Supplemental Resolution authorizing such Subordinated Bonds. (Section 206A)

### **Conditions Precedent to Delivery of Refunding Secured Bonds**

One or more Series of Refunding Secured Bonds may be issued pursuant to the Resolution at any time to refund any of the Prior Bonds or any Outstanding Secured Bonds provided that either (i), but only with respect to Bonds issued to refund Prior Bonds or Bonds, (A) Adjusted Debt Service on the Prior Bonds and the Bonds Outstanding immediately after the issuance of such Refunding Secured Bonds for each Fiscal Year shall be no greater than Adjusted Debt Service on the Prior Bonds and the Bonds Outstanding immediately prior to the issuance of such Refunding Secured Bonds and (B) the final maturity of all Bonds Outstanding immediately after the issuance of such Refunding Secured Bonds shall be no later than the final maturity of the Bonds Outstanding

immediately prior to the issuance of such Refunding Secured Bonds or (ii) the requirements described in paragraph (a) under the heading “Conditions Precedent to Delivery of a Series of Bonds”, or with respect to an issue of Subordinated Bonds, the requirements of any Supplemental Resolution with respect to the issuance of additional Subordinated Bonds, shall have been satisfied after giving effect to the proposed refunding, all as shown in a certificate signed by an Authorized Representative of the City (and, as to certain matters, a certificate of the Airport Consultant) and delivered to the Trustee prior to the authentication and delivery of such Series of Refunding Secured Bonds. Refunding Secured Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds, Accounts and Subaccounts required by the provisions of the Supplemental Resolution authorizing such Secured Bonds. (Section 207)

### **Bond Anticipation Notes**

Whenever the City shall authorize the issuance of a Series of Secured Bonds, the City may, by resolution, authorize the issuance of notes (and renewals thereof) in anticipation of such Secured Bonds. The principal of and interest on such notes and renewals thereof shall be payable from the proceeds of such notes or from the proceeds of the sale of the Series of Secured Bonds in anticipation of which such notes are issued. The proceeds of such Secured Bonds may be pledged for the payment of the principal of and interest on such notes and any such pledge shall have a priority over any other pledge of such proceeds created by the Resolution. The City may pledge the Revenues to the payment of the interest on such notes which pledge may be on a parity with the pledge securing all Bonds in which event such interest shall be payable from the Debt Service Fund. The City may also pledge the Revenues and moneys on deposit in the General Fund to the payment of the principal of such notes but such pledge shall be subordinate to the pledge securing the payment of the Secured Bonds. (Section 208)

### **Credit Facilities**

(a) In connection with the issuance of any Series of Secured Bonds hereunder, the City may obtain or cause to be obtained one or more Credit Facilities providing for payment of all or a portion of the Principal Installments, or Redemption Price or interest due or to become due on such Secured Bonds, providing for the purchase of such Secured Bonds by the issuer of such Credit Facility or providing funds for the purchase of such Secured Bonds by the City.

(b) The City may secure such Credit Facility by an agreement providing for the purchase of the Series of Secured Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified by the City in the applicable Supplemental Resolution. The City may also in an agreement with the issuer of such Credit Facility agree to directly reimburse such issuer for amounts paid under the terms of such Credit Facility, together with interest thereon (the “Reimbursement Obligation”); provided, however, that no Reimbursement Obligation shall be deemed to be Outstanding, for purposes of the Resolution, until amounts are paid under such Credit Facility. Any such Reimbursement Obligation may be secured by a pledge of, and a lien on, Revenues on a parity with the lien created by the Resolution (a “Parity Reimbursement Obligation”). Any such Parity Reimbursement Obligation shall be deemed to be a Secured Bond of the Series of Secured Bonds to which the Credit Facility which gave rise to such Parity Reimbursement Obligation related.

(c) Any such Credit Facility shall be for the benefit of and secure such Series of Secured Bonds or portion thereof as specified in the applicable Supplemental Resolution. (Section 209)

### **Establishment of Funds and Accounts**

(a) Pursuant to the Prior Bond Indenture, the City has established a Revenue Fund. The City hereby agrees to continue to maintain the Revenue Fund, regardless of any amendment or termination of the Prior Bond Indenture. Prior to the occurrence of an event of default under the Prior Bond Indenture or of any Event of Default hereunder, the Revenue Fund shall be under the exclusive control of the City.

(b) The following Funds and Accounts are established by the Resolution:

(i) Project Fund;

- (ii) Operating Fund;
- (iii) Debt Service Fund, containing a
  - (A) Principal Account;
  - (B) Interest Account;
  - (C) Redemption Account; and
  - (D) Capitalized Interest Account;
- (iv) Debt Service Reserve Fund containing a Common Account;
- (v) Subordinated Debt Service Fund, containing a
  - (A) Principal Account;
  - (B) Interest Account;
  - (C) Redemption Account; and
  - (D) Capitalized Interest Account;
- (vi) Subordinated Debt Service Reserve Fund containing a Common Account;
- (vii) Operation and Maintenance Reserve Fund;
- (viii) Renewal and Replacement Reserve Fund;
- (ix) Insurance Reserve Fund;
- (x) Rebate Fund;
- (xi) General Fund, containing a
  - (A) Coverage Account; and
  - (B) Revenue Credit Account;
- (xii) Note Payment Fund;
- (xiii) PFC Fund, containing a
  - (A) PFC Revenues Account; and
  - (B) PFC Project Account;
- (xiv) LOI Fund, containing a
  - (A) LOI Revenues Account; and
  - (B) LOI Project Account.

(c) Any Supplemental Resolution which provides for a Credit Facility to secure the payment of the Principal Installments of and interest on the Secured Bonds authorized thereby or to secure the payment of the Tender Option Price of any Option Bonds authorized thereby, may establish one or more “Special Accounts” in the Debt Service Reserve Fund or the Subordinated Debt Service Reserve Fund.

(d) The City or, at the request of the City, the Trustee shall establish within any Fund held by the City or the Trustee, as applicable, such Accounts as shall be designated in a Supplemental Resolution or in the written instructions of an Authorized Representative of the City and shall in like manner establish within any Fund or Account such Subaccounts as shall be so designated.

(e) Unless otherwise expressly provided in the Resolution, all of the Funds, Accounts and Subaccounts shall be held by the City, except that (1) the Debt Service Fund, the Subordinated Debt Service Fund, the Debt Service Reserve Fund, the Subordinated Debt Service Reserve Fund and the Note Payment Fund shall be held by the Trustee, (2) at the election of the City, any Fund initially held by the City or any Account or Subaccount therein may be transferred to the Trustee or any one or more Depositories on such terms and for so long as the City may determine and (3) the Project Fund shall be held by the Trustee or any one or more Depositories as the City may elect. (Section 502)

### **Project Fund**

There shall be deposited from time to time in the Project Fund (i) the proceeds of casualty insurance, contractors’ performance bonds and any condemnation, as determined by the City in accordance with the Resolution; (ii) the balance remaining of the proceeds of any Bond Anticipation Notes issued to pay the Costs of a Project after payment or provision for payment of such notes; (iii) any amounts required to be deposited therein pursuant to the Resolution or any Supplemental Resolution; (iv) any moneys transferred from the General Fund pursuant to the Resolution (which moneys shall be held separately from Subaccounts in the Project Fund holding proceeds of the sale of any Secured Bonds or any earnings thereon); and (v) any other amounts received by the City for or in connection with the Airport Property and determined by the City to be deposited in the Project Fund, which are not otherwise required to be applied in accordance with the Resolution. Except as otherwise provided under the heading “Priority of Funds in Event of Debt Service Fund Shortfall” or “Priority of Funds in Event of Subordinated Debt Service Fund Shortfall” or if investment earnings in the Project Fund are required to be transferred to the Rebate Fund, amounts in the Project Fund shall be expended only to pay Costs of a Project pursuant to requisitions filed in accordance with the Resolution and the applicable Supplemental Resolution. At any time from time to time the Trustee may transfer amounts on deposit therein between a particular Subaccount within the Project Fund and another Subaccount within the Project Fund upon receipt of a certificate of an Authorized Representative of the City requesting such transfer. If the City at any time cannot certify that it reasonably expects the moneys on deposit in any Subaccount of the Project Fund which constitute the proceeds of Tax Exempt Indebtedness to be expended for the Costs of a Project, then the moneys as to which the City cannot so certify shall be transferred to the Redemption Account and applied solely to the redemption of Secured Bonds of the Series to which such moneys relate on the first date on which such Secured Bonds may be called without premium (unless the City shall elect to call such Secured Bonds earlier at a premium). (Section 503)

### **Deposits of Revenues**

The City shall promptly deposit all Revenues in the Revenue Fund. There shall also be deposited into the Revenue Fund all other amounts required by the Resolution to be so deposited. (Section 504)

#### **Flow of Funds from the Revenue Fund**

(a) On the last Business Day of each month the City shall, after making any transfers required pursuant to the Prior Bond Indenture or the Prior Bond Guaranty or otherwise pursuant to the Resolution, from the available amounts on deposit in the Revenue Fund, make the following deposits in the following order:

- (i) To the Operating Fund, the amount necessary to make the amount on deposit therein equal to Operation and Maintenance Expenses for the next succeeding month, as shown on the Operating Budget.
- (ii) To the Debt Service Fund:
  - (A) on a pro rata basis the amount necessary to make up any deficiency in any Subaccount resulting from an increase in the applicable interest rate on any Variable Rate Bonds over the rate which was assumed in calculating the amount required for a prior deposit pursuant to the Resolution;
  - (B) on a pro rata basis to each Subaccount of the Interest Account, after taking into account any available moneys in the corresponding Subaccount of the Capitalized Interest Account, if any, the amount necessary to increase the amount on deposit in each such Subaccount so that it equals interest included in Adjusted Debt Service next coming due on Outstanding Bonds of the applicable Series accrued and unpaid and to accrue to and including the last day of the next succeeding month (assuming, in the case of Variable Rate Bonds, no further adjustments in the applicable interest rate);
  - (C) on a pro rata basis to each Subaccount of the Principal Account the amount necessary to increase the amount on deposit in each such Subaccount so that it equals that portion of the Principal Installment included in Adjusted Debt Service next coming due on Outstanding Bonds of the applicable Series accrued and unpaid and to accrue (assuming such Principal Installment accrues on the same basis as simple interest on a debt) to and including the last day of the next succeeding month; provided, however, that no deposit shall be required to be made with respect to a Bond prior to twelve months before the next Principal Installment coming due on such Bond; and
  - (D) on a pro rata basis to each Subaccount of the Redemption Account the amount, if any, necessary to increase the amount on deposit in each Subaccount so that it equals the Redemption Price of Outstanding Bonds of the applicable Series then called for redemption (other than from Sinking Fund Installments) as of any date on or prior to last day of the next succeeding month, after taking into account amounts on deposit in the applicable Subaccount within the Principal Account, if any, available to pay such Bonds called for redemption.

The City shall not be required to make any payments into the Debt Service Fund when the aggregate amount of money in the Debt Service Fund and the Debt Service Reserve Fund is at least equal to the amount required to defease the lien of the Resolution granted to secure payment of Bonds pursuant to the Resolution.

- (iii) To the Debt Service Reserve Fund,
  - (A) to the Common Account therein one-twelfth (1/12) the amount, if any, necessary to increase the amount on deposit therein, determined as of the first day of the Fiscal Year, to an amount equal to the Aggregate Debt Service Reserve Fund Requirement (provided that no such deposit shall be required in a Fiscal Year following the funding of the Common Account in connection with the issuance of a Series of Bonds pursuant to the Resolution); and

(B) to each such Special Account the deposit required by any Supplemental Resolution.

(iv) To the Subordinated Debt Service Fund, deposits determined with respect to Subordinated Bonds in the same manner as the deposits set forth in clause (ii) above with respect to the Bonds:

The City shall not be required to make any payments into the Subordinated Debt Service Fund when the aggregate amount of money in the Debt Service Fund and the Debt Service Reserve Fund is at least equal to the amount required to defease the lien of the Resolution granted to secure payment of Bonds and when the aggregate amount of money in the Subordinated Debt Service Fund and the Subordinated Debt Service Reserve Fund is at least equal to the amount required to defease the lien of the Resolution granted to secure payment of Subordinated Bonds, all pursuant to the provisions described under the heading "Defeasance".

(v) To the Subordinated Debt Service Reserve Fund:

(A) to the Common Account therein or to each Series Subaccount thereof the amount, if any, necessary to increase the amount on deposit in such Account or Subaccount, as the case may be, to the level required by any Supplemental Resolution; and

(B) to each such Special Account the deposit required by any Supplemental Resolution.

(vi) To the Operation and Maintenance Reserve Fund, the amount necessary to make the amount on deposit therein equal to Operation and Maintenance Expenses for three consecutive months following the next succeeding month, as shown on the Operating Budget.

(vii) To the Renewal and Replacement Reserve Fund, one-twelfth of the difference between the amount on deposit in such Fund on the first day of the current Fiscal Year and the Renewal and Replacement Reserve Requirement for the current Fiscal Year.

(viii) To the Insurance Reserve Fund, one-twelfth of the difference between the amount on deposit in such Fund on the first day of the current Fiscal Year and the Insurance Reserve Fund Requirement for the current Fiscal Year.

(ix) To the Rebate Fund, the amount necessary to make the amount on deposit therein equal to the Rebate Fund Requirement, if any, determined in accordance with the applicable Supplemental Resolution.

(x) Subject to the provisions described in paragraph (b) below, to the General Fund, any moneys remaining after making the deposits set forth above.

(b) On any day on which deposits are to be made as described in paragraph (a) above, after making the deposits required by subparagraphs (i) through (ix) of paragraph (a), the City may retain all or any portion of the remaining moneys in the Revenue Fund to provide additional moneys for deposits required under paragraph (a) during the next month or thereafter; provided, however, in the event that certain Swap Termination Payments are due and owing the City will not retain all or any portion of such remaining moneys. (Section 505)

## **Operating Fund**

The Operating Fund shall be established as one or more accounts with one or more banks or trust companies, as the City shall determine. Moneys held in the Operating Fund shall be applied by the City to the

payment of Operation and Maintenance Expenses in accordance with the Operating Budget. Moneys in the Revenue Fund shall be deposited into the Operating Fund pursuant to the Resolution, and from time to time moneys on deposit in the Operation and Maintenance Reserve Fund may be deposited into the Operating Fund pursuant to the Resolution. (Section 506)

### **Debt Service Fund**

(a) The Trustee shall, for each Series of Bonds Outstanding, pay (i) on each Payment Date with respect to a Series of Bonds, from the moneys on deposit in the applicable Subaccounts within the Principal Account and Interest Account of the Debt Service Fund the amounts required for the payment of the Principal Installments and for the payment of interest, respectively, due on such Payment Date; (ii) on any redemption date other than for sinking fund redemption, from the applicable Subaccounts within the Interest Account and Redemption Account of the Debt Service Fund the amounts required for the payment of accrued interest and for the payment of principal of and premium, if any, respectively, on Bonds to be redeemed; and (iii) on any date of purchase from the applicable Subaccounts within the Principal Account of the Debt Service Fund and Interest Account of the Debt Service Fund, the amounts required for the payment of principal and interest, respectively, on Bonds to be purchased to the extent sufficient amounts are not available therefor under a Credit Facility in accordance with the applicable Supplemental Resolution.

(b) The amounts accumulated in the applicable Subaccount within the Principal Account of the Debt Service Fund for each Sinking Fund Installment shall, at the direction of an Authorized Representative of the City, be applied (together with amounts in the applicable Subaccount within the Interest Account of the Debt Service Fund with respect to interest on the Bonds for which such Sinking Fund Installment was established) by the Trustee prior to the 45th day preceding the due date of such Sinking Fund Installment as follows:

- (1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Installment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price payable for such Bonds when such Bonds are redeemable by application of such Sinking Fund Installment plus unpaid interest accrued to the date of purchase; or
- (2) to the redemption of such Bonds, if then redeemable by their terms, at or below the Redemption Price referred to in clause (1) above;

provided, however, that the Trustee shall not call for redemption or purchase any Bonds as described in this paragraph (b) which have already been called for redemption pursuant to the provisions of the Resolution.

(c) Upon the purchase or redemption of any Bond pursuant to paragraph (b) above, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Installment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Installment shall be credited against future Sinking Fund Installments in direct chronological order.

(d) As soon as practicable after the 45th day preceding the due date of any such Sinking Fund Installment, the City shall proceed to call for redemption, pursuant to the Resolution, on such due date Bonds of the Series and maturity for which such Sinking Fund Installment was established in the amount of such Sinking Fund Installment. The Trustees shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service Fund sufficient to pay the applicable Redemption Price thereof on the redemption date. (Section 507)

### **Priority of Funds in Event of Debt Service Fund Shortfall**

If on any Bond Payment Date there shall be insufficient moneys available in the applicable Subaccount within the applicable Account in the Debt Service Fund to provide for payment of the Principal Installments of or interest on any Series of Bonds then due, after drawing any moneys available for such purpose from any applicable Credit Facility or Special Account in the Debt Service Reserve Fund, the City or, as the case may be, the Trustee

shall withdraw and apply the necessary moneys to provide for such insufficiency from the following Funds and Accounts in the following order: (i) amounts in the Redemption Account not yet committed to the redemption of Bonds, (ii) the General Fund, (iii) the Subordinated Debt Service Fund, (iv) the Common Account in the Debt Service Reserve Fund, (v) the Insurance Reserve Fund, (vi) the Renewal and Replacement Reserve Fund and (vii) the Project Fund. (Section 507(e))

### **Debt Service Reserve Fund**

(a) Amounts on deposit in the Common Account in the Debt Service Reserve Fund shall be applied, to the extent other funds are not available therefor pursuant to the Resolution, solely to pay the Principal Installments of and interest on the Bonds when due. Amounts on deposit in each of the Special Accounts in the Debt Service Reserve Fund shall be applied, to the extent other funds are not available therefor pursuant to the Resolution, solely to pay the Principal Installments of and interest on the Bonds of the Series to which such Special Account relates as and when specified in the applicable Supplemental Resolution.

(b) On each June 30 any excess in the Common Account over the Aggregate Debt Service Reserve Fund Requirement and any excess in any Special Account over its requirement under the applicable Supplemental Resolution shall be deposited into the Debt Service Fund.

(c) Whenever the amount (exclusive of Financial Guaranties) in all of the Accounts in the Debt Service Reserve Fund, together with the amount in the Debt Service Fund, is sufficient to pay all Outstanding Series of Bonds in accordance with their respective terms, the funds on deposit in the Debt Service Reserve Fund shall be transferred to the Debt Service Fund and applied to the redemption or payment at maturity of all Bonds Outstanding.

(d) In lieu of the required deposits and transfers to any Account in the Debt Service Reserve Fund or any portion thereof, the City may cause to be deposited in any such Account Financial Guaranties. The Financial Guaranties shall be payable (upon the giving of notice as required under the Resolution) on any date on which moneys will be required to be withdrawn from the applicable Account in the Debt Service Reserve Fund and applied to the payment of a Principal Installments of or interest on any Bonds and such withdrawal cannot be met by moneys on deposit in the applicable Account. If a disbursement is made pursuant to Financial Guaranties, the City shall be obligated either (i) to reinstate the maximum limits of such Financial Guaranties or (ii) to deposit into the applicable Account, funds in the amount of the disbursement made under such Financial Guaranties, or a combination of such alternatives, as shall provide that the amount in such Account equals the applicable Requirement.

(e) In the event of the refunding of any Bonds, the Trustee shall, upon the written direction of the City, withdraw from the Subaccount and Account related to the Bonds to be refunded all or any portion of the amounts accumulated therein with respect to the Bonds to be refunded and deposit such amounts as provided in such written direction; provided that such withdrawal shall not be made unless (i) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to the Resolution, and (ii) after giving effect to any amounts being simultaneously deposited therein, the amount remaining in each Account after such withdrawal shall not be less than the applicable Requirement. (Section 508)

### **Subordinated Debt Service Fund**

(a) The Trustee shall, for each Series of Subordinated Bonds Outstanding, make payments similar to those set forth with respect to Bonds under the heading "Debt Service Fund". The Trustee shall also apply moneys in the Subordinated Debt Service Fund as set forth under the heading "Priority of Funds in Event of Debt Service Fund Shortfall". Moneys in the Subordinated Debt Service Fund shall also be transferred to the Note Payment Fund and applied to the payment of interest on notes issued pursuant to the terms described under the heading "Bond Anticipation Notes" to the extent provided in any Supplemental Resolution authorizing such notes.

(b) The amounts accumulated in the applicable Subaccount within the Principal Account of the Subordinated Debt Service Fund for each Sinking Fund Installment may be applied (together with amounts in the applicable Subaccount within the Interest Account of the Subordinated Debt Service Fund with respect to interest on

the Subordinated Bonds for which such Sinking Fund Installment was established) by the Trustee to the purchase or redemption of Subordinated Bonds of the Series and maturity for which such Sinking Fund Installment was established in the same manner as moneys in the Debt Service Fund may be applied to Bonds as set forth in paragraph (b) under the heading "Debt Service Fund". Upon such purchase or redemption, an amount equal to the principal amount of the Subordinated Bond so purchased or redeemed shall be credited toward the next Sinking Fund Installment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Installment shall be credited against future Sinking Fund Installments in direct chronological order.

(c) As soon as practicable after the 45th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption on such due date Subordinated Bonds of the Series and maturity for which such Sinking Fund Installment was established in the amount of such Sinking Fund Installment. The Trustee shall so call such Subordinated Bonds for redemption whether or not it then has moneys in the Subordinated Debt Service Fund sufficient to pay the applicable Redemption Price thereof on the redemption date. (Section 509)

### **Priority of Funds in Event of Subordinated Debt Service Fund Shortfall**

If on any Subordinated Bond Payment Date there shall be insufficient moneys available in the applicable Subaccount within the applicable Account in the Subordinated Debt Service Fund to provide for payment of the Principal Installments of or interest on any Series of Subordinated Bonds then due, after drawing any moneys available for such purpose from any applicable Credit Facility or Special Account in the Subordinated Debt Service Reserve Fund, subject to any transfers to be made on such date pursuant to the terms described under the heading "Priority of Funds in Event of Debt Service Fund Shortfall", the City or, as the case may be, the Trustee shall withdraw and apply the necessary moneys to provide for such insufficiency from the following Funds and Accounts in the following order: (i) amounts in the Redemption Account of the Subordinated Debt Service Fund not yet committed to the redemption of Bonds, (ii) the General Fund (excluding the Coverage Account and Revenue Credit Account) and (iii) the Common Account in the Subordinated Debt Service Reserve Fund. (Section 509(e))

### **Subordinated Debt Service Reserve Fund**

Moneys in the Subordinated Debt Service Reserve Fund shall be applied to the payment of Subordinated Bonds in a manner similar to the application of moneys in the Debt Service Reserve Fund to payment of Bonds. (Section 510)

### **Operation and Maintenance Reserve Fund**

(a) Moneys in the Operation and Maintenance Reserve Fund shall be transferred to the Operating Fund to be applied to the payment of Operation and Maintenance Expenses upon delivery to the Trustee of a certificate of an Authorized Representative of the City to the effect that moneys on deposit in the Operating Fund are insufficient therefor. The City shall also apply moneys in the Operation and Maintenance Reserve Fund as set forth under the heading "Priority of Funds in Event of Debt Service Fund Shortfall".

(b) if on any day on which a transfer from the Revenue Fund is required pursuant to the Resolution, Revenues are insufficient to make the deposits to the Operation and Maintenance Reserve Fund required by the Resolution, or if on any date the City delivers a certificate to the Trustee to the effect that moneys in the Operating Fund and the Operation and Maintenance Reserve Fund are insufficient to meet Operation and Maintenance Expenses then due and payable then, subject to any transfers to be made on such date as described under the heading "Priority of Funds in Event of Debt Service Fund Shortfall", the Trustee shall withdraw and apply the necessary moneys to provide for such insufficiency from the following Funds and Accounts in the following order: (i) the General Fund; (ii) the Insurance Reserve Fund; and (iii) the Renewal and Replacement Reserve Fund.

(c) If on any June 30, or if such day is not a Business Day, on the next preceding Business Day, the amount on deposit in the Operation and Maintenance Reserve Fund is in excess of the Operation and Maintenance

Expenses for the next succeeding August, September and October, as shown on the Operating Budget, such excess shall be transferred to the Revenue Fund. (Section 511)

### **Renewal and Replacement Reserve Fund**

(a) Moneys in the Renewal and Replacement Reserve Fund shall be applied as provided in the Resolution to the Cost of any Capital Improvement which is not provided for by moneys available in the Project Fund, the General Fund or the Operating Fund, including without limitation the costs of unanticipated or emergency repairs or replacements of any part of the Airport Property which are properly chargeable to plant or property accounts under generally accepted accounting principles. The City shall also apply moneys in the Renewal and Replacement Reserve Fund as set forth under the heading "Priority of Funds in Event of Debt Service Fund Shortfall".

(b) If on any day on which a transfer from the Revenue Fund is required pursuant to the Resolution, Revenues are insufficient to make the deposits to the Renewal and Replacement Reserve Fund required by the Resolution, or if on any date the City delivers a certificate to the Trustee to the effect that moneys in the Renewal and Replacement Reserve Fund are insufficient to meet the Costs of a Capital Improvement to be funded therefrom pursuant to the Resolution then due and payable then, subject to any transfers to be made on such date as described under the heading "Priority of Funds in Event of Debt Service Fund Shortfall", the City shall withdraw and apply the necessary moneys to provide for such insufficiency from the General Fund.

(c) If on any June 30, or, if such day is not a Business Day, on the next preceding Business Day, the amount on deposit in the Renewal and Replacement Fund is in excess of the Renewal and Replacement Reserve Fund Requirement for the Fiscal Year then ending, such excess shall be transferred to the Revenue Fund or shall be retained in the Renewal and Replacement Reserve Fund upon the delivery of a certificate of an Authorized Representative of the City to the effect that such amounts being retained are necessary to meet the Costs of Capital Improvements properly payable from such Fund in accordance with the Resolution. (Section 512)

### **Insurance Reserve Fund**

(a) Moneys in the Insurance Reserve Fund may be applied by the City only to the purpose and in the manner provided for the proceeds of insurance set forth in the Resolution. The City shall also apply moneys in the Insurance Reserve Fund as set forth under the heading "Priority of Funds in Event of Debt Service Fund Shortfall".

(b) If on any day on which a transfer from the Revenue Fund is required pursuant to the Resolution, Revenues are insufficient to make the deposits to the Insurance Reserve Fund required by such Section, or if on any date the City delivers a certificate to the Trustee to the effect that moneys in the Insurance Reserve Fund are insufficient to meet claims properly payable from such Fund then due and payable then, subject to any transfers to be made on such date as described under the heading "Priority of Funds in Event of Debt Service Fund Shortfall", the Trustee shall withdraw and apply the necessary moneys to provide for such insufficiency from the General Fund.

(c) If on any June 30, or, if such day is not a Business Day, on the next preceding Business Day, the amount on deposit in the Insurance Reserve Fund is in excess of the Insurance Reserve Fund Requirement, such excess shall be transferred to the Revenue Fund.

(d) The City shall review the sufficiency of the Insurance Reserve Fund Requirement annually and no later than 120 days after the end of each Fiscal Year shall deliver to the Trustee a certificate of an Authorized Representative setting forth the Insurance Reserve Fund Requirement for the next ensuing Fiscal Year. Notwithstanding the foregoing provision, the initial Insurance Reserve Fund Requirement shall be zero. Each third Fiscal Year following the delivery of the initial Series of Bonds issued hereunder, the City shall cause the Independent Engineer or an insurance consultant to review the adequacy of the Insurance Reserve Fund and the Insurance Reserve Fund Requirement and the policies of insurance then maintained by the City, and to deliver a report thereon to the City and the Trustee. (Section 513)

## **General Fund**

(a) Moneys shall be deposited in the Coverage Account of the General Fund to the extent that the City is obligated, pursuant to contractual arrangements with users of the Airport Property or otherwise, to fund such Account and to such additional extent as the Governing Body from time to time shall determine. Subject to the requirements of any such contractual arrangements, the City may withdraw moneys from the Coverage Account from time to time. Such moneys also shall be subject to application as described in paragraph (d) below.

(b) Moneys shall be deposited in the Revenue Credit Account of the General Fund to the extent that the City is obligated, pursuant to contractual arrangements with users of the Airport Property or otherwise, to apply such moneys against the obligation of such users to make future payments of the Rates and Charges to the City. Not later than the 181st day of each Fiscal Year in which such credits are to be afforded to users of the Airport Property, the portion of the moneys in the Revenue Credit Account corresponding to such credits will be transferred to the Revenue Account.

(c) Moneys in the General Fund may be disbursed for any lawful purpose relating to the Airport Property, including without limitation, by way of transfer to any Fund or Account established pursuant to the Resolution or any Supplemental Resolution. Moneys in the General Fund shall also be transferred to the Note Payment Fund and applied to the payment of principal of and interest on notes issued pursuant to the terms described under the heading "Bond Anticipation Notes" to the extent provided in any Supplemental Resolution authorizing such notes. For all purposes of the General Resolution, any obligation incurred by the City for any lawful purpose relating to the Airport Property, including the obligation to pay any Swap Termination Payment, may be paid from amounts to be deposited to the General Fund prior to making any deposits in any account in the General Fund.

(d) The City shall also apply moneys in the General Fund as set forth under the headings "Priority of Funds in Event of Debt Service Fund Shortfall" and "Priority of Funds in Event of Subordinated Debt Service Fund Shortfall", in paragraph (b) under the heading "Renewal and Replacement Reserve Fund" and in paragraph (b) under the heading "Insurance Reserve Fund".

(e) The City may deposit to the credit of the General Fund any sum received by the City with respect to the Airport Property from any source for any purpose for which the moneys held for the credit of the General Fund may be disbursed.

(f) If then permitted by law, moneys held for the credit of the General Fund (or any portion thereof) may be pledged by the City to the payment of the principal of and interest on any notes or other obligations issued by the City for any purpose for which the moneys held to the credit of the General Fund may be disbursed. (Section 514)

## **Note Payment Fund**

(a) The City shall deposit into a separate account of the Note Payment Fund the proceeds of any Secured Bonds issued to provide for the payment of Bond Anticipation Notes of the City as directed by the Supplemental Resolution for such Secured Bonds and shall deposit amounts transferred as described in paragraph (a) under the heading "Subordinated Debt Service Fund", paragraph (c) under the heading "General Fund" and in paragraph (b) under the heading "PFC Fund".

(b) Moneys on deposit in a subaccount of the Note Payment Fund shall be applied to the payment of the Bond Anticipation Notes with respect to which such subaccount was established upon receipt by the City of a certificate of the Trustee as required by the Resolution. Any moneys remaining in a subaccount of the Note Payment Fund after payment of the Bond Anticipation Notes with respect to which such account was established shall be transferred to and deposited in a separate subaccount established within the Project Fund. (Section 515)

## **PFC Fund**

(a) The City shall deposit into the PFC Revenues Account of the PFC Fund, promptly upon their receipt by the City, all PFC Revenues, including without limitation all investment earnings on the PFC Revenues Account and all other Accounts established within the PFC Fund.

(b) On the last Business Day of each month the City shall transfer from the PFC Revenues Account the following amounts:

- (i) To the Debt Service Fund, such portion of the amount required to be deposited therein pursuant to the Resolution as the City shall elect, provided that the amount so transferred shall not exceed the portion of the deposit requirement which represents principal of and interest on PFC-approved Secured Bonds which are Bonds and provided further that the amount so transferred shall not be less than the amount, if any, provided in the current operating Budget.
- (ii) To the Subordinated Debt Service Fund, such portion of the amount required to be deposited therein pursuant to the Resolution as the City shall elect, provided that the amount so transferred shall not exceed the portion of the deposit requirement which represents principal of and interest on PFC-approved Secured Bonds which are Subordinated Bonds and provided further that the amount so transferred shall not be less than the amount, if any, provided in the current Operating Budget.
- (iii) To the extent provided in any Supplemental Resolution authorizing notes issued pursuant to the terms described under the heading "Bond Anticipation Notes", to the Note Payment Fund to pay interest on such notes which are PFC-approved Secured Bonds.

Any PFC Revenues not so transferred may be transferred, at the election of the City, to the PFC Project Account or to such other Account within the PFC Fund as the City may determine in conformity with federal statutes and regulations governing the use of the PFC Revenues.

(c) Funds on deposit in the PFC Project Account shall be applied by the City to the costs of Projects authorized to be financed from PFC Revenues.

(d) In addition, funds on deposit in the PFC Project Account and any additional Accounts established within the PFC Fund may be transferred or applied as the City shall determine in conformity with applicable law. (Section 516)

## **LOI Fund**

(a) The City shall deposit into the LOI Revenues Account of the LOI Fund, promptly upon their receipt by the City, all LOI Revenues, including without limitation all investment earnings on the LOI Revenues Account and all other Accounts established within the LOI Fund.

(b) On the last Business Day of each month the City shall transfer from the LOI Revenues Account the following amounts:

- (i) To the Debt Service Fund, such portion of the amount required to be deposited therein pursuant to Section 505(a)(ii) of the Resolution as the City shall elect, provided that the amount so transferred shall not exceed the amount permitted by applicable law and provided further that the amount so transferred shall not be less than the amount, if any, provided in the current Operating Budget of the City.

- (ii) To the Subordinated Debt Service Fund, such portion of the amount required to be deposited therein pursuant to Section 505(a)(iv) of the Resolution as the City shall elect, provided that the amount so transferred shall not exceed the amount permitted by applicable law and provided further that the amount so transferred shall not be less than the amount, if any, provided in the current Operating Budget of the City.
- (iii) To the extent provided in any Supplemental Resolution authorizing notes issued pursuant to Section 208 of the Resolution, to the Note Payment Fund to pay interest on such notes which are LOI approved Secured Bonds.

Any LOI Revenues not so transferred may be transferred, at the election of the City, to the LOI Project Account or to such other Account within the LOI Fund as the City may determine in conformity with federal statutes and regulations governing the use of the LOI Revenues.

(c) Funds on deposit in the LOI Project Account shall be applied by the City to the costs of Projects authorized to be financed from LOI Revenues.

(d) In addition, funds on deposit in the LOI Project Account and any additional Accounts established within the LOI Fund may be transferred or applied as the City shall determine in conformity with applicable law. (Section 516A)

### **Depositories**

All moneys or securities held by the City or the Trustee under the provisions of the Resolution shall constitute trust funds. The City may and the Trustee may (and shall, if directed in writing by an Authorized Representative of the City) deposit such moneys or securities with one or more Depositories in trust for the City or the Trustee, as the case may be. All moneys or securities deposited under the provisions of the Resolution with the Trustee or any Depository shall be held in trust and applied only in accordance with the provisions of the Resolution, and each of such Funds established by the Resolution shall be a trust fund for the purposes thereof. Each Depository holding moneys or securities in trust for the City or the Trustee shall be a bank or trust company organized under the laws of a state of the United States of America or a national banking association organized under the laws of the United States of America, having capital stock, surplus and undivided earnings aggregating at least \$100,000,000 (or such greater amount as set forth in a Supplemental Resolution) and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Resolution. (Section 517)

### **Investment of Certain Funds**

(a) Moneys held in the Debt Service Fund, the Subordinated Debt Service Fund, and the Note Payment Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities of the type described in clause (a), (b), (c), (d), (f), (h), (i) or (j) of the definition of Investment Securities in the Resolution. Moneys held in the Debt Service Reserve Fund and the Subordinated Debt Service Reserve Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities of the type described in clause (a), (b), (c), (d), (f), (h) or (i) of the definition of Investment Securities which mature not later than 15 years from the date of such investment; provided that such maturities shall not exceed five years from the date of investment except with the written approval of the Series 1998 Bonds bond insurer. Moneys held in any other Fund or Account established under the Resolution may be invested and reinvested in any Investment Securities. The Trustee shall make all such investments of moneys held by it in accordance with written instructions from any Authorized Representative of the City, which may for this purpose include one or more investment advisors designated in writing by such Representative from time to time. In making any investment in any Investment Securities with moneys in any Fund or Account established under the Resolution, the City may, and may instruct the Trustee to, combine such moneys with moneys in any other Fund or Account, but solely for purposes of making such investment in such Investment Securities.

(b) Interest and other investment earnings on any moneys or investment in the Funds and Accounts, other than the Project Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Subordinated Debt Service Fund, the Subordinated Debt Service Reserve Fund, the Note Payment Fund and the PFC Fund, shall be paid into the Revenue Fund on the last Business Day of each month. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Debt Service Fund, the Subordinated Debt Service Fund, the Note Payment Fund and the PFC Fund shall be retained in the Fund in which such earnings accrued. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Project Fund shall be paid, on the last Business Day of each month, to the related Subaccounts of the Debt Service Fund (or the Subordinated Debt Service Fund if so specified in the applicable Supplemental Resolution) first to the Interest Account and second to the Principal Account; provided, however, that the City may from time to time direct that all or a portion of such earnings may be retained in the Project Fund for any period of time. Earnings retained in the Project Fund will not be included in the calculation of Revenues Available for Bond Debt Service. Interest and other investment earnings on any moneys or investments in the Debt Service Reserve Fund shall be paid, on the last Business Day of each month, first to the Interest Account of the Debt Service Fund and second to the Principal Account of the Debt Service Fund, and interest and any other investment earnings on the Subordinated Debt Service Reserve Fund shall be paid on the last Business Day of each month first to the Interest Account of the Subordinated Debt Service Fund and second to the Principal Account of the Debt Service Fund or the Subordinated Debt Service Fund; provided, however, that the City may direct that investment earnings on any moneys or investments in the Debt Service Reserve Fund or the Subordinated Debt Service Reserve Fund may be deposited for such period of time as the City may determine in the Revenue Fund or the Project Fund if the City shall obtain a Bond Counsel's Opinion to the effect that such application of earnings shall not adversely affect the exclusion of interest on any Tax Exempt Indebtedness from gross income of the holder for federal income tax purposes. For purposes of this paragraph, interest shall not include the return of accrued interest paid in connection with the purchase of any investment.

(c) Notwithstanding the foregoing, the City may direct that investment earnings reasonably expected to be subject to the requirements of section 148(f) of the Code or the Treasury Regulations applicable thereto may be deposited directly to the Rebate Fund to the extent desirable to comply with the requirements of section 148(f) of the Code or the Treasury Regulations applicable thereto. (Section 519)

### **Valuation and Sale of Investments**

Obligations purchased as an investment of moneys in any Fund created under the provisions of the Resolution shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to such Fund.

In computing the amount in any Fund created under the provisions of the Resolution for any purpose provided in the Resolution, obligations purchased as an investment of moneys therein shall be valued at the amortized cost of such obligations or the market value thereof, whichever is lower. Any deficiency resulting from a decrease in the valuation of investments held in the Debt Service Reserve Fund may be disregarded for purposes of calculating deposits required from the Revenue Fund (but not for purposes of deposits required to make the amount on deposit in the Common Account upon each sale of Bonds equal to the Aggregate Debt Service Reserve Fund Requirement) provided that the amount on deposit in the Debt Service Reserve Fund is at least 95% of the Aggregate Debt Service Reserve Fund Requirement. The accrued interest paid in connection with the purchase of any obligation shall be included in the value thereof until interest on such obligation is paid. Such computation shall be made annually on June 30 for all Funds and at such other times as the City shall determine or as may be required by the Resolution. (Section 520)

### **Rebate Fund**

Upon the issuance, sale and delivery of any Series of Indebtedness subject to the Rebate Fund Requirement, the Trustee shall establish a separate account within the Rebate Fund for such Series. Funds on deposit in the Rebate Fund shall be applied as set forth in the applicable Supplemental Resolution. Unless otherwise

specified in the applicable Supplemental Resolution, interest or other income derived from the investment or deposit of moneys in the Rebate Fund shall be transferred to the Revenue Fund. (Section 521)

### **Holding of Special Deposits**

Except as otherwise provided in any Supplemental Resolution, (i) any Grant Receipts held by or for the account of the City in connection with the Airport Property which are required to be applied under the terms of the applicable Grant Agreement directly to the payment of Costs of acquisition, construction or alteration of a Project which is the subject of such Grant Agreement, (ii) any Grant Receipts or other moneys which have been pledged to the payment of any Special Indebtedness issued as described in paragraph (b)(i) or (iii) or (c) under the heading "Indebtedness and Liens" (including, without limitation, proceeds of any such Indebtedness) and (iii) any moneys which are subject to refund by the City or held for the account of others including, without limitation, any amounts which, under any agreement by the City providing for adequate separation of such amounts from Revenues, are collected by the City on behalf of others for services rendered or commodities provided to users or customers of the Airport Property, any amounts deducted by the City from wage and salary payments to the employees of the City, any amounts contributed by the City to any pension or retirement fund or system which amounts are held in trust for the benefit of the employees of the City and any amounts held as deposits, together with any investments of such Grant Receipts or other moneys and interest and profits thereon to the extent such interest and profits are also pledged, segregated or held for the account of others or subject to refund to others, may be held by the City in such manner and in such depositories or accounts, outside of the various Funds and Accounts established by the Resolution, as the City may otherwise by resolution provide. At the election of the City such Grant Receipts and other moneys may be deposited in separate accounts maintained by the City with the Trustee or any other Depository. (Section 522)

### **Rate Covenant**

(a) The City shall for each Fiscal Year fix and adjust Rates and Charges with respect to its Airport Property, which Rates and Charges shall be adopted by the Governing Body and which adoption shall be conclusive and final and not subject to supervision or regulation by any office, department, division, commission, board, bureau or agency of the State or any of its political subdivisions. The City covenants that in each Fiscal Year (1) Revenues Available for Bond Debt Service shall equal or exceed the sum of Required Debt Service Fund Deposits plus deposits required to be made as described in clauses (iii) through (ix) of paragraph (a) under the heading "Flow of Funds from the Revenue Fund" (excluding deposits to the Subordinated Debt Service Fund made from Capitalized Interest, interest or other earnings on the Project Fund, amounts paid from other funds of the City that are not Revenues and are not transferred from other Funds or Accounts established under the Resolution or amounts transferred from the LOI Revenues Account and the PFC Revenues Account), and (2) the sum of Revenues Available for Bond Debt Service plus the Coverage Amount for such Fiscal Year shall equal or exceed 125% of Required Debt Service Fund Deposits.

(b) Without limiting the provisions described in paragraph (a) above, the City shall fix and adjust Rates and Charges, which Rates and Charges shall be adopted by the Governing Body, and which adoption shall be conclusive and final and not subject to supervision or regulation by any office, department, division, commission, board, bureau or agency of the State or any of its political subdivisions, so as to provide funds in each Fiscal Year which are sufficient, together with the amounts referred to in paragraph (a) above, to provide Revenues Available for Subordinated Debt Service in each Fiscal Year at least equal to the Subordinated Bond Coverage Requirement, if any.

(c) If in any Fiscal Year Revenues shall not satisfy the requirements described in paragraph (a) or (b) above, then the City shall not be deemed to be in default under the Resolution so long as it shall have complied or is diligently proceeding to comply with the requirements described in paragraphs (d) and (e) below; provided, however, that if the City shall not satisfy the requirements described in paragraphs (a) and (b) above for the first full Fiscal Year following its failure to satisfy such requirements, then notwithstanding the foregoing such failure shall constitute a default under the Resolution.

(d) On or before the last day of each Fiscal Year the City shall review the adequacy of its rates, fees, rentals and other charges with respect to the Airport Property to satisfy the requirements described in paragraphs (a) and (b) above for the next succeeding Fiscal Year. If such review, or any report of an Airport Consultant provided in connection with such review or in accordance with any provision of the Resolution, indicates that the rates, fees, rentals and other charges with respect to the Airport Property are, or are likely to be, insufficient to meet such requirements for the next succeeding Fiscal Year, or if it otherwise appears at any time during such Fiscal Year that rates, fees, rentals and other charges with respect to the Airport Property are or are likely to be insufficient to meet such requirements, the City shall promptly take such steps as are permitted by law and as are necessary to cure or avoid the deficiency.

(e) Within 180 days of the close of each Fiscal Year while Bonds are Outstanding, the City shall deliver to the Trustee a certificate of an Authorized Representative stating, if such was the case, that the City satisfied the requirements described in paragraphs (a) and (b) above in such Fiscal Year or, if such was not the case, specifying in reasonable detail the corrective steps taken by the City so that it will comply with such requirements in the then current Fiscal Year. Such certificate shall be accompanied by a certificate of an Accountant in accordance with the Resolution setting forth the amounts for the preceding Fiscal Year which are necessary to determine compliance with such requirements. If the amounts set forth in the certificate of an Accountant indicate that the City was not in compliance for such Fiscal Year with such requirements, the Airport Consultant shall review the adequacy of the City's rates, fees, rentals and other charges with respect to the Airport Property and shall recommend changes necessary for the City to be in compliance with such requirements by the end of the then current Fiscal Year and for the following Fiscal Year. The City covenants, to the extent permitted by law and existing contractual obligations, to use its best efforts to effect such changes as are so recommended by the Airport Consultant. (Section 705)

### **Sale, Lease or Encumbrance of Property**

(a) Except as described under this heading, no part of Airport Property shall be sold mortgaged, leased or otherwise disposed of or encumbered.

(b) The City may from time to time sell or exchange or otherwise dispose of at any time and from time to time any property or facilities constituting part of the Airport Property which either (1) are worn out or obsolete or (2) in the opinion of the City are no longer useful in the operation of the Airport Property and, if the market value of such property or facilities to be sold or otherwise disposed of in any Fiscal Year, as determined by the City, is in excess of one tenth of one percent (.1%) of the book value of the entire Airport Property, the City delivers to the Trustee a certificate of an Authorized Representative stating, in the opinion of the signer, that the sale, exchange or other disposition of such property or facilities will not impair the ability of the City to satisfy the Rates and Charges covenants in the then current or any future Fiscal Year. Any proceeds of such sale, exchange or other disposition not used to replace the property so sold or exchanged shall be deposited by the City in the General Fund.

(c) The City may lease as lessee any real or personal property to be used in the operation of the Airport Property, provided that the aggregate annual payments required to be made by the City under all such leases shall not in any Fiscal Year exceed twenty-five percent (25%) of the total Operation and Maintenance Expenses for such Fiscal Year as shown in the Operating Expense Budget then in effect.

(d) The City may lease as lessor or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the Airport Property if such lease, contract, license, easement or right does not, in the opinion of the City (as evidenced, in the event of any such lease, contract, license, easement or right which extends for more than one year or which is irrevocable, by a certificate of an Authorized Representative delivered to the Trustee), impede the operation by the City of the Airport Property. Except as described under the heading "Indebtedness and Liens", any payments to the City under or in connection with any such lease, contract, license, easement or right (except any such payments specifically excluded from the definition of Revenues) shall constitute Revenues under the Resolution. (Section 706)

## **Operation, Maintenance and Reconstruction**

(a) The City shall operate, or cause to be operated, the Airport Property properly and in a sound, efficient and economical manner and shall maintain, preserve, and keep the same or cause the same to be maintained, preserved, and kept in good repair and operating condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, replacements and renewals so that the operation of the Airport Property may be properly and advantageously conducted, and if any useful part of the Airport Property is damaged or destroyed or taken through the exercise of eminent domain, the City shall, as expeditiously as practicable, commence and diligently prosecute the replacement or reconstruction of such damaged or destroyed part so as to restore the same to use and the replacement of such part so taken; provided, however, that nothing in the Resolution shall require the City to operate, maintain, preserve, repair, replace, renew or reconstruct any part of the Airport Property if there shall have been filed with the Trustee (1) a certificate of an Authorized Representative stating that in the opinion of the signer (a) abandonment of operation of such part is economically justified and (b) failure to operate, maintain, preserve, repair, replace, renew or reconstruct such part will not impair the ability of the City to satisfy the Rates and Charges in the current or any future Fiscal Year, and (2) a certificate of a Independent Engineer concurring in such opinion of the Authorized Representative if the book value of such part of the Airport Property exceeds one percent (1%) of the book value of the entire Airport Property.

(b) The Governing Body shall establish and enforce reasonable rules and regulations governing the operation, use and services of the Airport Property. All compensation, salaries, fees and wages paid by the City in connection with the maintenance, repair and operation of the Airport Property shall be reasonable.

(c) Nothing in the Resolution shall be deemed to preclude the City from undertaking such other projects or exercising such other powers unrelated to the operation of the Airport Property as may be permitted by law. (Section 707)

## **Insurance and Condemnation**

(a) The City shall at all times either (i) keep all property which is a part of the Airport Property and which is of an insurable nature and of the character usually insured by airport operators similar to the City insured against loss or damage by fire and from other causes customarily insured against and in such relative amounts as are customary, and also at all times maintain insurance against loss or damage from such hazards and risks to persons and the property of others as are usually insured against by airport operators similar to the City or (ii) maintain the Insurance Reserve Fund at the Insurance Reserve Fund Requirement. In determining the amounts and types of insurance to be maintained, the City may rely upon the advice of an Independent Engineer or an insurance consultant of recognized standing selected by the City. All policies of insurance shall be payable to the City or to the Trustee. On or before the last day of each Fiscal Year, the City shall deliver to the Trustee a certificate of an Authorized Representative listing the types and amounts of insurance then maintained by the City in accordance with the Resolution and the insurers therefor.

(b) All proceeds of insurance maintained as described in paragraph (a) above shall be applied as provided in the Resolution. Such application may include the redemption of Secured Bonds of the Series to which such moneys relate on the first date on which such Secured Bonds may be called without premium (unless the City shall elect to call such Secured Bonds earlier at a premium).

(c) If any property or facility comprising part of the Airport Property shall be taken through the exercise of the power of eminent domain, the City shall apply the proceeds of any award received on account of such taking to the replacement of the property or facility so taken or deposit such proceeds in the Renewal and Replacement Reserve Fund, the Operation and Maintenance Reserve Fund or the Operating Fund to the extent that the costs of such replacement were paid from such Fund, unless the City determines in accordance with the Resolution not to replace such property or facility. Any proceeds of such award not applied to such replacement or remaining after such work has been completed shall be deposited in the Revenue Fund, except that any proceeds resulting from the taking of all or substantially all of the Airport Property shall be deposited with the Trustee in the Redemption Account of the Debt Service Fund for the purpose of redemption of Secured Bonds or for the defeasance of Secured Bonds as provided in the Resolution. (Section 708)

## Indebtedness and Liens

(a) Except as provided in the Resolution, the City shall not issue any bonds, notes or other evidences of indebtedness secured by a pledge of or other lien or charge on the Revenues and shall not create or cause to be created any lien or charge on such Revenues or on any amounts held by any Fiduciary under the Resolution; but this prohibition not prevent the City from issuing bonds or notes or other obligations for the purposes of the Airport Property payable out of, or secured by a pledge of, Revenues to be derived on and after the date that the pledge of Revenues provided in the Resolution shall be discharged and satisfied as provided in the Resolution and which recite on their face that such pledge of said amounts is and shall be in all respect, subordinate to the provisions of the Resolution and the lien and pledge created by the Resolution. Without limiting the generality of the foregoing the City agrees that it shall not permit the issuance of any "Additional Bonds" under the Prior Bond Indenture or other bonds payable from or secured by a pledge of or lien on Revenues prior or superior to the lien securing the Bonds.

(b) Notwithstanding anything in the Resolution to the contrary, so long as no default shall have occurred under the Resolution and be continuing, the City may issue at any time or from time to time:

- (i) Indebtedness issued in anticipation of Grant Receipts which may be secured solely by a pledge of the proceeds of such Indebtedness, the Grant Receipts anticipated, other amounts on deposit from time to time in any separate account established by the City to hold Grant Receipts, earnings thereon and other amounts not constituting Revenues; or
- (ii) Indebtedness issued in anticipation of the Revenues to be received in a particular Fiscal Year, whether unsecured or secured by a pledge of Revenues; provided that (a) any such Indebtedness shall be payable no later than one year from its date of issue (or, in the case of Indebtedness issued to renew any such Indebtedness, no later than one year from the date of issue of the original issue of Indebtedness), (b) the aggregate principal amount of such Indebtedness Outstanding at any one time in a Fiscal Year shall not exceed fifty percent (50%) of the Revenues for the immediately preceding Fiscal Year and (c) the proceeds of such Indebtedness (other than the proceeds of Indebtedness issued to pay a prior issue of such Indebtedness) shall be deposited in the Revenue Fund; or
- (iii) Other Indebtedness which is not payable from or secured by Revenues, including without limitation indebtedness which is payable from and secured solely by one or more of (A) amounts on deposit in or to be deposited in the General Fund (other than in the Coverage Account or the Revenue Credit Account) pursuant to the Resolution, (B) PFC Revenues (excluding amounts required to be deposited into the Debt Service Fund, the Subordinated Debt Service Fund or the Note Payment Fund pursuant to the Resolution) and (C) proceeds of such Indebtedness.

(c) Notwithstanding anything in the Resolution to the contrary, the City may issue Indebtedness secured solely by the revenues, receipts or other moneys derived by the City from the lease, license, operation, sale or other disposition of any facility or equipment (whether or not part of the Airport Property) constructed or acquired by or on behalf of the City with the proceeds of such Indebtedness. Such Indebtedness shall be special, limited obligations of the City payable solely out of the revenues, receipts and other moneys pledged therefor. Such revenues, receipts and other moneys shall not be considered Revenues under the Resolution provided that (i) neither the debt service on such Indebtedness nor any cost of the acquisition, construction, operation, maintenance or repair of any such facility or equipment nor provision for reserves for any of the foregoing shall be paid from the proceeds of Secured Indebtedness or from Revenues (other than Revenues deposited in or available for deposit in the General Fund) or shall be included in Operation and Maintenance Expenses, (ii) any such revenues, receipts and moneys in excess of such debt service, cost of acquisition, construction, operation, maintenance and repair and reserves shall be deposited in the Revenue Fund (and upon such deposit shall be deemed Revenues), and (iii) prior to the issue of any

such Indebtedness, the City shall deliver to the Trustee a certificate of the Airport Consultant certifying that the lease, license, operation, sale or other disposition of such facility or equipment and the application of the revenues, receipts and other moneys derived therefrom to the operation, maintenance and repair thereof and the payment of the debt service on the Indebtedness issued therefor and the provision of reserves for the foregoing, will not result in any decrease in the Revenues projected by such Airport Consultant to be received by the City during the succeeding five Fiscal Years (including the Fiscal Year in which such Indebtedness is issued). (Section 709)

### **Independent Engineer**

The City shall, until the Secured Bonds and the interest thereon shall have been paid or provision for such payment shall have been made, when required to assure the performance of the duties imposed on the Independent Engineer by the Resolution, employ an independent architect or engineer or firm of architects or engineers having a nationwide and favorable repute for skill and experience in reviewing and advising with respect to the plans, specifications, costs, schedules and procedures for constructing airport facilities and, except in the case of the firm serving as Independent Engineer at the time of the adoption of the Resolution, who shall be reasonably acceptable to the Trustee. (Section 710)

### **Airport Consultant**

The City shall, until the Secured Indebtedness and the interest thereon shall have been paid or provision for such payment shall have been made, for the purpose of performing and carrying out the duties imposed on the Airport Consultant by the Resolution, employ an independent accountant or firm of independent accountants, or a management consultant or management consulting firm, or independent engineer or engineering firm (which may also be the Independent Engineer), having, in any case, a nationwide and favorable repute for skill and experience in passing upon questions relating to the affairs, financial and otherwise, of airport facilities of the size, type and scope of the Airport Property and, except in the case of the firm serving as Airport Consultant at the time of the adoption of the Resolution, who shall be reasonably acceptable to the Trustee. (Section 711)

### **Operating Budget**

(a) Not less than 30 days prior to the beginning of each Fiscal Year the City shall prepare and deliver to the Trustee a preliminary Operating Budget, and not less than one day prior to the beginning of each Fiscal Year, shall adopt and file with the Trustee a copy of the Operating Budget, duly certified by an Authorized Representative of the City, showing on a monthly basis the estimated Operation and Maintenance Expenses, as well as the Revenues or other moneys held under the Resolution estimated to be available to pay such Operation and Maintenance Expenses (including the amount of each item constituting a component thereof) for the ensuing Fiscal Year, together with any other information required to be set forth therein by the Resolution; provided, however, that the Operating Budget for the Fiscal Year, or portion thereof, in which the first Series of Secured Bonds is issued, maybe adopted by any Authorized Representative of the City. Such Operating Budget may set forth such additional information as the City may determine. The City shall not incur aggregate Operation and Maintenance Expenses in any Fiscal Year in excess of the amount budgeted in the Operating Budget, as amended and supplemented for such Fiscal Year, except in case of emergency or as required by law and shall promptly file with the Trustee a written report of any such excess expenditure signed by an Authorized Representative and as soon as practicable thereafter adopt and file with the Trustee an amendment to the Operating Budget.

(b) In conjunction with the adoption and filing, or any amendment, of the Operating Budget for each Fiscal Year commencing after June 30, 2002, the City shall certify the Renewal and Replacement Reserve Fund Requirement for the Fiscal Year to which such Budget relates; provided that for each such Fiscal Year the City's certificate shall be consistent with the latest recommendation of the Airport Consultant or the Independent Engineer made pursuant to the Resolution. In addition, the City will certify the assumed interest rate on each Series of Variable Rate Indebtedness then Outstanding for which deposits will be required to be made pursuant to the Resolution. If the City shall not certify the Renewal and Replacement Reserve 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.

(c) If for any reason the City shall not have adopted the Operating Budget as described in paragraph (a) above, the Operating Budget for the then current Fiscal Year shall be deemed to be the Operating Budget for the ensuing Fiscal Year until a new Operating Budget is adopted.

(d) The City may at any time adopt an amended Operating Budget for the then current or ensuing Fiscal Year, but no such amended Operating Budget shall supersede any prior Budget until the City shall have filed with the Trustee a copy of such amended Operating Budget.

(e) In addition to the City's right to amend the Operating Budget described in paragraph (d) above, the City may reallocate amounts budgeted to specific items or months within the Operating Budget then in effect at any time by delivery of a certificate of its Authorized Representative provided that no such reallocation shall result in an increase in the aggregate Operation and Maintenance Expenses for the Fiscal Year covered by such Operating Budget. (Section 712)

### **Accounts and Reports**

(a) The City shall maintain its books and accounts in accordance with generally accepted accounting principles applicable to airport operators such as the City and in accordance with such other principles of accounting as the City deems appropriate. Said books and accounts shall at all times be subject to the inspection of the Trustee and the Holder or Holders of not less than one percent (1%) in principal amount of Outstanding Secured Bonds of any category or their representatives duly authorized in writing.

(b) The City shall annually, as soon as available and in any event within 270 days after the close of each Fiscal Year, file with the Trustee a copy of an annual report for such year, accompanied by financial statements, audited by and containing the report of an Accountant, relating to the operations and properties of the Airport Property for such Fiscal Year and setting forth in reasonable detail its financial condition as of the end of such year and the income and expenses for such year, and including a summary of the receipts in and disbursements from the Funds and Accounts maintained under the Resolution during such Fiscal Year and the amounts held therein at the end of such Fiscal Year. Each report of such Accountant or firm of accountants shall state that such financial statements of the City were prepared in accordance with generally accepted accounting principles, or shall state in what respects such financial statements do not conform with such generally accepted accounting principles. If in connection with such annual audit such Accountant submits any written recommendations as to internal accounting controls or related matters, such recommendations shall also be filed with the Trustee. Each annual report shall be accompanied by a certificate of the Accountant or firm of accountants auditing the same to the effect that in the course of and within the scope of their examination of such financial statements made in accordance with generally accepted auditing standards nothing came to their attention that would lead them to believe that a default had occurred under the Resolution or, if such is not the case, specifying the nature of the default.

(c) Within 120 days after the close of every third Fiscal Year following the Fiscal Year in which the initial Series of Bonds under the Resolution is issued, the City shall file with the Trustee a copy of a certificate of the Airport Consultant or the Independent Engineer setting forth in reasonable detail (1) its findings as to whether the Airport Property has been maintained during such three-year period, and is then being maintained, in good repair and sound operating condition, (2) its estimate of the amount, if any, required to be expended to place such properties in such condition and the approximate time required therefor, (3) its recommendations, if any, as to proper maintenance, repair, and operation of, and capital improvements to, the Airport Property during the ensuing three-year period and (4) its recommendations as to the adequacy of the Renewal and Replacement Reserve Fund Requirement. If such certificate sets forth that the Airport Property is not then being maintained in good repair and sound operating condition, the City shall restore the Airport Property to good repair and sound operating condition as promptly as is practicable. (Section 713)

### **Tax Covenants**

The City shall take or require to be taken such action as may from time to time be required to assure the continued exclusion from the federal gross income of holders of any Series of Tax Exempt Indebtedness including, without limitation, the preparation and filing of any statements required to be filed by the City in order to establish

and maintain such exclusion. In addition, the City shall not take, or permit to be taken on its behalf, any action which would adversely affect the exclusion from federal gross income of the interest on any Series of Tax Exempt Indebtedness. (Section 714)

### **Passenger Facility Charges**

So long as the imposition and use of a passenger facility charge are necessary to operate the Airport Property in accordance with the requirements of the Resolution, the City will use its best efforts both to continue to impose a passenger facility charge and use PFC Revenues at the Airport Property and to comply with all valid and applicable federal laws and regulations pertaining thereto necessary to maintain such passenger facility charge. (Section 715)

### **Obligations Under Qualified Swap; Nonqualified Swap**

(a) The obligation of the City 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 City to make payments with respect to such Series of Bonds and other Bonds under the Resolution, except as otherwise provided by a Supplemental Resolution and in the Resolution with respect to any Swap Termination Payments. The City may provide in any Supplemental Resolution that Regularly Scheduled Swap Payments under a Qualified Swap shall be secured by a pledge of or lien on the 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 provisions of the Resolution 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 City 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 Resolution 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.

(b) In the event that a Swap Termination Payment or any other amounts other than as described in clause (a) above are due and payable by the City under a Qualified Swap, such Swap Termination Payment and any such other amounts shall be expressly subordinate to the payment of the Bonds.

(c) Obligations of the City to make payments, including Swap Termination Payments, under a Swap other than a Qualified Swap shall be expressly subordinate to the payment of the Bonds. (Section 716)

### **Supplemental Resolutions**

Supplemental Resolutions Effective Upon Filing with Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted by the City, which upon the filing with the Trustee of a copy thereof certified by an Authorized Representative, shall be fully effective in accordance with its terms:

(a) to close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the authentication and delivery of Secured Bonds or the issuance of other Indebtedness;

(b) to add to the covenants and agreements of the City in the Resolution other covenants and agreements to be observed by the City which are not contrary to or inconsistent with the Resolution as theretofore in effect including any covenants necessary for compliance with the Code, including without limitation section 148(f) thereof or regulations promulgated thereunder;

(c) to add to the limitations and restrictions in the Resolution other limitations and restrictions to be observed by the City which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(d) to surrender any right, power or privilege reserved to or conferred upon the City by the terms of the Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the City contained in the Resolution;

(e) to authorize Secured Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in the Resolution with respect to conditions precedent to the delivery of a Series of Secured Bonds, and also any other matters and things relative to such Secured Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Secured Bonds including, without limiting the generality of the foregoing, provisions amending or modifying the Resolution to provide for the issuance of Secured Bonds in book-entry form or in coupon form payable to bearer;

(f) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution, of the Revenues or of any other moneys, securities or funds;

(g) to modify any of the provisions of the Resolution in any respect whatsoever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds or Subordinated Bonds of any Series affected by the amendment Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds or Subordinated Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Bonds or Subordinated Bonds issued in exchange therefor or in place thereof;

(h) to modify the definition of Investment Securities as directed by the City, provided that the City shall have provided evidence to the Trustee that the details of such modification have been provided in writing to each Rating Agency then assigning a rating on Outstanding Secured Bonds and that each such Rating Agency has either (i) confirmed in writing that such modification will not adversely affect such ratings or (ii) issued a rating on a Series of Bonds to be issued which is not lower than the rating assigned by such Rating Agency to Outstanding Bonds prior to such modification, or any other evidence satisfactory to the Trustee that modification will not adversely affect the then current ratings, if any, assigned to the Secured Bonds by any Rating Agency, and provided, further, that such modification shall have been approved in writing by the Series 1998 Bonds bond insurer; or

(i) to subject to the lien of the Resolution additional revenues, security or collateral. (Section 801) Supplemental Resolutions Effective upon Consent of Trustee. (a) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Representative, and (ii) the filing with the City of an instrument in writing made by the Trustee consenting thereto shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee.

(j) Any such Supplemental Resolution may also contain one or more of the purposes permitted in Supplemental Resolutions that are effective upon filing with the Trustee, and in that event, the consent of the Trustee required as described in paragraph (a) above shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in paragraph (a) above. (Section 802)

***Supplemental Resolutions Effective with Consent of Bondholders.*** At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by holders of any Secured Bonds in accordance with and subject to the provisions of the Resolution relating to amendments, which Supplemental Resolution, upon the filing with the Trustee of a copy thereof certified by an Authorized Representative and upon compliance with the

provisions of the Resolution, shall become fully effective in accordance with its terms as provided in the provisions of the Resolution relating to amendments. (Section 803)

## **Amendments**

***Mailing of Notice of Amendment.*** Any provision in the Resolution for the mailing of a notice or other paper to any holder of the Secured Bonds shall be fully complied with if it is mailed, by first-class mail, postage prepaid only (i) to each owner of Bonds or Subordinated Bonds, respectively, then Outstanding at his address appearing upon the registry books, and (ii) to the Trustee. (Section 901)

***Powers of Amendment.*** Any modification or amendment of the Resolution or of the rights and obligations of the City and of the holders of the Secured Bonds under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in Resolution (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given and at least two-thirds in principal amount of the Subordinated Bonds Outstanding at the time such consent is given and (ii) in case less than all of the several Series of Secured Bonds of then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in aggregate principal amount of the Secured Bonds of the several Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Secured Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such Secured Bonds shall not be required and such Secured Bond shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Secured Bonds as described in this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or Subordinated Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the holder of such Bond or Subordinated Bond, or shall reduce the percentages or otherwise affect the classes of Secured Bonds the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this paragraph, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the holders of Secured Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment Secured Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution. For the purposes of this paragraph the holders of the Secured Bonds may include the initial holders thereof, regardless of whether such Secured Bonds are being held for immediate resale. A bond insurer shall be deemed to be the holder of Secured Bonds insured by it as described under the caption "Insurer Deemed Holder of Secured Bonds for Certain Purposes" herein. (Section 902)

***Modifications by Unanimous Consent.*** Notwithstanding anything contained in the Resolution with respect to Supplemental Resolutions and amendments, the terms and provisions of the Resolution and the rights and obligations of the City and of the holders of Secured Bonds may be modified or amended in any respect upon the adopting and filing of a Supplemental Resolution and the consent of the holders of all Secured Bonds then Outstanding, such consent to be given as provided in the Resolution except that no notice to the holders of Secured Bonds either by mailing or publication shall be required; but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the holders of Secured Bonds. (Section 904)

## **Events of Default**

The occurrence of any one or more of the following events shall constitute an Event of Default under the Resolution:

(a) a default in the due and punctual payment of a Principal Installment or the Redemption Price of any Secured Bonds when and as the same shall become due and payable, whether at maturity or upon earlier redemption, or otherwise; or

(b) a default in the due and punctual payment of any installment of interest on any Secured Bonds, when and as such interest installment shall become due and payable; or

(c) default by the City in the performance or observance of any other of the covenants, agreements or conditions on its part or on the part of the City in the Resolution, in any Supplemental Resolution or in the Secured Bonds contained, and such default shall continue for a period of 60 days after written notice thereof stating that such notice is a "Notice of Default" to the City by the Trustee or to the City and to the Trustee by the holders of not less than a majority in principal amount of the Secured Bonds Outstanding; provided that such 60-day period shall be extended to such longer period of time as the Trustee may deem appropriate in the event of defaults which by their nature will require such longer period of time to cure if the City shall commence such cure within such 60-day period and pursue the same diligently to completion; or

(d) if the City (i) admits in writing its inability to pay its debts generally as they become due, (ii) commences voluntary proceeds in bankruptcy or seeking a composition of indebtedness, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a receiver of the whole or any substantial part of the Airport Property, or (v) consents to the assumption by any court of competent jurisdiction under any law for the relief of debtors of custody or control of the City or of the whole or any substantial part of the Airport Property.

Upon the happening and continuance of any Event of Default, the Trustee shall give notice of such occurrence to the registered holders of the Secured Bonds. Upon the happening and continuance of any Event of Default, neither the Trustee may nor the holders of the Bonds or Subordinated Bonds shall have the right to declare the principal of any Secured Bonds then Outstanding, or the interest accrued thereon, to be due and payable prior to its stated maturity. (Section 1001)

#### **Application of Revenues and Other Moneys After Default**

(a) The City covenants that if an Event of Default shall happen and shall not have been remedied, the City, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, any moneys, securities and funds then held by the City or a Depository in any Fund, Account or Subaccount under the Resolution, (excluding the Rebate Fund and the PFC Fund), and (ii) as promptly as practicable after receipt thereof, the Revenues.

(b) During the continuance of an Event of Default, the Trustee shall apply such Revenues and the income therefrom as follows and in the following order:

- (1) to the payment of the reasonable and proper fees, charges and expenses (including reasonable attorneys fees) of the Fiduciaries and of any engineer or firm of engineers or accountants or firm of accountants selected by the Trustee and to the payment of any fees and expenses required to keep any Financial Guaranties or Credit Facilities in full force and effect;
- (2) to the payment of the amounts required for reasonable and necessary Operation and Maintenance Expenses, including reasonable and necessary reserves and working capital therefor, and for the reasonable repair and replacement of the Airport Property necessary to prevent loss of Revenues or to provide for the continued operation of the Airport Property, as certified to the Trustee by an independent engineer or firm of engineers of recognized standing (who may be an engineer or firm of engineers retained by the City for other purposes) selected by the Trustee;
- (3) to the payment of the interest and principal or Redemption Price then due on the Bonds as follows:
  - (i) unless the principal of all of the Bonds shall be due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments maturing, and, if the amount available shall not be sufficient to pay in full all installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to persons entitled thereto, without any discrimination or preference; or

(ii) if the principal of all of the Bonds shall be due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference;

(4) to the payment of the interest and principal or Redemption Price then due on the Subordinated Bonds in a manner similar to the payment of such amounts with respect to Bonds, as set forth above.

Any amounts on deposit in the Subordinated Debt Service Reserve Fund shall not be applied as set forth above to the payment of principal amount and interest on Bonds, and any amounts on deposit in the Debt Service Fund and the Debt Service Reserve Fund shall not be applied as set forth above to the payment of the principal amount and interest on Subordinated Bonds.

(a) If and when all overdue installments of interest on all Secured Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other sums payable by the City under the Resolution, including the principal and Redemption Price of and accrued unpaid interest on all Secured Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the City, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Resolution or the Secured Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the City all such Revenues then remaining unexpended in the hands of the Trustee (except Revenues deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Trustee), and thereupon the City and the Trustee shall be restored, respectively, to their former position and rights under the Resolution, and all Revenues shall thereafter be applied as provided in the Resolution. (Section 1003)

### **Proceedings Brought by Trustee**

(a) If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, if the Trustee shall deem it advisable, may proceed to protect and enforce its rights and the rights of the holders of the Secured Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the Resolution, or in aid of the execution of any power granted in the Resolution, or for an accounting against the City as if the City were the Trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

(b) The holders of a majority in principal amount of the Bonds at the time Outstanding or, if no Bonds are Outstanding, of Subordinated Bonds Outstanding, may direct by instrument in writing the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the holders of Secured Bonds not parties to such direction.

(c) Upon commencing a suit in equity or upon the commencement of judicial proceedings by the Trustee to enforce any right under the Resolution, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Resolution and provided to be exercised by the Trustee upon the occurrence of an Event of Default; and, as a matter of right against the City, without notice or demand and without regard to the adequacy of the security for the Secured Bonds, the Trustee shall, to the extent permitted by law, be entitled to the appointment of a receiver of the moneys, securities and funds then held by the Trustee in any Fund, Account or Subaccount under the Resolution and, subject to application of the Revenues, with all such powers as the court or courts making such appointment shall confer; but notwithstanding the appointment of any receiver, the Trustee shall be entitled to retain possession and control of and to collect and receive income from, any moneys, securities and funds deposited or pledged with it under the Resolution or agreed to provide to be delivered or pledged with it under the Resolution.

(d) Regardless of the happening of an Event of Default, the Trustee shall have the power to, but (unless requested in writing by the holders of a majority in principal amount of the Secured Bonds then Outstanding, and furnished with reasonable security and indemnity) shall be under no obligation to, institute and maintain such suits and proceedings, including, without limitation, proceedings for declaratory judgment or injunctive or other equitable relief, as it may determine shall be necessary or expedient to prevent any impairment of the security under the Resolution, any impairment of the ability of the City or the Trustee to satisfy any of its agreements or obligations under the Resolution, or the impairment of any protection provided by the Resolution of the interests of the holders of Secured Bonds by any acts which may be unlawful or in violation of the Resolution, and such suits and proceedings, including, without limitation, proceedings for declaratory judgment or injunctive or other equitable relief, as the Trustee may determine shall be necessary or expedient to preserve or protect its interest and the interests of the holders of any Secured Bonds. (Section 1004)

(e) A bond insurer shall be deemed to be the holder of Secured Bonds insured by it as described under the caption "Insurer Deemed Holder of Secured Bonds for Certain Purposes" herein.

### **Restrictions on Action by Holders of Secured Bonds**

No holder of any Secured Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such holder shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in the Resolution, and the holders of at least a majority in principal amount of the Bonds then Outstanding, or if no Bonds are Outstanding of Subordinated Bonds Outstanding, shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted as provided under this heading or to institute such action, suit or proceeding in its own name, and unless such holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request within a reasonable time; it being understood and intended that no one or more holders of Secured Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in the manner therein provided, and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all holders of the Outstanding Bonds, in accordance with their rights and interests under the Resolution and all holders of Outstanding Subordinated Bonds, in accordance with their rights and interests under the Resolution. (Section 1005)

## **The Trustee**

**Resignation of Trustee.** The Trustee may at any time resign and be discharged of the duties and obligations created by the Resolution by giving not less than 60 days' written notice to the City and publishing notice thereof, at the Trustee's expense, specifying the date when such resignation shall take effect once in each week for two successive calendar weeks in an authorized newspaper, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the City or the holders of any Secured Bonds as provided in the Resolution, in which event such resignation shall take effect immediately on the appointment of such successor. (Section 1107)

**Removal of Trustee.** The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the holders of a majority in principal amount of the Bonds then Outstanding, or if no Bonds are Outstanding, of the Subordinated Bonds then Outstanding, or their attorneys-in-fact duly authorized, excluding any Secured Bonds held by or for the account of the City. The Trustee may be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Resolution with respect to the duties and obligations of the Trustee, by any court of competent jurisdiction upon the application of the City or the holders of not less than 25% in aggregate principal amount of Bonds Outstanding, or if no Bonds are Outstanding, Subordinated Bonds Outstanding, excluding any Secured Bonds held by or for the account of the City. Notwithstanding the foregoing provisions, at the end of the fifth Fiscal Year following the Fiscal Year in which the first series of Secured Bonds is issued under the Resolution, and at the end of every fifth Fiscal Year thereafter, the City may remove the Trustee, except during the existence of an Event of Default, upon 120 days' written notice to the Trustee by filing with the Trustee an instrument signed by an Authorized Representative of the City. (Section 1108)

**Appointment of Successor Trustee.** (a) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or its property, shall be appointed, or if any public offering shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the holder of a majority in principal amount of the Bonds then Outstanding, or if no Bonds are Outstanding of the Secured Bonds then Outstanding, excluding any Secured Bonds held by or for the account of the City, by an instrument or concurrent instruments in writing signed and acknowledged by such holders of any Secured Bonds or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the City and the predecessor Trustee; but (unless a successor Trustee shall have been appointed by the holders of the Secured Bonds as aforesaid) the City by a duly executed written instrument signed by an Authorized Representative shall forthwith appoint a Trustee to fill such vacancy until a successor Trustee shall be appointed by the holders of the Secured Bonds as authorized in the Resolution. The City shall publish notice of any such appointment made by it once in each week for two consecutive calendar weeks, in an authorized newspaper, the first publication to be made within 20 days after such appointment. Any successor Trustee appointed by the City shall, immediately and without further act, be superseded by a Trustee appointed by the holders of the Secured Bonds as authorized in the Resolution.

(a) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions within 45 days after the Trustee shall have given to the City written notice as provided in the Resolution or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Secured Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(b) Any Trustee appointed under the provisions of the Resolution in succession to the Trustee shall be a bank or trust company organized under the laws of any state or a national banking association, and having a capital and surplus aggregating at least \$100,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution. (Section 1109)

## Defeasance

(a) If the City shall pay or cause to be paid to the holders of all Secured Bonds then Outstanding, the Principal Installments and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then, at the option of the City, expressed in an instrument in writing signed by an Authorized Representative and delivered to the Trustee, the covenants, agreements and other obligations of the City to the holders of such Secured Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the City, execute and deliver to the City all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the City all moneys, securities and funds held by them pursuant to the Resolution which are not required for the payment or redemption of Secured Bonds not theretofore surrendered for such payment or redemption.

(b) Secured Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit by the City of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above. Subject to the provisions described in paragraph (c) below, any Outstanding Secured Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above if (i) in case any of said Secured Bonds are to be redeemed on any date prior to their maturity, the City shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to publish as provided in the Resolution notice of redemption of such Secured Bonds (other than the Secured Bonds which have been purchased by the Trustee at the direction of the City as provided in the Resolution prior to the publication of such notice of redemption) on said date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Obligations the principal installments of and/or the interest on which when due, without reinvestment, will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the Principal Installments or Redemption Price, if applicable, and interest due and to become due on said Secured Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Secured Bonds are not to be redeemed within the next succeeding 60 days, the City shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in the authorized newspapers a notice to the holders of such Secured Bonds that the deposit required by (i) above has been made with the Trustee and that said Secured Bonds are deemed to have been paid as provided under this heading and stating such maturity or redemption date upon which moneys are to be available for the payment of the Principal Installments or Redemption Price, if applicable, on said Secured Bonds (other than Secured Bonds which have been purchased by the Trustee at the direction of the City as provided in the Resolution prior to the publication of the notice of redemption referred to in clause (i)); provided, however, that in connection with the provision for payment of any Secured Bonds which are then in non-certificated form, the requirements of clause (iii) above shall be deemed satisfied upon mailing of the notice required by said clause (iii) by registered mail to the securities depository which is the registered owner, or whose nominee is the registered owner, of such Secured Bonds. The Trustee shall, as and to the extent necessary, apply moneys held by it as provided under this heading to the retirement of said Secured Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments with respect to such Secured Bonds, all in the manner provided in the Resolution.

The Trustee shall, if so directed by the City (x) prior to the maturity date of Secured Bonds deemed to have been paid which are not to be redeemed prior to their maturity date or (y) prior to the publication of the notice of redemption referred to in clause (i) above with respect to any Secured Bonds deemed to have been paid as provided under this heading which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee in respect of such Secured Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and apply the proceeds thereof to the purchase of such Secured Bonds and the Trustee shall immediately thereafter cancel all such Secured Bonds so purchased; provided, however, that the Trustee shall receive a certificate of an Accountant showing that the moneys and Defeasance Obligations remaining on deposit with the Trustee after the purchase and cancellation of such Secured Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Secured Bonds, in respect of which such moneys and Defeasance Obligations are being held by the Trustee on or prior to the redemption date or maturity date thereof, as the case may be and a Bond Counsel's Opinion to the effect that such redemption or sale of such Defeasance Obligations will not adversely affect the exclusion of the interest on such Secured Bonds from gross income of the holders thereof for federal income tax purposes and that such redemption or sale otherwise complies

with the provisions of the Resolution. Except as otherwise provided in paragraphs (b) and (c) under this heading, neither Defeasance Obligations nor moneys deposited with the Trustee as described under this heading nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Secured Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Trustee (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the City as received by the Trustee, free and clear of any trust, lien or pledge securing said Secured Bonds or otherwise existing under the Resolution, and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested at the written direction of an Authorized Representative of the City in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Secured Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestment, shall be paid over to the City, as received by the Trustee, free and clear of any lien or pledge securing said Secured Bonds or otherwise existing under the Resolution.

(c) For purposes of determining whether Variable Rate Indebtedness shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Obligations and moneys, if any, in accordance with the second sentence of paragraph (b) under this heading, the interest to come due on such Variable Rate Indebtedness on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the maximum rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Variable Rate Indebtedness having borne interest at less than such maximum rate for any period, the total amount of moneys and Investment Securities on deposit with the Trustee for the payment of interest on such Variable Rate Indebtedness is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Rate Indebtedness in order to satisfy the second sentence of paragraph (b) under this heading, the Trustee shall, if requested by the City, pay the amount of such excess to the City free and clear of any lien or pledge securing the Secured Bonds or otherwise existing under the Resolution.

(d) Option Bonds shall be deemed to have been paid in accordance with the second sentence of paragraph (b) under this heading only if, in addition to satisfying the requirements of clauses (i) and (iii) of such sentence, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Option Bonds which could become payable to the holders of such Option Bonds upon the exercise of any options provided to the holders of such Option Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the provisions described in paragraph (b) under this heading, the options originally exercisable by the holder of an Option Bond are no longer exercisable, such Option Bond shall not be considered an Option Bond for purposes of this paragraph (d). If any portion of the moneys deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose the Trustee shall, if requested by the City, pay the amount of such excess to the City free and clear of any trust, lien or pledge securing said Option Bonds or otherwise existing under the Resolution.

(e) Anything in the Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Secured Bonds which remain unclaimed for two years after the date when such Secured Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for two years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Secured Bonds become due and payable, shall, at the written request of the City, be repaid by the Fiduciary to the City, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the holders of any Secured Bonds shall look only to the City for the payment of such Secured Bonds; provided, however, that before being required to make any such payment to the City, the Fiduciary may, at the expense of the City, cause to be published at least twice, at an interval of not less than seven days between publications, in an authorized newspaper, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the City. (Section 1201)

## **Preservation and Inspection of Documents**

All documents received by any Fiduciary under the provisions of the Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the City, any other Fiduciary, and any holder of any Secured Bonds and any person that the Trustee can reasonably determine is a beneficial owner of any Secured Bonds held by or on behalf of a securities depository, and their agents and their representatives, any of whom may make copies thereof. Upon the receipt of a written request by any such beneficial owner or any holder of any Secured Bonds, or their agents or their representatives, the Trustee shall provide copies of any reports or certificates delivered to the Trustee pursuant to any provision of the Resolution. At the direction of the City, the Trustee shall require the party requesting such reports or certificates to pay or reimburse the Trustee for the direct costs of reproducing and mailing such reports or certificates. (Section 1204)

## **No Recourse on the Secured Bonds**

No recourse shall be had for the payment of the principal of or interest on the Secured Bonds or for any claim based thereon or on the Resolution against any elected official, other officer, employee or agent of the City or any person executing the Secured Bonds. (Section 1206)

## **Insurer Deemed Holder of Secured Bonds for Certain Purposes**

A bond insurer shall have the right to exercise any option, vote, right, power or the like available to holders of the Secured Bonds that it insures under the Resolution. Each holder of an insured Secured Bond by virtue of its purchase of such Secured Bond is deemed to have granted the following rights and privileges to the bond insurer as a condition to, and in consideration for, the bond insurer's issuance and delivery of its bond insurance policy; provided, however, such grant to the bond insurer shall be in effect only while its bond insurance policy is in effect and the bond insurer is not in default under the policy: the bond insurer shall be deemed to be the owner of a principal amount of the Secured Bonds equal to the principal amount of the Secured Bonds so insured for purposes of the right to direct the exercise of, or consent to, rights and remedies to be taken by the Trustee (to the extent that the principal amount of the Outstanding Secured Bonds would give the holders thereof the right to so direct the Trustee) under the Resolution in circumstances that give rise to the Trustee's rights to exercise rights and remedies, and to take any other action which a holder of such a Secured Bond is, or would be, permitted to take under the Resolution.

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**SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE AGREEMENTS**

The following is a brief summary of certain provisions of the Airline Operating Agreements and Terminal Building Leases (the “Agreement”) as amended by the First Amendment to the Airline Operating Agreement and Terminal Building Lease (the “Amendment”), copies of which are available from the Airport Director. This summary does not purport to be complete and reference is made to the Agreement and Amendment for full and complete statements of their terms and provisions.

**Certain Definitions**

Definitions. Unless the context shall clearly indicate some other meaning, the terms defined in this section shall, for all purposes of the Agreement, have the meanings defined herein. Such meanings shall be equally applicable to both the singular and plural forms of the terms. All words, terms, or phrases that are not specifically defined in the Agreement shall have the meanings set forth in the Bond Documents, unless otherwise indicated.

“Additional Revenue Credit” shall mean forty percent (40%) of the revenue remaining after satisfying the requirements of the flow of funds established in the Bond Documents and in the agreement.

“Affiliate” shall mean any non-tenant Air Transportation company that is either a wholly-owned subsidiary of Airline or operates under essentially the same trade name as Airline at the Airport and uses essentially the same livery as Airline. An Affiliate shall have the rights afforded the Airline without incurring any additional charges or premiums so long as Airline remains a Signatory to the Agreement. Airline and any Affiliate shall be counted as one entity for the purposes of computing any Common Use charges. An Affiliate shall be primarily liable for the payment of Landing Fees and other fees incurred at the Airport; provided, however, that Airline shall be secondarily liable as a guarantor for all unpaid fees or charges incurred by such Affiliate while such Affiliate operates at the Airport. Unless specifically stated otherwise, “Airline” as used in throughout the Agreement shall be deemed to include “Affiliate”.

“Agreement” shall mean the “Airline Operating Agreement and Terminal Building Lease, Manchester-Boston Regional Airport,” and as the Agreement may subsequently be amended.

“Airfield Cost Center” shall mean that cost center representing those areas and facilities that provide for the landing, taking off, and taxiing of aircraft, including, but not limited to, runway approach zones, runways, taxiways, setbacks, infield areas, and navigational aids, but not including the Apron.

“Airfield Requirement” is that requirement established in Section 6.06 of the Agreement.

“Airport” shall mean Manchester-Boston Regional Airport, as shown on Exhibit A to the Agreement, “Airport Layout and Cost Center Plan,” and as such Airport may subsequently be improved, enlarged, or otherwise modified or developed.

“Airport Cost Centers” shall mean the cost centers representing the areas and facilities at the Airport, and as such cost centers may be modified, changed, or developed by the City to be used in accounting for Airport Revenues and expenses and for calculating and adjusting the Rental and Fee Rates.

“Airport Director” shall mean the Airport Director or such other person designated by the City of Manchester, Board of Mayor and Alderman to exercise authority with respect to the rights and obligations of the City under the Agreement or the Airport Director’s designated representative.

“Air Transportation” shall mean the transportation by air of Persons, property, cargo, mail, or express mail to or from the Airport and all other activities directly related thereto.

“Air Transportation Company” shall mean any Person engaged in Air Transportation.

“Amortization” shall mean the repayment of costs, amortized at the then current City cost of borrowed funds when said capital investment is made in substantially equal annual installments over the estimated useful lives of the expenditures, for capital expenditures at the Airport funded by the City out of the Capital Improvement Account. Total amortization expenses for all Airport Cost Centers are limited to \$5 million during any Fiscal Year.

“Annual Budget” shall mean the Airport capital and operating budget approved by the City of Manchester Board of Mayor and Aldermen.

“Approved Maximum Landing Weight” shall mean the FAA-approved maximum certificated landing weight for an aircraft as recited in the airline’s flight manual governing that aircraft type. If an aircraft is registered in a foreign country and has not been certified by the FAA, the Approved Maximum Landing Weight of such an aircraft shall be the maximum landing weight approved by the counterpart to the FAA in that foreign country.

“Apron” shall mean those parts of the Airport illustrated on Exhibits A, D and E to the Agreement.

“Apron Cost Center” shall mean that cost center representing those areas and facilities on the Airport that provide for the parking, loading, unloading, and servicing of passenger aircraft, including, but not limited to, the Apron, as illustrated on Exhibits D and E to the Agreement.

“Apron Fee” shall mean the annual fee payable by airline under the Agreement for the use of the Apron.

“Apron Fee Rate” shall mean that rate per square foot of leased Apron area, established in Section 6.05, payable by the airline under the Agreement.

“Apron Requirement” shall mean all costs including Operation and Maintenance Expenses and Bond Debt Service incurred in or allocated to the Apron Cost Center.

“Bond Debt Service” shall mean the aggregate amount of principal, interest expense, and any premium required to be paid on all Bonds pursuant to the terms in the Bond Documents.

“Bond Documents” shall mean the General Airport Revenue Bond Resolution, City of Manchester, dated October 1, 1998, as amended.

“Bonds” shall mean the debt instruments created as a result of the Bond Documents.

“Capital Improvement” shall mean (1) the acquisition of land or easements; (2) the planning, design, or construction of new facilities; and (3) the performance of any extraordinary, nonrecurring major maintenance of existing facilities that may be acquired, purchased, or constructed by City to improve, maintain, or develop the Airport.

“Capital Improvement Account” shall mean an account established within the flow of funds prescribed in Article 8 of the Agreement and allowable within the General Fund established in the Bond Documents. After annual deposits to the Capital Improvement Account have reached one million dollars (\$1,000,000) in any one Fiscal Year, the City shall then deposit additional revenues in the Revenue Credit Account up to five hundred thousand dollars (\$500,000). Sixty percent (60%) of the revenue remaining after satisfying the requirements of the flow of funds established in the Bond Documents shall be deposited into the Capital Improvement Account. The City shall use the Capital Improvement Account for any lawful purpose at its sole discretion. Capital Improvements funded from the Capital Improvement Account will be amortized and included in the calculation of rentals and fees as set forth in Article 6 of the Agreement.

“City” shall mean the City of Manchester, New Hampshire.

“Common Use Formula” shall mean the formula used to prorate the specified charge on the basis of twenty percent (20%) of the total monthly rental divided equally among all such Air Transportation Companies using such space. The remaining eighty percent (80%) of the total monthly rental shall be apportioned among all such airlines

on the ratio of the number of each Air Transportation Companies' enplaning passengers at the Airport, during the most recent month for which such information is available, to the total number of enplaning passengers of all Air Transportation Company users at the Airport, during that same month, or such other formula as may be agreed upon by all Signatory airlines using the service or space.

"Common Use Space" shall mean space and facilities leased under the Agreement to the airline and to all other Air Transportation Companies operating at the Airport for their shared use.

"Coverage" shall mean, for any series of Bonds, an amount equal to the requirement set forth in the Bond Documents.

"Coverage Account" shall mean an account established within the flow of funds prescribed in Article 8 and in accordance with the General Fund established in the Bond Documents to fund twenty-five percent (25%) of the annual Debt Service Requirement. If at any time the balance in the Coverage Account falls below the required amount of twenty-five percent (25%) of the Debt Service Requirement, the deficiency shall be made up from Revenues.

"Debt Service Requirement" shall mean the total amount required to be deposited in any Fiscal Year to any interest, principal, or sinking fund accounts established by the Bond Documents for any Bonds issued for the Airport; it also includes any and all other debt incurred by other means for the capital improvement of the Airport.

"Enplaned Passengers" shall mean any local boarding, interline transfer, or intraline transfer fare-paying passengers at the Airport.

"FAA" shall mean the Federal Aviation Administration of the Department of Transportation of the United States of America or its authorized successor.

"Fiscal Year" shall mean the twelve (12) month period beginning on July 1st of any calendar year and ending on June 30th of the following calendar year or such other period adopted by the City as its Fiscal Year.

"Fixtures" shall mean the equipment and fixtures, excluding aircraft loading bridges owned or operated by the airline and installed or used at the Airport in connection with the airline's operations at the Airport that cannot be removed from the Premises without substantial damage thereto.

"Gate" shall mean an aircraft loading position, including the associated passenger loading bridge and passenger holdroom, at the Airport.

"General Fund" shall mean a fund established pursuant to the flow of funds established in the Bond Documents after satisfying all funds of higher priority.

"Government" shall mean the government of the United States of America.

"Improvements" shall mean any modifications, additions, or improvements made to the Premises by the airline.

"Landed Weight" shall mean the product obtained by multiplying the Certified Maximum Landing Weight for each aircraft operated by an Air Transportation Company by the number of Landings such aircraft makes at the Airport expressed in one thousand (1,000) pound units.

"Landing" shall mean any landing at the Airport by an aircraft operated by any Air Transportation Company, but shall not include a landing by an aircraft operated by an Air Transportation Company that returns to the Airport because of weather, mechanical, operational, or other emergency or precautionary reasons without landing at another airport.

"Landing Fee" shall mean the fee payable by the airline under the Agreement for Landings at the Airport.

“Landing Fee Rate” shall mean that rate, established in Section 6.06, for each one thousand (1,000) pounds of Certified Maximum Landing Weight payable by the airline under the Agreement for Landings at the Airport.

“Net Airfield Requirement” shall mean the Airfield Requirement minus: (1) amounts credited from the Revenue Credit Account, and (2) all Other Airfield Revenues.

“Operation and Maintenance Expenses” shall mean the current expenses of operation, including administrative expenses, maintenance, and current repair of the Airport. Operation and Maintenance Expenses shall not include any allowance for depreciation, renewals, extensions, or any charges for the accumulation of reserves for capital replacements, renewals, or extensions.

“Operation and Maintenance Reserve Account” shall mean an account established within the flow of funds prescribed in the Bond Documents to pay for extraordinary or unanticipated Operation and Maintenance Expenses to the extent that other funds are not available for such purposes. During the term of the Agreement, the balance of the Operation and Maintenance Reserve Account shall not be less than the Operation and Maintenance Expenses for the three (3) consecutive months following the next succeeding month in the Annual Budget for that Fiscal Year. Deficiencies in this fund shall be recovered in the Fiscal Year in which such deficiency occurs.

“Other Airfield Revenues” shall mean all Revenues allocable to the Airfield Cost Center.

“Other Buildings and Areas Cost Center” shall mean that cost center representing those areas of the Airport not included in the other Airport Cost Centers, including the facilities, installations, and improvements thereon as they now exist, or as they may be modified, changed, or developed as illustrated on Exhibits A through G.

“Parking and Roadways Cost Center” shall mean that cost center representing public and employee parking areas and associated access and circulation roadways, rights-of-way, and landscaped areas of the Airport, as illustrated on Exhibits A through F to the Agreement.

“Passenger Facility Charge (PFC)” shall mean the fee that may be assessed on each Enplaned Passenger under 14 CFR Part 158.

“Person” shall mean any association, joint venture, firm, partnership, corporation, public body, or natural person.

“Personal Property” shall mean the furniture, furnishings, draperies, decorations, signs, appliances, trade fixtures, equipment, and any other similar items or supplies owned or operated by airline including specialty airline equipment, and installed or used at the Airport in connection with the airline’s operations at the Airport, that can be removed from the Premises without damage thereto.

“Preferential Use” shall mean the priority scheduling rights given to the Airline to use a specific gate and apron area.

“Premises” shall mean all Common Use Space and Preferential Use Space leased to the airline in the Terminal Building.

“Program” shall mean the specific program of capital improvements undertaken by the City.

“Public Areas” shall mean those areas designated for the use of the airline in common with the general public.

“Rebate Fund” shall mean a fund established within the flow of funds prescribed in the Bond Documents for the purpose of compliance with Section 148(f) of the Code.

“Renewal and Replacement Account” shall be a fund established within the flow of funds prescribed in the Bond Documents to pay for unanticipated or emergency repairs or replacements at the Airport.

“Rental and Fee Rates” shall mean all rentals and fees payable under the terms of the Agreement.

“Rental and Fee Payments” shall mean payment of all rentals and fees established under the terms of the Agreement.

“Requesting Air Transportation Company” shall mean any Air Transportation Company, whether or not already an Airport tenant, that requests to be accommodated on Airport under the procedures specified in Section 4.05 of the Agreement.

“Revenues” shall mean all rentals, fees, charges, concession revenues, and all other revenues received by or on behalf of the City in its proprietary capacity as operator of the Airport in connection with the operation, improvement, and enhancement of the Airport or any part thereof, and all income, interest, or revenues resulting from the investment of any Airport funds by the City. Revenue shall not include any revenue or income from gifts, State or federal grants-in-aid or reimbursement, proceeds of insurance coverage and condemnation awards, proceeds of disposition of assets, restricted funds, or payments received from governmental units or public agencies. Revenue shall also not include any Passenger Facility Charge revenue.

“Revenue Credit Account” shall mean an account established pursuant to the flow of funds established in the Bond Documents after satisfying the requirements of all funds of higher priority. Balances in the Revenue Credit Account shall be credited to the Airfield Requirement in succeeding years. The initial deposit to the Revenue Credit Account shall not exceed Five Hundred Thousand Dollars (\$500,000) in any one Fiscal Year. Any remaining revenue after an initial deposit to the Revenue Credit Account of Five Hundred Thousand Dollars (\$500,000) shall be divided as follows: sixty percent (60%) to City, referred to herein as additional deposit to Capital Improvement Account, forty percent (40%) to Signatory airlines, referred to herein as Additional Revenue Credit.

“Revenue Fund” shall mean a fund in which all Revenues are deposited for application to various funds and accounts as set forth in the Bond Documents.

“Rules and Regulations” shall mean those lawful rules and regulations of the Airport, as the same may be amended, modified, or supplemented from time to time, by the City for the orderly use of the Airport by both the airline and other tenants and users of the Airport to the extent that such rules and regulations are not inconsistent with the provisions and purposes of the Agreement.

“Signatory Airline” shall mean those Air Transportation Companies providing Air Transportation to and from the Airport that have entered into agreements substantially similar to the Agreement with the City covering the use and occupancy of the Airport.

“State” shall mean the State of New Hampshire.

“Subordinate Security” shall mean bonds or other securities or obligations relating to the Airport, payable from Revenues, and having a lien thereon subordinate and junior to the lien thereon of the Bonds.

“Terminal Building” shall mean the passenger Terminal Building constructed by the City as illustrated on Exhibit A to the Agreement and as the passenger Terminal Building may be modified, changed or enlarged.

“Terminal Building Rental” shall mean the annual rent payable by the airline under the Agreement for the use of the Terminal Building.

“Terminal Building Rental Rate” shall mean the rate, established in Section 6.04, for each square foot of the Terminal Building payable by the airline under the Agreement.

“Terminal Building Requirement” shall mean that requirement established in Section 6.04 of the Agreement.

“Terminal Building Cost Center” shall mean the Terminal Building and related facilities and as such Terminal Building and related facilities may be modified, changed, enlarged, or developed as illustrated on Exhibit A to the Agreement.

“Usable Space” shall mean the total square feet in the Terminal Building minus the space required for mechanical, utility, and the City administrative functions.

#### Rental and Fee Rates

The Agreement establishes Rental and Fee Rates using cost recovery principles. The recoverable cost elements consist of: (1) Operation and Maintenance Expenses allocable to the Terminal, Airfield, and Apron Cost Centers, (2) the total portion of the Airport’s annual Debt Service Requirement and Coverage (if any) allocable to such cost centers, (3) the portion of the required repayment of any Subordinate Security or loans made by the City allocable to such cost centers, (4) estimated amounts (if any) for required deposits to funds and accounts established in Bond Documents allocable to such cost centers, and (5) the annual Amortization (at the then current City cost of borrowed funds when said capital investment is made and based on the economic life of each Capital Improvement) of the total amount of any expenditures made by the City for Capital Improvements allocable to such costs centers.

Two months prior to the beginning of each Fiscal Year, the City presents a report to the airlines that includes estimates concerning the City’s proposed Annual Budget for the succeeding Fiscal Year. This report must show: estimated Operation and Maintenance Expenses, the City’s annual Bond Debt Service, lease payments, or other debt installments (if any) and any required Bond fund deposits, and a preliminary calculation of the three primary Rental and Fee Rates (that is, (a) the Terminal Building Rental Rate, (b) the Apron Fee Rate, and (c) the Landing Fee Rate). Year-end adjustments are made to the Terminal Building Rental Rate, Apron Fee Rate, and the Landing Fee Rate based upon actual information and the amount an airline actually paid that was initially established using budgeted and estimated information. Any surplus shall be credited to the Revenue Credit Account and any deficit shall be carried over to the following fiscal year as an additional charge imposed upon the airlines. The calculation of the Apron Fee Rate is a function of the total annual Debt Service Requirement allocable to the Apron Cost Center.

**Terminal Building Rental Rate.** In general, the Terminal Building Rental Rate is calculated by dividing certain projected annual Airport costs allocable to the Terminal Cost Center (see recoverable costs as described above) by total Usable Space in the terminal. This cost per square foot is multiplied by a particular airline’s Exclusive Use Space (which is the area of the terminal leased to the airline for its sole and exclusive use). The product, when added to the Common Use Space rentals, is the annual Terminal Building Rental Rate for an airline, which is divided by twelve and payable monthly.

**Apron Fee Rate.** The Apron Fee Rate is calculated by dividing the total annual Apron Requirement by the total usable Apron area expressed in square feet. This cost per square foot is multiplied by the amount of square feet of Apron area leased by a particular airline. The product is the annual Apron Fee Rate for an airline, which is divided by twelve and payable monthly.

**Extraordinary Coverage Protection.** The Amendment provides that if the City estimates that it will not meet the requirements of the Covenant as to Rates and Charges in the Bond Documents during any Fiscal Year of the Term, the City may adjust the Terminal Building Rental Rate, the Apron Fee Rate and/or the Landing Fee Rate to meet such requirements, upon thirty (30) days prior written notice to the Signatory Airlines. The Amendment further provides that the City will deposit and retain such Extraordinary Coverage Protection payments in the Coverage Account only to the extent necessary to meet requirements of the Covenant as to Rates and Charges in the Bond Documents. The Amendment further provides that excess Extraordinary Coverage Protection payments shall be credited back to the Signatory Airlines in proportion to the amounts paid by each Airline.

**Landing Fee Rate.** The Landing Fee equals an airline’s total Landed Weight for the month multiplied by the Landing Fee Rate then in effect. This amount is payable on or before the fifteenth day of each month. The Landing Fee Rate constitutes the Net Airfield Requirement divided by the composite estimate of total Landed Weight for all Air Transportation Companies at the Airport. The Net Airfield Requirement is equal to certain projected annual Airport costs allocable to the Airfield Cost Center (see recoverable costs as described above) less

amounts posted to the Revenue Credit Account and Other Airfield Revenues. A separate Landing Fee Rate, applicable to non-Signatory Airlines (that is, an airline that owns or operates aircraft landing at the Airport that has not signed the Agreement), is equal to 125% of the Landing Fee Rate for a Signatory Airline.

Extraordinary Adjustments or Special Increases in Rates. If, during the course of the Fiscal Year, total Landing Fees for any quarter vary by more than ten percent (10%) from the projected total Landing Fees for such quarter, then the City may adjust the Landing Fee Rate for the balance of such Fiscal Year by an amount equal to the difference between the projected and actual total Landing Fees divided by the estimated total Landed Weight of all Signatory airlines during the balance of such Fiscal Year.

If, during the term of the Agreement, one or more of the airlines declares bankruptcy and pre-petition arrears are owed to the City by the airline declaring bankruptcy, then the full amount of the arrears are recovered through additional charges to the remaining airlines.

Other Fees and Charges. An amount, referred to as additional rent, is payable after due notice to an airline where the City incurs costs attributable curing an airline's default under the Agreement.

The City has the right to assess airline passengers a Passenger Facility Charge in accordance with the requirements of 14 CFR Part 158, and an airline shall collect this amount on behalf of the City.

#### Term; Airline Rights; Premises

In general, the Agreement term constitutes five years. The existing Agreements expire June 30, 2010. The Agreement provides the airline with the right to use the Airport, including all facilities, improvements, equipment, and services that are provided for common use at the Airport.

An airline may conduct Air Transportation and all activities reasonably incidental to such operations. The Agreement limits an airline's rights in certain respects. For example, an airline cannot make use of Airport Premises if the conduct interferes with airport operations generally (that is, creates a hazard). An airline cannot provide food and beverages on the Airport to airline employees or the public, nor can it provide vending machines or public telephones.

The Agreement delineates an airline's space in the Terminal Building by type, which includes: (a) Gates, (b) ticket counter and associated offices, (c) baggage markup area, (d) baggage claim area, (e) baggage breakdown area, (f) baggage office, (g) operations space, (h) passenger screening, and (i) apron area. The City may require the relocation or reallocation of an airline's Gates and Apron Area if the City determines a reasonable need for use of the area by another Air Transportation Company, and the airline fails to make minimum use of the area on a day-to-day basis. The City makes appropriate reimbursement in the event of a relocation or reallocation. Similarly, an airline must cooperate with the City to maximize Gate usage and the accommodation of new Air Transportation Companies at the Airport.

### **Relinquishment of Premises**

An airline must surrender possession of the Premises upon the early termination or expiration of the Agreement, or the reallocation of Preferential Use Gate, Apron, Ticket Counter, Offices, or Baggage Make-Up areas. An airline may release part of its leased premises to the City, but the City is not obligated take back the space. If the City takes back the space, then the City must amend the Agreement to relieve the airline of its obligations in regard to the released space.

### **Assignment or Sublease**

An airline may not assign, transfer, convey, sell, mortgage, pledge, or encumber the Agreement, nor may it sublet the premises or any of its rights under the Agreement without prior written approval of the Airport Director. This restriction does not apply to assignments between the airline and any Airline Affiliate, or successor in business (through merger, consolidation, voluntary sale, or transfer of substantially all of its assets). The City has the right to

transfer or assign the Agreement without limitation to another public or quasi-public entity, so long as the entity to which the Agreement is transferred agrees to be bound by all the rights and obligations of the Agreement.

## **Termination**

**Termination by Airline.** An airline may terminate the Agreement at any time the airline is not in default in its Rental and Fee Payments or other obligations under the Agreement by giving the City thirty (30) days advance written notice on or after the occurrence of any one of the following events:

The breach by the City of any of the covenants or agreements contained in the Agreement for a period exceeding sixty (60) days after receipt of written notice of such breach from the airline.

Action by the City or such other federal, state, or local entity having proper jurisdiction prohibiting an airline from using the Airport for a period exceeding sixty (60) days because of any deficiency of the Airport or an unsafe operating condition existing at the Airport or in the surrounding airspace.

**Termination by City.** The City has the right to terminate the Agreement and all of its obligations thereunder immediately upon written notice, and may exercise all rights of entry and re-entry upon the Premises immediately after such notice is given, without forfeiture, waiver, or release of City's rights to any sum of money payable by the airline, immediately upon or after the occurrence of any one of the following events:

The failure of the airline to pay Rentals and Fees when due under the Agreement for a period of fifteen (15) days after receipt of written notice of such breach from the City; a default notice shall be issued within five (5) days of default.

The breach by the airline of any of the terms, covenants, agreements, or conditions contained in the Agreement for a period exceeding thirty (30) days after receipt of written notice of such breach from the City; provided that, if the breach is of such a nature that it cannot be cured within thirty (30), a reasonable period shall be allowed.

The cessation by the airline of scheduled air service at the Airport for a period of thirty (30) consecutive days unless such cessation of service is directly attributable to circumstances for which the airline is not responsible and which are not within the airline's control.

The airline becomes insolvent; fails to pay its debts as they mature; takes the benefit of any present or future federal or State insolvency statute; makes a general assignment for the benefit of creditors; files a voluntary petition in bankruptcy or a petition or answer seeking an arrangement of its indebtedness under the Federal Bankruptcy Code or under any other law or statute of the United States or of any state thereof; consents to the appointment of a receiver, trustee, custodian, liquidator, or other similar official, of all or substantially all of its property; or an order for relief shall be entered be or against the airline under any chapter of the Federal Bankruptcy Code.

The airline is adjudged a debtor or bankrupt by order or decree of a court, or an order is made approving a petition filed by any of the airline's creditors or by any of its stockholders, seeking its reorganization or the restructuring of its indebtedness under the Federal Bankruptcy Code or under any other law or statute of the United States or any state thereof, and such order or decree shall not be stayed or vacated within sixty (60) days of its issuance.

A petition under any chapter of the Federal Bankruptcy Code or an action under any federal or State insolvency law or statute shall be filed against the airline and is not dismissed or stayed within sixty (60) days after the filing thereof.

A receiver, trustee, custodian, liquidator, or other similar official takes possession or control of all or substantially all of the property of the airline by or pursuant to, or under the City of any legislative act, resolution, or

rule, or any order or decree of any court or governmental board, agency, or officer, and such possession or control continues in effect for a period of sixty (60) days.

The airline becomes a corporation in dissolution.

The transfer, passing, or devolving of any interests or rights of the airline hereunder, by operation of law or otherwise, to any other Person by, in connection with, or as a result of any bankruptcy, insolvency, trusteeship, liquidation, or other proceedings or occurrence described herein.

The failure of the airline to maintain the minimum insurance levels as required in the Agreement.

The failure of the airline to comply with the terms and conditions of Extraordinary Adjustments or Special Increases in Rates.

The conduct of any business, practice, or performance of any act at the Airport that is not specifically authorized by the Agreement, or by any other Agreement between the City and the airline, if said business or act does not cease permanently within fifteen (15) days of receipt of the City's written notice to cease said business, practice, or act.

Reletting by City. In any instance in which the City shall have the right to terminate the Agreement, the City shall, in the alternative, have the right, without terminating the Agreement, to re-enter the Premises and improve and relet all or any part of it to others, for the account of the airline and on terms that are commercially reasonable, including costs of renovation and an administrative fee not to exceed fifteen percent (15%) paid to the City for all sublease rentals received, and the airline shall promptly reimburse the City for any deficiency in rentals or other payments received under such subletting as compared to the airline's obligations under the Agreement. The City shall have all additional rights and remedies as may be provided to landlords by law.

#### Indemnity and Liability Insurance

Indemnification. The airline agrees fully to indemnify, defend, and hold the City harmless from and against all claims and actions (and all expenses incidental to the investigation and defense thereof) based on or arising out of damages or injuries or death to any person or property caused by or arising out of the use, occupancy, or operations of the airline at the Airport. The airline shall not be liable for any injuries, death, damage, or loss to the extent that such injury, death, damage, or loss is caused by the fault or negligence of the City, its agents, or employees. The City shall give to the airline prompt and reasonable notice of any such claims or actions. The City agrees to indemnify the Airline for claims or actions arising from direct negligence on the part of the City.

Release of Liability. The City shall not be liable for, and is hereby released from all liability to the airline, to the airline's insurance carrier for bodily injury or for any loss or damage to real or personal property occasioned by flood, fire, earthquake, hurricane, tornado, lightning, windstorm, hail, explosion, riot, strike, civil commotion, smoke, vandalism, malicious mischief, or acts of civil authority other than negligent or intentionally wrongful acts of omission or commission of employees or agents of the City. The Agreement does not limit the duties, responsibilities, and liability of the City as landlord, pursuant to the laws of the State of New Hampshire.

The City shall not be liable for, and is hereby released from all liability to the airline, to the airline's insurance carrier, or to anyone claiming under or through the airline for any loss or damage whatsoever to the property or effects of the airline resulting from the discharge of water or other substances from pipes, sprinklers or conduits, containers or appurtenances thereof or fixtures thereto, or for any damage resulting from the discharge or failure of electric current, regardless of cause or origin, except to the extent that such damage is caused by the negligence of the City, its employees or agents.

Insurance. The airline, at its sole cost and expense, shall throughout the term of the Agreement, keep all of its operations on the Airport, and its obligation to indemnify the City continuously insured in accordance with the Agreement.

All insurance shall be in a form and with an insurance company or companies that is reasonably acceptable to the City. Said insurance shall be in occurrence form, not claims made.

Each liability insurance policy shall include severability of interest language, specifying that coverage afforded thereunder applies separately to each insured thereunder.

All airline insurance policies shall name the Airport and the City of Manchester as additional insureds. All such policies shall provide that such policy may not be materially changed, materially altered, or cancelled by the insurer during its term without first giving at least thirty (30) days' written notice to the City.

Additionally, the airline shall carry and maintain airline liability insurance in respect to all aircraft owned, leased or operated by the airline for bodily injury or death and property damage liability in a combined single limit amount of not less than one hundred million dollars (\$100,000,000) per occurrence and shall include aircraft liability, airport liability, passenger liability and baggage and cargo liability. Provided, however, if the airline operates at the Airport only as a Regional/Commuter Air Carrier, the airline shall maintain aircraft liability insurance in a combined single limit amount of not less than fifty million dollars (\$50,000,000) per occurrence. A twenty-five million dollars (\$25,000,000) per occurrence sub-limit for personal injury, bodily injury (including death) and property damage liability shall cover: premises-operation, medical payments, contractual liability, liability of independent contractors, personal injury, and fire legal liability. If the airline operates a club or "VIP" room serving alcoholic beverages, liquor liability insurance must be provided.

The airline shall also carry and maintain comprehensive automobile liability insurance for all owned, hired, and non-owned vehicles against death, bodily injury, and property damage claims, in a combined single limit amount of not less than five million dollars (\$5,000,000).

The airline shall carry and maintain workers' compensation and employers' liability insurance in accordance with New Hampshire Statutory Limits with an All States Endorsement and one million dollars (\$1,000,000) in Employer's Liability coverage.

The City, in operating the Airport, shall carry and maintain comprehensive liability insurance in such amounts as would normally be maintained by public bodies engaged in carrying on similar activities. Nothing in the Agreement prevents the City from self-insuring to the extent the City deems appropriate.

If at any time the airline fails to obtain or maintain in force the insurance required in the Agreement, such failure shall constitute an incurable default permitting the City, at its option, to immediately terminate the Agreement and take possession of the leased premises upon giving the notice. The City shall have all available remedies specified in the Agreement or permitted by law.

[Form of Opinion of Bond Counsel for the Series 2012A Bonds]

*Hawkins Delafield & Wood LLP*

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June 20, 2012

Board of Mayor and Aldermen  
 of the City of Manchester, in the  
 County of Hillsborough, New Hampshire

Ladies and Gentlemen:

We have acted as bond counsel to the City of Manchester, a municipal corporation of the State of New Hampshire, situate in the County of Hillsborough (the “City”), and have examined a record of proceedings relating to the issuance by the City of its \$59,215,000 General Airport Revenue Bonds, Refunding Series 2012A (the “Series 2012A Bonds”).

The Series 2012A Bonds are being issued under and by virtue of Chapter 33-B of the New Hampshire Revised Statutes, as amended (the “Act”), a resolution duly adopted by the City on April 3, 2012 (the “Authorizing Resolution”), a resolution entitled: “General Airport Revenue Bond Resolution”, adopted by the City as of October 1, 1998, as amended (the “General Airport Bond Resolution”), and a supplemental resolution entitled: “Tenth Supplemental Resolution Authorizing the Issuance of \$59,215,000 City of Manchester, New Hampshire, General Airport Revenue Bonds, Refunding Series 2012A and of \$25,725,000 City of Manchester, New Hampshire, General Airport Revenue Bonds, Refunding Series 2012B”, adopted by the City as of June 6, 2012 (the “Tenth Supplemental Resolution” and, together with the General Airport Bond Resolution, the “Airport Bond Resolution”).

The Series 2012A Bonds are dated the date of delivery thereof, and bear interest from such date at the respective interest rates per annum (payable semi-annually on January 1 and July 1 in each year until maturity or earlier redemption, commencing July 1, 2012) and mature on January 1 in the years and in the respective principal amounts, all as set forth below:

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2020	\$1,000,000	4.000%
2021	6,490,000	5.000
2022	6,820,000	5.000
2023	7,170,000	5.000
2024	7,535,000	5.000
2025	7,930,000	5.000
2026	8,325,000	5.000
2027	2,100,000	3.750
2032	11,845,000	4.125

The Series 2012A Bonds are payable as to principal or redemption price, if any, at the corporate trust office of The Bank of New York Mellon, as Trustee (the "Trustee"). Interest on the Series 2012A Bonds is payable to the registered owners thereof whose names appear on the registration books of the City maintained by the Trustee as of the January 1 and July 1 next preceding any interest payment date of the Series 2012A Bonds. The Series 2012A Bonds are each of the denomination of \$5,000 or any integral multiple of \$5,000 in excess thereof, all exchangeable at the expense of the registered owner for fully registered bonds in any other authorized denomination. The Series 2012A Bonds are subject to redemption prior to maturity upon the terms and conditions and at the prices set forth therein.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2012A Bonds in order that interest on the Series 2012A Bonds be and remain excluded from gross income under Section 103 of the Code. We have examined the Arbitrage and Use of Proceeds Certificate of the City delivered in connection with the issuance of the Series 2012A Bonds which contains provisions and procedures regarding compliance with the requirements of the Code. By said Arbitrage and Use of Proceeds Certificate, the City has covenanted that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that interest paid on the Series 2012A Bonds is excludable from gross income under Section 103 of the Code. In rendering this opinion, we have assumed that the City will comply with the provisions and procedures set forth in its Arbitrage and Use of Proceeds Certificate.

Based on the foregoing, we are of the opinion that:

1. The City has the right and power to adopt the Authorizing Resolution and the Airport Bond Resolution under the Act.

2. The Authorizing Resolution and the Airport Bond Resolution have been duly and lawfully adopted by the City, are in full force and effect, and are valid and binding upon the City and are enforceable against the City.

3. The Airport Bond Resolution creates the valid pledge which it purports to create of the Revenues (as defined in the Airport Bond Resolution) and the moneys or securities in certain of the funds, accounts and subaccounts established under the Airport Bond Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Airport Bond Resolution.

4. All conditions required by the Airport Bond Resolution precedent to the issuance of the Series 2012A Bonds have been met, and the Series 2012A Bonds have been duly and validly authorized and issued in accordance with the Act, the Authorizing Resolution and the Airport Bond Resolution. The Series 2012A Bonds are valid and binding limited obligations of the City enforceable in accordance with their terms and the terms of the Airport Bond Resolution and are payable, on a parity with certain bonds and other obligations heretofore and hereafter issued or incurred under the Airport Bond Resolution, from the Revenues and other moneys and securities pledged therefor under the Airport Bond Resolution.

5. Under existing statutes and court decisions, interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

6. Under existing statutes, interest on the Series 2012A Bonds is exempt from the New Hampshire personal income tax on interest.

The foregoing opinions are qualified to the extent that the enforceability of the Series 2012A Bonds and the Airport Bond Resolution may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium, or other laws or equitable principles from time to time in effect relating to the enforcement of creditors' rights generally.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the City other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been or may be supplied to the purchaser of the Series 2012A Bonds.

We express no opinion regarding any other federal or state consequences with respect to the Series 2012A Bonds. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2012A Bonds, or under state and local tax law.

Very truly yours,

*Hawkins Delafield & Wood LLP*

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June 20, 2012

Board of Mayor and Aldermen  
of the City of Manchester, in the  
County of Hillsborough, New Hampshire

Ladies and Gentlemen:

We have acted as bond counsel to the City of Manchester, a municipal corporation of the State of New Hampshire, situate in the County of Hillsborough (the “City”), and have examined a record of proceedings relating to the issuance by the City of its \$25,725,000 General Airport Revenue Bonds, Refunding Series 2012B (the “Series 2012B Bonds”).

The Series 2012B Bonds are being issued under and by virtue of Chapter 33-B of the New Hampshire Revised Statutes, as amended (the “Act”), a resolution duly adopted by the City on April 3, 2012 (the “Authorizing Resolution”), a resolution entitled: “General Airport Revenue Bond Resolution”, adopted by the City as of October 1, 1998, as amended (the “General Airport Bond Resolution”), and a supplemental resolution entitled: “Tenth Supplemental Resolution Authorizing the Issuance of \$59,215,000 City of Manchester, New Hampshire, General Airport Revenue Bonds, Refunding Series 2012A and of \$25,725,000 City of Manchester, New Hampshire, General Airport Revenue Bonds, Refunding Series 2012B”, adopted by the City as of June 6, 2012 (the “Tenth Supplemental Resolution” and, together with the General Airport Bond Resolution, the “Airport Bond Resolution”).

The Series 2012B Bonds are dated the date of delivery thereof, and bear interest from such date at the respective interest rates per annum (payable semi-annually on January 1 and July 1 in each year until maturity or earlier redemption, commencing July 1, 2012) and mature on January 1 in the years and in the respective principal amounts, all as set forth below:

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2013	\$ 760,000	2.00%
2014	960,000	3.00
2015	990,000	4.00
2016	1,030,000	4.00
2017	5,320,000	5.00
2018	5,600,000	5.00
2019	5,885,000	5.00
2020	5,180,000	5.00

The Series 2012B Bonds are payable as to principal or redemption price, if any, at the corporate trust office of The Bank of New York Mellon, as Trustee (the “Trustee”). Interest on the Series 2012B Bonds is payable to the

registered owners thereof whose names appear on the registration books of the City maintained by the Trustee as of the January 1 and July 1 next preceding any interest payment date of the Series 2012B Bonds. The Series 2012B Bonds are each of the denomination of \$5,000 or any integral multiple of \$5,000 in excess thereof, all exchangeable at the expense of the registered owner for fully registered bonds in any other authorized denomination. The Series 2012B Bonds are subject to redemption prior to maturity upon the terms and conditions and at the prices set forth therein.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2012B Bonds in order that interest on the Series 2012B Bonds be and remain excluded from gross income under Section 103 of the Code. We have examined the Arbitrage and Use of Proceeds Certificate of the City delivered in connection with the issuance of the Series 2012B Bonds which contains provisions and procedures regarding compliance with the requirements of the Code. By said Arbitrage and Use of Proceeds Certificate, the City has covenanted that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that interest paid on the Series 2012B Bonds is excludable from gross income under Section 103 of the Code. In rendering this opinion, we have assumed that the City will comply with the provisions and procedures set forth in its Arbitrage and Use of Proceeds Certificate.

Based on the foregoing, we are of the opinion that:

1. The City has the right and power to adopt the Authorizing Resolution and the Airport Bond Resolution under the Act.

2. The Authorizing Resolution and the Airport Bond Resolution have been duly and lawfully adopted by the City, are in full force and effect, and are valid and binding upon the City and are enforceable against the City.

3. The Airport Bond Resolution creates the valid pledge which it purports to create of the Revenues (as defined in the Airport Bond Resolution) and the moneys or securities in certain of the funds, accounts and subaccounts established under the Airport Bond Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Airport Bond Resolution.

4. All conditions required by the Airport Bond Resolution precedent to the issuance of the Series 2012B Bonds have been met, and the Series 2012B Bonds have been duly and validly authorized and issued in accordance with the Act, the Authorizing Resolution and the Airport Bond Resolution. The Series 2012B Bonds are valid and binding limited obligations of the City enforceable in accordance with their terms and the terms of the Airport Bond Resolution and are payable, on a parity with certain bonds and other obligations heretofore and hereafter issued or incurred under the Airport Bond Resolution, from the Revenues and other moneys and securities pledged therefor under the Airport Bond Resolution.

5. Under existing statutes and court decisions, (i) interest on the Series 2012B Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to such exclusion of interest on any Series 2012B Bond for any period during which the Series 2012B Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a "substantial user" of the facilities refinanced with the proceeds of the Series 2012B Bonds or a "related person," and (ii) interest on the Series 2012B Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code.

6. Under existing statutes, interest on the Series 2012B Bonds is exempt from the New Hampshire personal income tax on interest.

The foregoing opinions are qualified to the extent that the enforceability of the Series 2012B Bonds and the Airport Bond Resolution may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium, or other laws or equitable principles from time to time in effect relating to the enforcement of creditors' rights generally.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the City other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been or may be supplied to the purchaser of the Series 2012B Bonds.

We express no opinion regarding any other federal or state consequences with respect to the Series 2012B Bonds. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2012B Bonds, or under state and local tax law.

Very truly yours,

## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated as of June 20, 2012 by and between the City of Manchester, New Hampshire (the “Issuer”) and The Bank of New York Mellon, as trustee (the “Trustee”) under the General Airport Revenue Bond Resolution adopted by the Issuer as of October 1, 1998, as amended and supplemented (the “Resolution”), is executed and delivered in connection with the issuance of the Issuer’s \$59,215,000 principal amount of General Airport Revenue Bonds, Refunding Series 2012A and \$25,725,000 principal amount of General Airport Revenue Bonds, Refunding Series 2012B (collectively, the “Bonds”). Capitalized terms used in this Agreement which are not otherwise defined in the Resolution shall have the respective meanings specified above or in Article IV hereof.

## ARTICLE I

## THE UNDERTAKING

**Section 1.1.** Purpose. This Agreement is being executed and delivered for the benefit of the holders and the beneficial holders of the Bonds and in order to assist the underwriter of the Bonds in complying with subsection (b)(5) of the Rule.

**Section 1.2.** Annual Financial Information. (a) The Issuer shall provide Annual Financial Information with respect to each fiscal year of the Issuer, commencing with the fiscal year ending June 30, 2013, by no later than nine (9) months after the end of the respective fiscal year, to the MSRB.

(b) The Issuer shall provide, in a timely manner, notice of any failure of the Issuer to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

**Section 1.3.** Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof because not available, the Issuer shall provide Audited Financial Statements, when and if available, to the MSRB.

**Section 1.4.** Notices Events. (a) If a Notice Event occurs, the Issuer shall provide, in a timely manner, not in excess of ten (10) business days after the occurrence of such Notice of Event, notice of such Notice Event to (i) the MSRB and (ii) the Trustee.

(b) Any notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The Trustee shall promptly advise the Issuer whenever, in the course of performing its duties as Trustee under the Resolution, the Trustee has actual notice of an occurrence which, if material, would require the Issuer to provide notice of a Material Event hereunder; provided, however, that the failure of the Trustee so to advise the Issuer shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Resolution.

**Section 1.5.** Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Issuer under such laws.

**Section 1.6.** Additional Information. Nothing in this Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or a notice of a Notice Event hereunder, in addition to that which is required by this Agreement. If the Issuer chooses to

do so, the Issuer shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Notice Event hereunder.

**Section 1.7.** No Previous Non-Compliance. The Issuer represents that in the previous five (5) years it has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

## ARTICLE II

### OPERATING RULES

**Section 2.1.** Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, [www.emma.msrb.org](http://www.emma.msrb.org)) or (ii) filed with the SEC. The provisions of this Section shall not apply to notices of Notice Events pursuant to Section 1.4 hereof.

**Section 2.2.** Submission of Information. Annual Financial Information may be set forth or provided in one document or a set of documents, and at one time or in part from time to time.

**Section 2.3.** Dissemination Agents. The Issuer may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the Issuer under this Agreement, and revoke or modify any such designation.

**Section 2.4.** Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is [www.emma.msrb.org](http://www.emma.msrb.org).

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

**Section 2.5.** Fiscal Year. (a) The Issuer's current fiscal year is July 1 to June 30, and the Issuer shall promptly notify (i) the MSRB and (ii) the Trustee of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than twelve (12) calendar months.

## ARTICLE III

### EFFECTIVE DATE, TERMINATION, AMENDMENT AND ENFORCEMENT

**Section 3.1.** Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The Issuer's and the Trustee's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) This Agreement, or any provision hereof, shall be null and void in the event that the Issuer (1) delivers to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

**Section 3.2. Amendment.** (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the Issuer shall have delivered to the Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer (such as bond counsel or the Trustee) and acceptable to the Issuer, addressed to the Issuer and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Resolution with consent of holders of Bonds pursuant to Section 902 of the Resolution as in effect on the date of this Agreement, and (5) the Issuer shall have delivered copies of such opinion(s) and amendment to the MSRB.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the effect that performance by the Issuer and the Trustee under this Agreement as so amended will not result in a violation of the Rule and (3) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(c) This Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of Staff, of the SEC, and (2) the Trustee shall have delivered copies of such opinion and amendment to the MSRB.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the Issuer in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

**Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement.** (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the Issuer to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or by the Trustee on behalf of the holders of Outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of Outstanding Bonds; provided, however,

that the Trustee shall not be required to take any enforcement action except at the written direction of the holders of not less than two-thirds in aggregate principal amount of the Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the Issuer or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

## ARTICLE IV

### DEFINITIONS

**Section 4.1.** Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) updated versions of the following financial information and operating data contained in the Official Statement, for each fiscal year of the Issuer, as follows:

(a) To the extent not included in the Audited Financial Statements, the information appearing in the Official Statement under the headings "THE AIRPORT", "AIRPORT ACTIVITY AND AGREEMENTS" (including without limitation the information contained in the table entitled "Manchester Airport - Segmentation of Historical Enplanements"), "CAPITAL PROGRAM" and "FINANCIAL INFORMATION" (including without limitation the information contained in the tables appearing under the subheadings "Summary of Historical Operating Statements" and "Summary of Historical Debt Service Coverage Ratio"); provided, however, that references to the Official Statement for the Bonds as a means of identifying such financial information and operating data shall not prevent the Issuer from reorganizing such material in subsequent official statements or annual information reports.

(b) To the extent not included in the Audited Financial Statements or the information provided pursuant to (a) above, historic financial information and historic operating data of that type included in each of the following tables set forth in Appendix A to the Official Statement - Report of the Airport Consultant (but only to the extent reasonably available, without requiring the retention of outside professionals):

- Table 5 - Airlines Serving the Airport
- Table 6 - Historical Enplaned Passengers
- Table 7 - Airline Market Shares of Enplaned Passengers
- Table 10 - Scheduled Average Daily Aircraft Departures by Airline
- Table 12 - Average Domestic One-Way Airline Fares
- Table 14 - Historical Air Cargo
- Table 15 - Historical Landed Weight
- Table 16 - Airline Shares of Landed Weight
- Table 17 - Historical, Estimated, and Forecast Enplaned Passengers
- Table 23 - Revenues - FY 2003 and FY 2004
- Table 24 - Principal Nonairline Terminal Building Revenue - FY 2003 and FY 2004

provided, however, that the references to Appendix A of the Official Statement for the Bonds as a means of identifying such financial information and historic operating data shall not prevent the Issuer from reorganizing such material in subsequent official statements or annual information reports.

and (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(d) and (e) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the Issuer, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Sections 3.2(a) and (e) hereof, the Issuer may from time to time, if required by federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific federal or State law or regulation describing such accounting principles, or other description thereof.

(1) “Counsel” means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws.

(2) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(3) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(4) “Notice Event” means any of the following events with respect to the Bonds, whether relating to the Issuer or otherwise:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of holders of the Bonds, if material;
- (viii) bond calls (other than mandatory sinking fund redemptions), if material and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the Issuer;

Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer;

- (xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(5) “Official Statement” means the Official Statement dated June 6, 2012 of the Issuer relating to the Bonds.

(6) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(7) “SEC” means the United States Securities and Exchange Commission.

(8) “State” means the State of New Hampshire.

(9) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

## ARTICLE V

### MISCELLANEOUS

**Section 5.1.** Duties, Immunities and Liabilities of Trustee. Article XI of the Resolution is hereby made applicable to this Agreement as if this Agreement were, solely for this purpose, contained in the Resolution. The Trustee shall have only such duties under the Agreement as are specifically set forth in this Agreement, and the Issuer agrees to indemnify and save the Trustee, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Trustee’s negligence or willful misconduct in the performance of its duties hereunder. Such indemnity shall be separate from and in addition to that provided to the Trustee under the Resolution. The obligations of the Issuer under this Section shall survive resignation or removal of the Trustee and payment of the Bonds. The Trustee shall not be under any obligation or duty to examine or verify the content of any Annual Financial Information or notice of a Notice Event, or to determine whether the same complies with or satisfies the requirements of this Agreement or the Rule, and shall have no responsibility for the sufficiency of this Agreement for purposes of satisfying the Rule or otherwise.

**Section 5.2.** Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**IN WITNESS WHEREOF**, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

**CITY OF MANCHESTER,  
NEW HAMPSHIRE**

By: \_\_\_\_\_  
Name: William E. Sanders  
Title: Finance Officer

**THE BANK OF NEW YORK MELLON,  
as Trustee**

By: \_\_\_\_\_  
Name:  
Title:

[Signature page of Continuing Disclosure Agreement]

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**APPENDIX F**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on 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 unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer 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. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud) whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

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