

NEW ISSUE: BOOK-ENTRY ONLY

RATINGS: See "RATINGS" herein.

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2006 Bonds is excluded from gross income for federal income tax purposes, except for interest on a Series 2006 Bond for any period during which that Series 2006 Bond is held by a "substantial user" or a "related person," as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended, and (ii) interest on the Series 2006 Bonds is exempt from Arizona state income tax. Interest on the Series 2006 Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In addition, interest on the Series 2006 Bonds may be subject to certain federal taxes imposed only on certain corporations. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

\$32,110,000

**TUCSON AIRPORT AUTHORITY, INC.
SUBORDINATE LIEN AIRPORT REVENUE BONDS,
SERIES 2006 (AMT)**

Dated: Date of Delivery

Due: December 1, as shown on inside cover

The Subordinate Lien Airport Revenue Bonds, Series 2006 (the "Series 2006 Bonds") are being issued to provide funds which will be used to finance certain improvements by the Tucson Airport Authority, Inc. (the "Authority") at the Tucson International Airport (the "Airport"), to pay capitalized interest on a portion of such bonds, to provide for a debt service reserve fund for such bonds and to pay certain costs of issuance.

The Series 2006 Bonds will be payable from and secured by a lien on Net Revenues of the Airport System subordinate and junior to the lien thereon of the Authority's outstanding Senior Lien Bonds (as defined herein) and any additional Senior Lien Bonds which may be issued in the future, all as more particularly described herein. The Series 2006 Bonds are issued on a parity as to the lien on Net Revenues with the Authority's outstanding Subordinate Lien Bonds (as defined herein) and any additional Subordinate Lien Bonds which may be issued in the future. A portion of the principal of and interest on the Series 2006 Bonds is additionally payable from and secured by the net proceeds of a Passenger Facility Charge approved by the Federal Aviation Administration and imposed and collected with respect to the Airport ("PFC Revenues") in an amount described herein under the caption "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2006 BONDS - Pledge of Certain PFC Revenues to a Portion of Series 2006 Bonds Debt Service." Such pledge is on a parity with the pledge of PFC Revenues for the benefit of certain outstanding Subordinate Lien Bonds and any additional future obligations to the extent designated by the Authority consistent with the covenants described herein.

The Series 2006 Bonds are limited obligations of the Authority and do not constitute and are not an obligation or indebtedness of the City of Tucson, Pima County, the State of Arizona or any municipality, instrumentality or political subdivision thereof other than the Authority. The Authority has no taxing power.

The maturities, interest rates, yields and CUSIP numbers are set forth on the reverse side of this cover page.

The Series 2006 Bonds will be issued as fully registered Series 2006 Bonds in the denomination of \$5,000 each or any integral multiple thereof registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2006 Bonds. See APPENDIX I — "BOOK-ENTRY ONLY SYSTEM" herein. As long as the book-entry only system is in effect, purchasers of Series 2006 Bonds will not receive physical delivery of the Series 2006 Bond certificates, as further described herein. Amounts due on the Series 2006 Bonds will be paid by Zions First National Bank, as Paying Agent for the Series 2006 Bonds, to DTC, with such payment to be subsequently disbursed to the beneficial owners of the Series 2006 Bonds, as further described herein. Interest on the Series 2006 Bonds is payable June 1, 2007 and semiannually thereafter on each June 1 and December 1.

The Series 2006 Bonds are subject to redemption prior to maturity as more fully described herein.

Payment of the principal of and interest on the Series 2006 Bonds when due will be insured by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Series 2006 Bonds by MBIA Insurance Corporation.



The cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the Series 2006 Bonds. Investors should review the entire Official Statement, giving particular attention to the matters discussed under the caption "CERTAIN INVESTMENT CONSIDERATIONS" in order to obtain information essential to making an informed investment decision.

The Series 2006 Bonds are offered when, as and if issued and received by the Underwriters and subject to the approval of legality by Squire, Sanders & Dempsey L.L.P., Bond Counsel. Certain matters will be passed upon on behalf of the Authority by Marjorie Perry, Esq., its Senior Vice President and General Counsel, and for the Underwriters by Greenberg Traurig, LLP. It is expected that the Series 2006 Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York on or about December 20, 2006.

Bear, Stearns & Co. Inc.

UBS Investment Bank

Dated: December 6, 2006

\$32,110,000
TUCSON AIRPORT AUTHORITY, INC.
SUBORDINATE LIEN AIRPORT REVENUE BONDS, SERIES 2006
(AMT)

<u>Year (December 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2007	\$ 750,000	4.25%	3.55%	898728 GA 2
2008	1,050,000	4.00	3.63	898728 GB 0
2009	1,085,000	4.00	3.65	898728 GC 8
2010	1,130,000	5.00	3.68	898728 GD 6
2011	1,190,000	5.00	3.70	898728 GE 4
2012	1,250,000	5.00	3.74	898728 GF 1
2013	1,305,000	5.00	3.77	898728 GG 9
2014	1,375,000	5.00	3.80	898728 GH 7
2015	1,440,000	5.00	3.84	898728 GJ 3
2016	1,520,000	5.00	3.88	898728 GK 0
2017	1,590,000	5.00	3.94*	898728 GL 8
2018	1,670,000	5.00	3.98*	898728 GM 6
2019	1,755,000	5.00	4.02*	898728 GN 4
2020	1,840,000	5.00	4.05*	898728 GP 9
2021	1,935,000	5.00	4.07*	898728 GQ 7
2022	2,030,000	5.00	4.08*	898728 GR 5
2023	2,135,000	5.00	4.10*	898728 GS 3
2024	2,240,000	5.00	4.12*	898728 GT 1
2025	2,350,000	5.00	4.13*	898728 GU 8
2026	2,470,000	4.25	4.40	898728 GV 6

* Priced to the first call date of December 1, 2016.

** CUSIP data herein provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, and is set forth herein for convenience of reference only. Neither the Authority nor the Underwriters assume responsibility for the accuracy of such numbers.

**TUCSON AIRPORT AUTHORITY
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Thomas R. Andrews	Vice President of Operations
Jill Casson Owen	Vice President of Contracting Services and Associate General Counsel

CONSULTANTS

Squire, Sanders & Dempsey L.L.P. Phoenix, Arizona	Bond Counsel
DeVries CPAs of Arizona, P.C. Tucson, Arizona	Independent Auditors
First Albany Capital, Inc. New York, New York	Financial Advisor
John F. Brown Company Cincinnati, Ohio	Airport Consultant
Zions First National Bank Los Angeles, California	Bond Registrar and Paying Agent

NO DEALER, BROKER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS OFFICIAL STATEMENT (INCLUDING APPENDICES), IN CONNECTION WITH THE OFFERING OF THE SERIES 2006 BONDS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE AUTHORITY OR THE UNDERWRITERS. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SERIES 2006 BONDS IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

THE SERIES 2006 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS OFFICIAL STATEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING PARAGRAPHS FOR INCLUSION IN THIS OFFICIAL STATEMENT.

THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2006 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$32,110,000 **TUCSON AIRPORT AUTHORITY, INC.** **SUBORDINATE LIEN AIRPORT REVENUE BONDS,** **SERIES 2006 (AMT)**

INTRODUCTORY STATEMENT

This Official Statement, including the cover page, main body and the Appendices hereto, of the Tucson Airport Authority, Inc. (the "Authority") is provided to furnish information with respect to \$32,110,000 aggregate principal amount of the Authority's Subordinate Lien Airport Revenue Bonds, Series 2006 (the "Series 2006 Bonds"). See "THE AUTHORITY" herein for additional information with respect to the organization and powers of the Authority.

This Introductory Statement contains a brief summary of certain information contained in this Official Statement. This Introductory Statement is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement.

The land and improvements comprising Tucson International Airport (the "Airport") are owned by the City of Tucson, Arizona ("Tucson" or the "City"), and are leased by the City to the Authority pursuant to a lease dated October 14, 1948, as such lease has been and may be amended (the "Airport Lease"), which expires October 14, 2048. The Airport is located in Pima County and is the principal air carrier airport serving metropolitan Tucson, southern Arizona and northern Sonora, Mexico. The Authority also leases from the City facilities located at Ryan Airfield, a general aviation facility, which facilities, together with the Airport, are collectively referred to herein as the "Airport System." See "THE AUTHORITY-Leases with the City of Tucson" herein.

The Series 2006 Bonds are being issued to provide funds to finance certain improvements at the Airport, (such improvements being referred to herein as the "2006 Project"), to pay capitalized interest on a portion of such bonds, to provide a debt service reserve fund for such bonds and to pay certain costs of issuance. See "THE 2006 PROJECT" herein.

The Series 2006 Bonds are being issued under the authority of Title 10 and Title 28, Chapter 25, Article 6, Arizona Revised Statutes, as amended.

The Series 2006 Bonds are authorized and issued under and pursuant to the provisions of a Subordinate Lien Revenue Bond Resolution, adopted by the Board of Directors of the Authority on July 11, 2001, which was amended and restated by an Amended and Restated Subordinate Lien Airport Revenue Bond Resolution, adopted by the Board of Directors of the Authority on November 28, 2006 (the "Subordinate Lien Bond Master Resolution") and resolutions supplemental thereto adopted by the Board of Directors of the Authority on July 11,

2001 and November 28, 2006, respectively and by a Certificate of Determination issued pursuant thereto (collectively, the “Supplemental Subordinate Lien Resolutions”). The Subordinate Lien Bond Master Resolution, as so supplemented and as further amended and supplemented from time to time, including by the Supplemental Subordinate Lien Resolutions, is referred to herein as the “Subordinate Lien Bond Resolution”. The Series 2006 Bonds, the Authority’s Subordinate Lien Revenue Bonds, Series 2001, outstanding in the aggregate principal amount of \$39,335,000 (the “Series 2001 Subordinate Lien Bonds”) and any additional bonds (the “Additional Subordinate Lien Bonds”) that may be issued under the Subordinate Lien Bond Resolution are collectively referred to herein as the “Subordinate Lien Bonds.”

The Subordinate Lien Bonds are secured by a pledge of and lien on the Net Revenues derived by the Authority from the operation of the Airport System, subordinate and junior to the lien and pledge of the Senior Lien Bonds (as defined herein). Net Revenues as defined in the Subordinate Lien Bond Resolution and the Senior Lien Bond Resolution (as defined herein) consist of Revenues less Operation and Maintenance Expenses. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2006 BONDS - Subordinated Pledge of Net Revenues” herein and APPENDIX D - “SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTIONS-Definitions-Revenues” and “-Operation and Maintenance Expenses.”

In addition to the pledge of Net Revenues described above, a portion of the principal of and interest on the Series 2006 Bonds is secured by a pledge of and lien on the net proceeds of a passenger facility charge (the “Passenger Facility Charge” or “PFC”) imposed by the Authority and collected on behalf of the Authority by passenger air carriers using the Airport (“PFC Revenues”). Such pledge is on a parity with a pledge in an amount equal to, but not exceeding, the principal of and interest on the Series 2001 Subordinate Lien Bonds coming due each fiscal year and all or a portion of the debt service on such additional future Subordinate Lien Bonds designated by the Authority consistent with the covenants described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2006 BONDS - -Pledge of PFC Revenues and Related Covenants-Pledge of Certain PFC Revenues to a Portion of Series 2006 Subordinate Lien Bond Debt Service” and “THE CAPITAL IMPROVEMENT PROGRAM-Passenger Facility Charge Program” herein.

Payment of the principal of and interest on the Series 2006 Bonds when due will be insured by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Series 2006 Bonds by MBIA Insurance Corporation (the “Insurer”). See “BOND INSURANCE”.

The pledge of Net Revenues for the benefit of the Subordinate Lien Bonds is subordinate to the Senior Lien Bonds issued under the Airport Revenue Bond Resolution adopted by the Board of Directors of the Authority on December 4, 1990, as amended and restated by an Amended and Restated Senior Lien Airport Revenue Bond Resolution, adopted by the Board of Directors of the Authority on November 28, 2006 (the “Senior Lien Bond Master Resolution”), and resolutions supplemental thereto adopted by the Board of Directors of the Authority on July 11, 2001 and October 1, 2002, respectively (collectively, the Supplemental Senior Lien Resolutions”). The Senior Lien Bond Master Resolution, as supplemented and as further amended and supplemented from time to time, is referred to herein as the “Senior Lien Bond Resolution” and the Senior Lien Bond Resolution and the Subordinate Lien Bond Resolution are

collectively referred to as the “Bond Resolutions” in this Official Statement. The Authority’s Airport Revenue Bonds, Refunding Series 2001A, Refunding Series 2001B and Refunding Series 2001C (collectively, the “Series 2001 Senior Lien Bonds”), and Refunding Series 2003 (the “Series 2003 Senior Lien Bonds”) and any additional bonds which may be issued under the Senior Lien Bond Resolution are collectively referred to herein as the “Senior Lien Bonds”. The Senior Lien Bonds are currently outstanding in the aggregate principal amount of \$40,670,000.

All capitalized terms used in this Official Statement not conventionally capitalized and not otherwise defined herein shall have the same meanings as in the Bond Resolutions.

There follows in this Official Statement a description of the Airport Service Area (as defined in “THE AIRPORT SYSTEM-The Airport Service Area” below), the Authority, the Airport System, certain information related to the sources of payment for the Subordinate Lien Bonds and the Senior Lien Bonds together with summaries of the terms of the Series 2006 Bonds and certain provisions of the Bond Resolutions and the Use Agreements (as defined in “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2006 BONDS-Subordinated Pledge of Net Revenues - Revenues” and “-Passenger Airline Rates and Charges” below). All references herein to agreements and documents are qualified in their entirety by reference to the definitive forms thereof and all references to the Subordinate Lien Bonds and the Senior Lien Bonds are further qualified by reference to the information with respect thereto contained in the relevant Bond Resolution.

A copy of the Official Statement, including any supplements prepared by the Authority, will be filed with a nationally recognized municipal securities information repository or the central post office, DisclosureUSA.org.

ESTIMATED APPLICATION OF SERIES 2006 BOND PROCEEDS

2006 Project Description

The 2006 Project is the first phase of redevelopment of the Airport’s concourses to ultimately balance the capacity of the concourse facilities with the capacity of the main terminal landside facilities. For a detailed description of the 2006 Project, see “CAPITAL IMPROVEMENT PROGRAM-Concourse Renovation Project” and APPENDIX A-“REPORT OF THE AIRPORT CONSULTANT.”

Estimated Sources and Uses of Bond Funds

The Series 2006 Bonds are being issued to provide funds: (1) to finance costs of the 2006 Project, (2) to pay capitalized interest on a portion of the Series 2006 Bonds (3) to provide a debt service reserve fund for the Series 2006 Bonds and (4) to pay certain costs of issuance of the Series 2006 Bonds.

Upon the issuance of the Series 2006 Bonds, the net proceeds (total proceeds plus original issue premium, if any, less amounts allowed for discount (including original issue discount, if any) and expended for costs of issuance, including insurance premiums and amounts deposited to the Subordinate Lien Bond Reserve Fund) will be deposited in the Construction Fund, including the Construction Interest Account with respect to capitalized interest,

established under the Subordinate Lien Bond Resolution until said funds are applied to the payment of costs of the 2006 Project. The net proceeds of the Series 2006 Bonds shall, immediately upon deposit, be invested and reinvested by the Authority in Investment Securities.

The following table summarizes the estimated sources and uses of the Series 2006 Bond proceeds.

	<u>Total</u>
<i>Sources of Funds:</i>	
Principal Amount of Bonds	\$32,110,000
Net Original Issue Premium	<u>1,990,541</u>
Total Sources	<u>\$34,100,541</u>
<i>Uses of Funds:</i>	
Deposit to the Construction Account	\$30,397,273
Deposit to Subordinate Lien Bond Reserve Account	2,578,225
Deposit to Capitalized Interest Fund	313,242
Costs of Issuance (1)	<u>811,801</u>
Total Uses	<u>\$34,100,541</u>

(1) Includes the Authority's cost of issuance, underwriting discount, premium for bond insurance and contingency.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2006 BONDS

Limited Obligations

The Senior Lien Bonds and the Subordinate Lien Bonds are limited obligations of the Authority and do not constitute and are not an obligation or indebtedness of the City, Pima County, the State of Arizona (the "State") or any municipality, instrumentality or political subdivision thereof other than the Authority. The Authority has no taxing power.

Sources of Payment

The Series 2006 Bonds will be secured by a subordinate pledge of the Net Revenues described below under the caption "Subordinated Pledge of Net Revenues." A portion of the debt service on the Series 2006 Bonds is additionally payable from and secured by the net proceeds of a Passenger Facility Charge as described below under the caption "Pledge of PFC Revenues and Related Covenants."

Subordinated Pledge of Net Revenues

General. The Subordinate Lien Bonds will be equally and ratably secured by a pledge of and lien upon the Net Revenues derived by the Authority from the operation of the Airport

System junior and subordinate to the lien of Net Revenues for the payment of Senior Lien Bonds. Net Revenues are defined under the Bond Resolutions as Revenues less Operation and Maintenance Expenses. The Authority has covenanted in the Subordinate Lien Bond Resolution to duly and punctually pay, or cause to be paid, but solely from Net Revenues and other moneys pledged under the Subordinate Lien Bond Resolution, principal of, premium, if any, and interest on the Subordinate Lien Bonds. See APPENDIX A - "REPORT OF THE AIRPORT CONSULTANT" and the financial statements attached hereto as APPENDIX B and APPENDIX C.

Revenues. Subject to certain limited exclusions, Revenues are generally defined under the Bond Resolutions to include the total of all income and revenue from all sources collected or received by the Authority in connection with the Airport System, including all rates, charges, rentals, fees and any other compensation and investment income earned by the Authority. The proceeds of the Passenger Facility Charge (the "PFC Revenues") discussed below are expressly *excluded* from Revenues. For a complete definition of Revenues, see APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTIONS-Definitions" herein. A major portion of the Revenues of the Authority are derived from the following sources:

Passenger Airline Rates and Charges. The Authority is party to Airport Use and Lease Agreements (the "Use Agreements") with certain airlines ("Signatory Airlines") as described herein under the caption "THE AUTHORITY - Certain Operating Agreements-Use Agreements." Major sources of revenues received pursuant to the Use Agreements include terminal space rentals and landing fees. In addition, terminal space rentals and landing fees are received from non-signatory airlines serving the Airport. For the fiscal year ended September 30, 2005, payments made by passenger airlines in rentals and landing fees constituted approximately 26% of Revenues. The Use Agreements currently expire on September 30, 2008.

The Use Agreements specify a residual cost formula for calculating annual adjustments to the landing fee rate to ensure that total Signatory Airline revenues, together with certain other Airport System revenues, will be sufficient to cover debt service on the Senior Lien Bonds and the Subordinate Lien Bonds and certain other expenses of the Authority. See APPENDIX E- "SUMMARY OF CERTAIN TERMS OF THE AIRPORT USE AGREEMENTS--Landing Fees."

Concession Revenues. Concession revenues are derived from, among other sources, (1) food and beverage services which are currently under contract to OTG Management Tucson LLC and news and gift shops which are currently under contract to Paradies-Desert House LLC; (2) automobile rentals, which are under concession leases to various car rental firms; (3) automobile parking; (4) display advertising; (5) off-airport parking operator fees; and (6) ground transportation provider fees.

Customer Facility Charges. Rental car companies operating at the Airport are required to collect and remit to the Authority a Customer Facility Charge (CFC") for each rental car contract entered into at the Airport. The CFC is set at an amount intended to recover capital costs of the consolidated rental car facility located adjacent to the main terminal.

Other System Revenue. The Authority additionally derives revenues from, among other sources, (1) landing fees from cargo and commuter airlines; (2) contractual payments in lieu of landing fees from the Arizona Air National Guard; (3) rental of other Airport land and buildings to various tenants including cargo airlines, general aviation fixed base operators (“FBO’s”), commercial and industrial businesses, the Federal Aviation Administration (“FAA”) for control tower facilities and many other government and private aeronautical users; (4) into-plane fuel flowage fees for aircraft fueling services provided exclusively by the Authority to air carrier and cargo airlines; (5) flowage fees on fuel deliveries to FBO’s; (6) jet and aviation fuel sales and other general aviation services provided by its own FBO facility (referred to as the Executive Terminal); (7) utilities, custodial services and other management services provided in Airport buildings; and (8) fuel sales and rental of land and buildings at Ryan Airfield (a general aviation facility). See APPENDIX A - “REPORT OF THE AIRPORT CONSULTANT.”

Additionally, investment earnings on Revenues in Authority funds, other than construction funds, and amounts transferred by the Authority from its Airline Reserve Fund to the Revenue Fund, are included in the definition of Revenues.

Operation and Maintenance Expenses. Operation and Maintenance Expenses are generally defined under the Bond Resolutions to include all reasonable and necessary expenses of the Authority in administering, operating, maintaining and repairing the Airport System. A more complete definition of Operation and Maintenance Expenses may be found in APPENDIX D - “SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTIONS-Definitions.” The major portion of Operation and Maintenance Expenses encompasses expenses for personnel, contractual services, materials and supplies and product sales. For a historical summary of Revenues and Operation and Maintenance Expenses, and the Airport management’s discussion thereof, see “SUMMARY OF FINANCIAL OPERATING INFORMATION” herein.

Pledge of PFC Revenues and Related Covenants

Pledge of Certain PFC Revenues to a Portion of Series 2006 Subordinate Lien Debt Service. A portion of the principal of and interest on the Series 2006 Bonds is also secured by a pledge of and lien on the net proceeds of PFC Revenues imposed by the Authority and collected on behalf of the Authority by substantially all air carriers using the Airport. The pledge is in a dollar amount equal to approximately 79% of the annual debt service on the Series 2006 Bonds (based on the percentage of the 2006 Project costs eligible for PFC funding) to the extent received in each fiscal year. Such pledge is on a parity with a pledge in a dollar amount equal to, but not exceeding, the principal of and interest on the Series 2001 Subordinate Lien Bonds coming due each fiscal year and all or a portion of the debt service on such additional future Subordinate Lien Bonds designated by the Authority consistent with the covenants described herein. In the event of a shortfall of PFC Revenues necessary to pay principal of and interest on the Series 2001 Subordinate Lien Bonds and the Series 2006 Bonds, PFC Revenues would be allocated first to interest and then to principal then due and payable on a pro rata basis according to the respective outstanding amounts secured by PFC Revenues. Any debt service not paid by PFC Revenues would then be payable from Net Revenues junior and subordinate to the pledge of Net Revenues for payment of the Senior Lien Bonds, as described above.

Applicable Laws and the Authority's Program. For a description of the laws relating to PFCs and the Authority's PFC program, see "THE CAPITAL IMPROVEMENT PROGRAM-Passenger Facility Charge Program" herein.

Investment Considerations. For a description of certain risks relating to the Authority's PFC program, see "THE CAPITAL IMPROVEMENT PROGRAM - Certain Risks and Covenants Relating to the Amount and Timing of Receipt of PFC Revenues."

Rate Covenant

The Authority has covenanted in the Subordinate Lien Bond Resolution that it will impose and prescribe such schedule of rates, rentals, fees and charges for the use and services of, and facilities and commodities furnished by, the Airport System, and will revise the same from time to time whenever necessary, and collect the income, receipts and other moneys derived therefrom, so that the Airport System shall be and always remain financially self-sufficient and self-sustaining.

Amounts to be collected are required to be such as will produce Revenues at least sufficient (i) to pay Operation and Maintenance Expenses, (ii) to pay principal of, premium, if any, and interest on all Senior Lien Bonds, Subordinate Lien Bonds and Junior Subordinate Lien Obligations issued or incurred in accordance with, or as permitted by, the Subordinate Lien Bond Resolution, and (iii) to carry out all provisions and covenants of the Subordinate Lien Bond Resolution. Without limiting the foregoing, the Authority has covenanted that at all times and in any and all circumstances, such rates, rentals, fees and charges shall be imposed, prescribed, adjusted, enforced and collected which will yield Net Revenues with respect to the immediately ensuing fiscal year after deducting debt service on the Senior Lien Bonds ("Senior Lien Aggregate Annual Debt Service"), which, together with certain amounts credited to, or transferred from, the Airport Improvement Fund as permitted by the Subordinate Lien Bond Resolution (the "Coverage Transfer Amount") and the total amount of PFC Revenues and federal or state grants or other monies pledged as additional security to the Subordinate Lien Bonds and applied in such fiscal year to the payment of debt service on the Subordinate Lien Bonds Outstanding due in a fiscal year ("Subordinate Lien Aggregate Annual Debt Service"), but not in excess of the amount of PFC Revenues and such federal or state grants or other monies so pledged, equal at least 110% of Subordinate Lien Aggregate Annual Debt Service. For purposes of complying with this covenant, the term "Debt Service," as a component of the terms Senior Lien Aggregate Annual Debt Service and Subordinate Lien Aggregate Annual Debt Service, may be adjusted based on a number of factors, including various assumptions with respect to variable rate debt, authorized and outstanding commercial paper, balloon indebtedness and qualifying interest rate swaps. Also, for purposes of complying with this covenant, the Coverage Transfer Amount taken into account shall not exceed 10% of Subordinate Lien Aggregate Annual Debt Service. "See APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTIONS-Definitions" herein for the definitions of Coverage Transfer Amount, Debt Service, Senior Lien Aggregate Annual Debt Service and Subordinate Lien Aggregate Annual Debt Service . See also APPENDIX E-"SUMMARY OF CERTAIN TERMS OF THE AIRPORT USE AGREEMENTS". For a description of the rate covenant in the Senior Bond Resolution, see APPENDIX D - "SUMMARY OF CERTAIN

PROVISIONS OF THE BOND RESOLUTIONS-The Senior Lien Bond Resolution-Covenants as to Rates, Rentals and Charges.”

Reserve Funds

Subordinate Lien Bond Reserve Fund. The Subordinate Lien Bond Resolution establishes a Subordinate Lien Bond Reserve Fund which is to be held by the Authority and requires that an account be established therein with respect to each series of Subordinate Lien Bonds, in the amount equal to the Subordinate Lien Bond Reserve Requirement for such series, which may be used solely to make payments of principal of, premium, if any, and interest on the series of Subordinate Lien Bonds for which such account is established to the extent that the amounts in the Subordinate Lien Bond Fund are not sufficient to make said payments when due. The Subordinate Lien Bond Resolution provides that a separate account be established for each series of Subordinate Lien Bonds, except that a future Supplemental Subordinate Lien Resolution may provide for a common Subordinate Lien Bond Reserve Fund account for more than one series of Additional Subordinate Lien Bonds. The Subordinate Lien Bond Resolution provides that the Subordinate Lien Bond Reserve Fund Requirement may be satisfied at the time of issuance for each series with cash, or through the deposit of a surety bond, insurance policy or letter of credit meeting the requirements of the Subordinate Lien Bond Resolution. The Subordinate Lien Bond Reserve Requirement with respect to the Series 2001 Subordinate Lien Bonds was satisfied through the deposit of a surety bond issued by Ambac Assurance Corporation.

The Authority will satisfy the Subordinate Lien Bond Reserve Fund Requirement for the Series 2006 Bonds by depositing an amount equal to \$2,578,225 to the corresponding account of the Subordinate Lien Bond Reserve Fund.

Senior Lien Airport Bond Reserve Fund. The Senior Lien Bond Resolution establishes a Senior Lien Bond Reserve Fund which is to be held by the Authority and requires that an account be established therein with respect to each series of Senior Lien Bonds in the amount equal to the Senior Lien Bond Reserve Requirement for such series which may be used solely to make payments of principal of, premium, if any, and interest on the series of Senior Lien Bonds for which such account is established to the extent that the amounts in the Senior Lien Bond Fund are not sufficient to make said payments when due. The Senior Lien Bond Resolution provides that a separate account be established for each series of Senior Lien Bonds, except that a future Supplemental Senior Lien Bond Resolution may provide for a common Senior Lien Bond Reserve Fund account for more than one series of Additional Senior Lien Bonds. The funding requirement for the account established in the Senior Lien Bond Reserve Fund for the outstanding Series 2001 Senior Lien Bonds and outstanding Series 2003 Senior Lien Bonds (maximum annual debt service on each such series of bonds) were satisfied by the deposit of surety bonds provided by Ambac Assurance Corporation and Financial Security Assurance, Inc., respectively.

Additional Bonds

The Authority is permitted to issue additional Senior Lien Bonds and additional Subordinate Lien Bonds under the Bond Resolutions. See “Additional Senior Lien Bonds Test” and “Additional Subordinate Lien Bonds Test” below and APPENDIX D - “SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTIONS-The Senior Lien Bond Resolution-Additional Obligations of the Authority” and “-The Subordinate Lien Bond Resolution-Additional Obligations of the Authority.” The Authority has outstanding and is permitted to issue additional Junior Subordinate Lien Obligations. Certain capitalized terms used below have the meanings ascribed to such terms in APPENDIX D - “SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTIONS-Definitions.”

Additional Senior Lien Bonds Test. Under Section 2.02 of the Senior Lien Bond Resolution, the Authority may issue Additional Senior Lien Bonds for the purpose of paying costs of additions, expansions and improvements to the Airport System after complying with the following conditions:

(1) The Designated Financial Officer finds and determines that no Event of Default exists under the Senior Lien Bond Resolution; and

(2) Either (i) the Designated Financial Officer certifies that, based on audited financial statements of the Authority or, to the extent audited financial statements are not available, on information derived from the books and records of the Authority, for the most recent Fiscal Year, the Net Revenues for such Fiscal Year, together with the Coverage Transfer Amount, will equal at least one hundred twenty-five percent (125%) of Senior Lien Maximum Aggregate Annual Debt Service on all Senior Lien Bonds Outstanding and the Senior Lien Bonds of the Series then proposed to be issued; or (ii) an Airport Consultant certifies that estimated Net Revenues, together with the Coverage Transfer Amount, to be derived in each of the three full Fiscal Years following the Fiscal Year in which (a) the Authority estimates that the properties included or to be included in the Airport System which are to be financed by the issuance of such Additional Senior Lien Bonds, will be placed in continuous service or in commercial operation or amounts credited to a Construction Interest Account in the Construction Fund are expended, whichever is earlier, or (b) Senior Lien Refunding Bonds are issued, will equal at least one hundred twenty-five percent (125%) of Senior Lien Aggregate Annual Debt Service for the comparable Fiscal Years on all Senior Lien Bonds Outstanding and the Senior Lien Bonds of the Series then proposed to be issued.

For purposes of clause (2) above, the Coverage Transfer Amount taken into account may not exceed (i) for purposes of clause 2(i) above, twenty-five percent (25%) of Senior Lien Maximum Aggregate Annual Debt Service on Senior Lien Bonds Outstanding and the Senior Lien Bonds of the Series then proposed to be issued, and (ii) for purposes of clause 2(ii) above, for each Fiscal Year being compared, twenty-five percent (25%) of Senior Lien Aggregate Annual Debt Service for such Fiscal Year on Senior Lien Bonds Outstanding and the Senior Lien Bonds of the Series then proposed to be issued.

In addition, under the Senior Lien Bond Resolution, the Authority may issue Senior Lien Completion Bonds to complete any project described in a Supplemental Senior Lien Resolution without complying with the foregoing test described in (2) above, upon a determination by the Authority that the original scope of such project has not materially changed and that the issuance of such Senior Lien Completion Bonds is necessary for the completion of such project. The Authority may also issue Senior Lien Refunding Bonds without complying with the foregoing test, (i) for the purpose of refunding outstanding Senior Lien Bonds at or within one year of their maturity for the payment of which sufficient funds are not available or (ii) the purpose of refunding portions of Senior Lien Bonds if such refunding does not increase the amount of principal, interest and premium, if any, due in any Fiscal Year which Senior Lien Bonds not refunded remain outstanding.

Additional Subordinate Lien Bonds Test. Under Section 2.02 of the Subordinate Lien Bond Resolution, the Authority may issue Additional Subordinate Lien Bonds after complying with the following conditions:

(1) The Designated Financial Officer finds and determines that no Event of Default exists under the Bond Resolutions, and

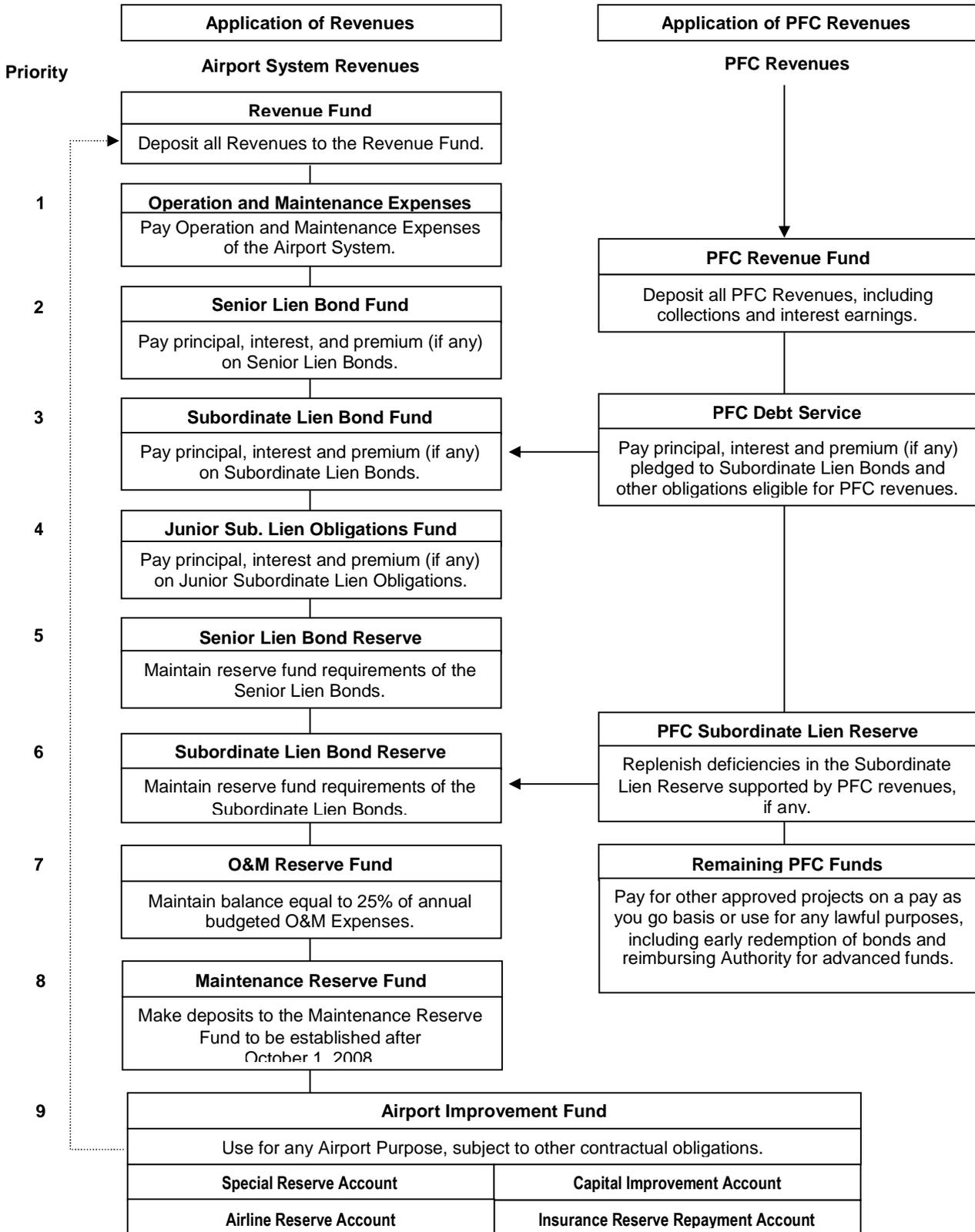
(2) Either (i) the Designated Financial Officer certifies that, based on audited financial statements of the Authority, or, to the extent audited figures are not available, on figures derived from the books and records of the Authority, for the most recent Fiscal Year, the Net Revenues for such Fiscal Year, after deducting Senior Lien Aggregate Annual Debt Service, together with the Coverage Transfer Amount and the total amount of PFC Revenues and federal or state grants or other monies pledged as additional security for payment of Subordinate Lien Bonds applied in such Fiscal Year to the payment of Debt Service on Subordinate Lien Bonds Outstanding, but not in excess of the amount of PFC Revenues and such federal or state grants or other monies so pledged as additional security on Subordinate Lien Bonds, will equal at least one hundred ten percent (110%) of Subordinate Lien Maximum Aggregate Annual Debt Service on all Subordinate Lien Bonds Outstanding and the Subordinate Lien Bonds of the Series then proposed to be issued; or (ii) an Airport Consultant certifies that estimated Net Revenues, after deducting Senior Lien Aggregate Annual Debt Service, to be derived in each of the three full Fiscal Years following the Fiscal Year in which (a) the Authority estimates the properties included or to be included in the Airport System which are to be financed by the issuance of such Additional Subordinate Lien Bonds will be placed in continuous service or in commercial operation, or amounts credited to a Construction Interest Account in the Construction Fund are expended, whichever is earlier, or (b) Subordinate Lien Refunding Bonds are issued, together with the Coverage Transfer Amount and the total amount of PFC Revenues and federal or state grants or other monies pledged as additional security for payment of Subordinate Lien Bonds to be applied in such Fiscal Years to the payment of Debt Service on Subordinate Lien Bonds Outstanding, but not in excess of the amount of PFC Revenues and such federal or state grants or other monies so pledged as additional security on Subordinate Lien Bonds, will equal at least one hundred ten percent (110%) of Subordinate Lien Aggregate Annual Debt Service for the comparable Fiscal Years on all Subordinate Lien Bonds Outstanding and the Subordinate Lien Bonds of the Series then proposed to be issued.

For purposes of clause (2) above, the Coverage Transfer Amount taken into account may not exceed (i) for purposes of clause 2(i) above, ten percent (10%) of Subordinate Lien Maximum Aggregate Annual Debt Service on Subordinate Lien Bonds Outstanding and the Subordinate Lien Bonds of the Series then proposed to be issued, and (ii) for purposes of clause 2(ii) above, for each Fiscal Year being compared, ten percent (10%) of Subordinate Lien Aggregate Annual Debt Service for such Fiscal Year on Subordinate Lien Bonds Outstanding and the Subordinate Lien Bonds of the Series then proposed to be issued.

In addition, under the Subordinate Lien Bond Resolution, the Authority may issue Subordinate Lien Completion Bonds to complete any project described in a Supplemental Subordinate Lien Resolution without complying with the foregoing test described in (2) above, but not in an amount equal to more than 10% of the principal amount of the Subordinate Lien Bonds issued to finance such project, upon a determination by the Authority that the issuance of such Senior Lien Completion Bonds is necessary for the completion of such project. The Authority may also issue Senior Lien Refunding Bonds without complying with the foregoing test, (i) for the purpose of refunding outstanding Subordinate Lien Bonds or Senior Lien Bonds at or within one year of their maturity for the payment of which sufficient funds are not available or (ii) the purpose of refunding Subordinate Lien Bonds or Senior Lien Bonds provided that the Subordinate Lien Annual Debt Service in any Fiscal Year on the Subordinate Lien Refunding Bonds proposed to be issued does not exceed the Subordinate Lien Aggregate Annual Debt Service on the Subordinate Lien Bonds or Senior Lien Bonds being refunded by more than 10%.

Flow of Funds

The following graphic depicts the flow of funds under the Bond Resolutions and the application of Revenues and PFC Revenues:



Application of PFC Revenues. PFC Revenues payable to the Authority are gross PFC collections derived from qualifying passenger enplanements at the Airport, less the compensation (i.e., any accrued interest prior to remittance and \$0.11 per Passenger Facility Charge collected) that air carriers are permitted to deduct from the PFCs they collect prior to remitting the proceeds of such Passenger Facility Charges to the Authority. For a description of the Authority's PFC program, see "THE CAPITAL IMPROVEMENT PROGRAM - Passenger Facility Charge Program" herein.

The Subordinate Lien Bond Resolution provides that PFC Revenues will be segregated by the Authority in a separate fund called the "PFC Revenue Fund" and shall be distributed:

- first, on a parity basis, to the Interest Accounts for the Series 2001 Subordinate Lien Bonds, the Series 2006 Bonds and any additional Subordinate Lien Bonds which are additionally secured by PFC Revenues, to make payments of interest on the Series 2001 Subordinate Lien Bonds, the Series 2006 Bonds and additional Subordinate Lien Bonds which are additionally secured by PFC Revenues when such payments are due, to the extent of the dollar amount pledged,
- second, on a parity basis, to the Serial Bond Principal Accounts and the Term Bond Principal Accounts for the Series 2001 Subordinate Lien Bonds, the Series 2006 Bonds and any additional Subordinate Lien Bonds which are additionally secured by PFC Revenues, to make payments of principal or sinking fund payments on the Series 2001 Subordinate Lien Bonds, the Series 2006 Bonds and additional Subordinate Lien Bonds which are additionally secured by PFC Revenues when such payments are due, to the extent of the dollar amount pledged, and
- third, on a parity basis, to the accounts in the Subordinate Lien Bond Reserve Fund for the Series 2001 Subordinate Lien Bonds, the Series 2006 Bonds and any additional Subordinate Lien Bonds which are additionally secured by PFC Revenues to the extent necessary to maintain such accounts in the amounts required.

To the extent PFC Revenues in any month are in excess of the amounts required to make the deposits described above, such PFC Revenues may be transferred to and deposited in a separate fund or account established by the Authority or used for any other lawful purpose. Consequently, if PFC Revenues were received in excess of the amount pledged in a Fiscal Year and the Authority had other permitted uses for excess PFC Revenues, but PFC Revenues were insufficient in any subsequent Fiscal Year, the Authority would be permitted, but not required, to apply such excess PFC Revenues towards debt service in subsequent fiscal years. For a description of certain risks relating to PFC Revenues, see "THE CAPITAL IMPROVEMENT PROGRAM - Passenger Facility Charge Program-Certain Risks and Covenants Relating to the Amount and Timing of Receipt of PFC Revenues" herein."

In the event of a shortfall of PFC Revenues pledged to pay principal of and interest on the Series 2001 Subordinate Lien Bonds and the Series 2006 Bonds, PFC Revenues would be allocated first to interest and then to principal and sinking fund installments then due and payable on a pro rata basis according to the respective outstanding principal amounts. Any amount not paid by PFC Revenues would then be payable from Net Revenues junior and subordinate to the pledge of Net Revenues for payment of the Senior Lien Bonds as described above under the caption "Subordinated Pledge of Net Revenues."

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix G for a specimen of MBIA's policy (the "Policy").

MBIA 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 the Policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Series 2006 Bonds or the advisability of investing in the Series 2006 Bonds.

MBIA's Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2006 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Series 2006 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2006 Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2006 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Series 2006 Bonds resulting from the insolvency,

negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2006 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Series 2006 Bonds the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2006 Bonds or presentment of such other proof of ownership of the Series 2006 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2006 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2006 Bonds in any legal proceeding related to payment of insured amounts on the Series 2006 Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Series 2006 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

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

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2006 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2006 Bonds. MBIA does not guaranty the market price of the Series 2006 Bonds nor does it guaranty that the ratings on the Series 2006 Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, MBIA had admitted assets of \$11.0 billion (audited), total liabilities of \$7.2 billion (audited), and total capital and surplus of \$3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2006, MBIA had admitted assets of \$11.5 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$4.4 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2006 and for the nine month periods ended September 30, 2006 and September 30, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2006 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

THE SERIES 2006 BONDS

The Series 2006 Bonds are being issued in fully registered form in the denomination of \$5,000 or any integral multiple thereof and initially registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). See APPENDIX I - "BOOK-ENTRY ONLY SYSTEM." The Series 2006 Bonds will bear interest from the date they are delivered at the rates per annum and will mature on December 1 in the years and in the principal amounts set forth on the inside cover page of this

Official Statement. Interest will be payable each June 1 and December 1, commencing June 1, 2007.

Bond Registrar and Paying Agent

Zions First National Bank will serve as the initial Bond Registrar and Paying Agent for the Series 2006 Bonds. The Authority may replace the Bond Registrar and Paying Agent without the consent of or notice to the holders of the Series 2006 Bonds.

Optional Redemption

The Series 2006 Subordinate Lien Bonds maturing on or after December 1, 2017 shall be redeemable at par prior to maturity on December 1, 2016 and on any date thereafter at the option of the Authority from any available moneys, other than moneys on deposit in any Term Bond Principal Account in the Subordinate Lien Bond Fund, as a whole or in part at any time and from time to time in such order of maturity as the Authority shall determine and by lot within a maturity at the principal amount redeemed, together with accrued interest to the redemption date.

Notice of Redemption; Effect

So long as the Series 2006 Bonds are issued in book-entry form, notice of redemption of the Series 2006 Bonds will be mailed not less than 30 days prior to the redemption date, by registered or certified mail, to Cede & Co., as nominee for DTC. See APPENDIX I-“BOOK-ENTRY ONLY SYSTEM.”

Any notice of optional redemption may state that such redemption may be conditional upon the receipt by the Paying Agent for the Series 2006 Bonds on the date fixed for redemption of moneys sufficient to pay in full the redemption price of the Series 2006 Bonds. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of such Series 2006 Bonds are not received on or prior to the date fixed for redemption, such notice of redemption shall be null and void and of no force and effect, the Authority shall not redeem or be obligated to redeem any such Series 2006 Bonds, and the Paying Agent shall give notice, in the same manner as notice of redemption is given, that moneys sufficient to pay in full the redemption price of the Series 2006 Bonds were not received on or prior to the date fixed for redemption and such redemption did not occur. In the event of the failure to redeem, all Series 2006 Bonds surrendered for redemption shall be promptly returned to the registered bondholder or bondholders by the Paying Agent.

If any Series 2006 Bond is subject by its terms to prior redemption and has been duly called for redemption and notice of the redemption thereof has been duly given as aforesaid and moneys for the payment of the principal amount thereof to be redeemed, and the interest to accrue on such principal amount to the redemption date, are held for the purpose of such payment by the Paying Agent, then, on the redemption date designated in such notice, such Series 2006 Bond (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable at the principal amount to be redeemed plus accrued interest to the

redemption date, and interest on said Series 2006 Bond (or the principal amount thereof to be redeemed) so called for redemption shall thereupon cease to accrue.

OUTSTANDING BONDS AND DEBT SERVICE REQUIREMENTS

Outstanding Senior Lien Bonds and Subordinate Lien Bonds

The Authority’s Senior Lien Bonds and Subordinate Lien Bonds are outstanding as follows:

**Tucson Airport Authority
Senior Lien Airport Revenue Bonds Outstanding
as of December 1, 2006**

<u>Issue Date</u>	<u>Series</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Bonds Outstanding</u>
7/19/01	2001A	\$ 3,275,000	Refunding	6-01-02/20	\$ 2,630,000
7/19/01	2001B	7,865,000	Refunding	6-01-08/20	6,400,000
7/19/01	2001C	4,410,000	Refunding	6-01-11/20	3,670,000
3/04/03	2003	37,830,000	Refunding	6-01-04/13	<u>27,970,000</u>
					<u>\$40,670,000</u>

**Tucson Airport Authority
Subordinate Lien Airport Revenue Bonds Outstanding
as of December 1, 2006**

<u>Issue Date</u>	<u>Series</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Bonds Outstanding</u>
7/19/01	2001	\$41,580,000	Airport Improvements	6-01-08/31	\$39,335,000

Outstanding Junior Subordinate Lien Obligations

The Authority has entered into separate letter of credit agreements with Bank of America, N.A., relating to up to \$10,000,000 principal amount of taxable interest variable rate bonds. The Authority currently has \$3,180,000 principal amount of bonds outstanding secured by one such letter of credit and \$3,635,000 principal amount of bonds outstanding secured by a second letter of credit, each bearing interest at a variable weekly interest rate. Repayment of amounts under such agreements is subordinate and junior to the Subordinate Lien Bonds and is a third lien on Net Revenues. The Authority plans to redeem such obligations during calendar year 2007.

Debt Service Requirements for Senior and Subordinate Lien Bonds

The following tables present the debt service requirements for the outstanding Senior Lien Bonds and the Subordinate Lien Bonds.

Fiscal Year Ending September 30 *	Subordinate Series 2001 Debt Service	Subordinate Series 2006 Principal	Subordinate Series 2006 Interest	Subordinate Series 2006 Debt Service	Combined Subordinate Debt Service
2007	\$2,865,410		\$ 697,667	\$ 697,667	\$3,563,077
2008	2,865,365	\$ 750,000	1,544,063	2,294,063	5,159,428
2009	2,863,815	1,050,000	1,507,125	2,557,125	5,420,940
2010	2,865,140	1,085,000	1,464,425	2,549,425	5,414,565
2011	2,863,715	1,130,000	1,414,475	2,544,475	5,408,190
2012	2,864,540	1,190,000	1,356,475	2,546,475	5,411,015
2013	2,862,340	1,250,000	1,295,475	2,545,475	5,407,815
2014	2,862,590	1,305,000	1,231,600	2,536,600	5,399,190
2015	2,865,090	1,375,000	1,164,600	2,539,600	5,404,690
2016	2,864,590	1,440,000	1,094,225	2,534,225	5,398,815
2017	2,861,090	1,520,000	1,020,225	2,540,225	5,401,315
2018	2,864,590	1,590,000	942,475	2,532,475	5,397,065
2019	2,864,590	1,670,000	860,975	2,530,975	5,395,565
2020	2,861,090	1,755,000	775,350	2,530,350	5,391,440
2021	2,864,090	1,840,000	685,475	2,525,475	5,389,565
2022	2,863,090	1,935,000	591,100	2,526,100	5,389,190
2023	2,862,140	2,030,000	491,975	2,521,975	5,384,115
2024	2,861,375	2,135,000	387,850	2,522,850	5,384,225
2025	2,865,528	2,240,000	278,475	2,518,475	5,384,003
2026	2,864,063	2,350,000	163,725	2,513,725	5,377,788
2027	2,861,980	2,470,000	52,488	2,522,488	5,384,468
2028	2,864,013				2,864,013
2029	2,864,625				2,864,625
2030	2,863,550				2,863,550
2031	2,865,520				2,865,520

* Figures presented on a cash basis.

Fiscal Year Ending September 30 *	Senior Debt Service	Combined Subordinate Debt Service	Combined Senior and Subordinate Debt Service
2007	\$6,040,032	\$3,563,077	\$ 9,603,108
2008	6,043,358	5,159,428	11,202,786
2009	6,044,401	5,420,940	11,465,341
2010	6,050,592	5,414,565	11,465,157
2011	6,041,174	5,408,190	11,449,364
2012	6,049,387	5,411,015	11,460,402
2013	6,050,947	5,407,815	11,458,762
2014	1,313,929	5,399,190	6,713,119
2015	1,309,675	5,404,690	6,714,365
2016	1,377,640	5,398,815	6,776,455
2017	1,388,782	5,401,315	6,790,097
2018	1,375,752	5,397,065	6,772,817
2019	1,389,886	5,395,565	6,785,451
2020	1,384,348	5,391,440	6,775,788
2021		5,389,565	5,389,565
2022		5,389,190	5,389,190
2023		5,384,115	5,384,115
2024		5,384,225	5,384,225
2025		5,384,003	5,384,003
2026		5,377,788	5,377,788
2027		5,384,468	5,384,468
2028		2,864,013	2,864,013
2029		2,864,625	2,864,625
2030		2,863,550	2,863,550
2031		2,865,520	2,865,520

THE AUTHORITY

Organization

The Authority, a civic non-profit corporation as provided for under Arizona law, was established on April 12, 1948. The Authority was established for the purpose of developing, promoting, operating and maintaining airports and air transportation facilities adjacent to the City and in Pima County, Arizona. As discussed more fully in the following sections, the Authority has leased the property comprising the Airport, operates the Airport System and performs an essential governmental function as provided under Arizona law.

Membership

The Authority's membership as of September 30, 2006 was comprised of 106 individuals who are residents of Pima County. Members are elected for life, and the regular members at the annual meeting fill vacancies in the membership through elections.

* Figures presented on a cash basis.

Board of Directors

The Authority is governed by a Board of Directors (the “Board”) consisting of nine members of the Authority. Members of the Board are elected annually, typically to staggered terms of three consecutive years. Neither the Directors nor the officers receive any salary or compensation for their services, but by resolution of the Board they may be reimbursed for their actual expenses paid or obligated to be paid in connection with services rendered solely for the benefit of the Authority.

Management

The Board appoints the President/Chief Executive Officer (“CEO”), who serves at the pleasure of the Board. The Authority’s staff is organized into four divisions, each managed by personnel appointed by and reporting directly to the CEO. These four divisions are: Finance and Administration, Planning and Development, Operations and Legal and Contracting Services. Additionally, the CEO appoints a Senior Vice President, Executive Assistant to the President/CEO and Director of Information/Government Affairs, all three of whom report to the CEO.

The senior management team of the Authority is comprised of:

Bonnie A. Allin, President & CEO. Ms. Allin became President & CEO of the Authority on April 1, 2002 after having served as Vice President of Aviation Services since August 2000. She began her career in aviation in 1976 with the Authority and after holding a variety of positions, moved to Texas where she worked for the Corpus Christi International Airport from 1988 to 2000, ending her tenure as Director of Aviation. She has a B.B.A. in Finance (Cum Laude) from Corpus Christi State University and is an alumni of Leadership Texas. She holds the designation of Accredited Airport Executive (AAE) and is the past chairman of the board of the American Association of Airport Executives, (AAAE), and past chairman of the Southwest Chapter of AAAE. She is a recipient of AAAE’s Distinguished Service Award for outstanding accomplishments in airport management and exemplary devotion to voluntary membership and community organizations. She currently serves on the board of the International Association of Airport Executives. She was appointed chairman by Arizona Governor Janet Napolitano of the Governor’s Advisory Council on Aviation, serves on the Executive Committee of the Metropolitan Tucson Chamber of Commerce Board, the steering committee for Tucson Regional Economic Opportunities, Inc. (TREO) and is a member of Southern Arizona Leadership Council. She is active in numerous community groups and charitable activities.

Marjorie Perry, Esq., Senior Vice President and General Counsel. Ms. Perry is responsible for providing or overseeing all legal services and legal representations for the Authority. She is a graduate of the University of Arizona where she received her B.S. in Public Administration in 1980 and her J.D. in 1983. She joined the Authority’s management team in 2005 as General Counsel after serving as its outside general counsel for 20 years. As outside general counsel, she was involved in all aspects of the Authority’s legal representation and was involved in its business and financial operations. Prior to joining the Authority, she

practiced law as a partner with a large, regional law firm where her practice emphasized airport law as well as commercial transactions, business law, real estate and environmental law. She is active in Airports Council International - North America (ACI-NA), having served as Chairman of its Legal Affairs Committee in 1999 and continuing to serve on its Legal Affairs Steering Committee.

Richard J. Gruentzel, Vice President, Administration and Finance and CFO.

Mr. Gruentzel is responsible for the property leasing and management, finance, air service and economic development, information technology, and human relations functions of the Authority. He joined the Authority in November 2004 and before being appointed to his current position in January 2006 served as Controller and subsequently Senior Director of Finance. He is a 1981 graduate of the University of Wisconsin – Madison with a Bachelor of Business Administration Degree in Accounting and is a licensed Certified Public Accountant in Wisconsin. He began his career as an auditor with Price Waterhouse & Co., after which he then served in various financial and administrative management positions with several public and private consumer products and biotechnology companies in Wisconsin from 1984 to 1997 and thereafter in Tucson. Most recently prior to joining the Authority, he was Chief Financial Officer of a privately held national consumer products company from 2000 to 2004. He has earned the Certified Member designation awarded by AAAE, and is a member of the Economic Committee of ACI-NA, and the Government Finance Officers Association (GFOA).

Jill L. Merrick, Vice President of Planning and Development. Ms. Merrick is responsible for the management and development of all planning, programming, environmental, design, and construction programs for both Tucson International Airport and Ryan Airfield. She previously served as Director of Planning for the Authority for nine years and has served in her current position since 2005. Ms. Merrick is a graduate of Michigan Technological University where she received a Bachelor of Science Degree in Civil Engineering, in 1985, with areas of emphasis in Transportation and Construction. Prior to her employment with the Authority, Ms. Merrick worked in the private sector serving as a project manager of environmental programs for two years and more recently with the City of Tucson for almost ten years. With the City, she was responsible for managing a variety of engineering and facilities projects, development of a pavement maintenance program and development of capital programs in the transportation department. Ms. Merrick is currently a member of AAAE, American Planning Association (APA), Southern Arizona Institute of Transportation Engineers (SAITE), and the Women's Transportation Seminar (WTS).

Thomas R. Andrews, Vice President of Operations. Mr. Andrews' responsibilities at the Authority include the day-to-day operations and maintenance of both landside and airside facilities and systems at Tucson International Airport and Ryan Airfield as well as all aspects of public safety, including police and fire protection, and airport communications. Mr. Andrews obtained a Bachelor's Degree in Mechanical Engineering from Case Western Reserve in Cleveland, Ohio in 1970. During 1968-69, he studied at the Instituto Tecnológico y de Estudios Superiores in Monterrey, Mexico. He received an MBA from Southern Illinois University in Edwardsville, IL in 1989. Mr. Andrews served 20 years in the U.S. Air Force, first as a T-38 flight instructor at Columbus, Mississippi and then in a series of positions in Air Force Base Management and Operations in Oklahoma, Greenland, California, Germany, and Washington,

DC. Prior to joining the Authority, he held the position of Deputy Manager of the Engineering and Maintenance Department at Ronald Reagan Washington National Airport in Washington, DC and was deeply involved in the design and construction of the new terminal at Reagan National Airport, as well as the 4-week airport shutdown in the wake of Sept. 11th. He is a registered Professional Mechanical Engineer in California, and a licensed FAA Commercial Pilot with an instrument rating. He is a member of and Certified Manager in the American Association of Airport Executives (AAAE).

Jill Casson Owen, Vice President Legal and Contracting Services. Ms. Owen is a graduate of the University of Arizona College of Pharmacy (B.S., 1989) and the University of Arizona James E. Rogers College of Law (J.D., 1996). She joined the Authority in 2005 after providing outside legal services to the Authority for nearly ten years. Prior to joining the Authority, Ms. Owen was a partner with the law firm of Snell & Wilmer LLP where her practice was concentrated in corporate, real estate and public entity law, with heavy emphasis in airport and aviation law. She has been a member of the ACI-NA Legal Committee since 2002. She is also a member of the Air and Space Law Forum and the Business Law Section of the American Bar Association as well as the Business Law Section and Real Property Section of the State Bar of Arizona. She served on the Executive Council for the State Bar Real Property Section from 2002-2004.

Leases with the City of Tucson

Pursuant to Arizona law, the City is authorized, among other things, to acquire, own, control, equip, improve, maintain, operate and regulate airports and landing fields, and to enter into agreements with corporations engaged in the air transportation industry for the operation and maintenance of airports and landing fields and for uses incidental thereto.

On October 14, 1948, the City and the Authority entered into the Airport Lease for an initial term of 25 years. By amendment on March 15, 1971, the lease term of the Airport Lease with respect to the property comprising the Airport was extended to October 14, 2023, and the Authority was granted an option to extend said term to October 14, 2048, which option has been exercised by the Authority.

Pursuant to the terms of the Airport Lease, the Authority has the obligation to operate, maintain and develop the Airport as a public facility for the accommodation of air commerce, as well as certain other rights, powers and obligations as provided therein. The Airport Lease further provides for payments to the City of the gross operating revenues of the Authority from the Airport remaining in each year after deducting: related operation and maintenance expenses; amounts required to pay principal of and interest on mandatory sinking fund amounts on all bonds issued for airport and air terminal purposes (including the Senior Lien Bonds and the Subordinate Lien Bonds); amounts required to pay principal of and interest on all obligations incurred or assumed for airport purposes; amortization of all moneys (but not interest) expended upon capital improvements at the airport; and a reasonable amount for operating reserves. In 1954, the Arizona Superior Court approved the validity of the Airport Lease, and ruled that in calculating rental due to the City, the Authority was entitled to deduct a sum equal to the total amount required by the Authority to pay all of its outstanding obligations, regardless of what amount may be due in any year. The Authority has not been required to make any payment under

such formula to date and does not expect to be obligated to make any such payment for as long as the Series 2006 Bonds are outstanding.

During the term of the Airport Lease, the City has no responsibility for the operation of the Airport. Although the City may, at its discretion, develop and maintain the landing areas and publicly owned facilities of the Airport, the City has never exercised such discretion, and the Authority does not expect it to do so. Upon expiration of the Airport Lease, the Airport and all improvements thereon become the property of the City.

The Authority holds a separate lease from the City with respect to Ryan Airfield, which lease currently expires in 2053. The Ryan Airfield lease requires payments in each year to the City of 10% of the net profits from the operation of Ryan Airfield plus \$0.05 per acre.

Certain Operating Agreements

Use Agreements. The Authority is party to Use Agreements with Alaska Airlines, American Airlines, Continental Airlines, Delta Air Lines (in bankruptcy), Northwest Airlines (in bankruptcy), Southwest Airlines, United Airlines and USAirways (as successor to America West Airlines). All of the foregoing are referred to herein as “Signatory Airlines”. In addition, Frontier Airlines and JetBlue Airways, which are both currently providing scheduled passenger service, have each expressed an intention to become Signatory Airlines but have not yet executed Signatory Use Agreements. The Authority has entered into a separate agreement with AeroMexico (operating as Aerolitoral). While not a Signatory Airline, the landing fee rates paid by AeroMexico are the same as that of the Signatory Airlines. Effective October 1, 2006, the Authority began charging a premium for nonsignatory terminal rentals and fees on the amount of space such airlines lease. The rental premium ranges from 10 percent to 25 percent. DHL, UPS and FedEx, as all-cargo carriers, provide scheduled service on a daily basis during the business week. These carriers are not parties to the Use Agreement and as such, they are not Signatory Airlines, but they currently pay landing fees at the same rate as the Signatory Airlines pay. For the fiscal year ended September 30, 2005, rates and charges paid by passenger airlines constituted approximately 26% of Revenues.

The Use Agreements specify a residual cost formula for calculating annual adjustments to the landing fee rate to ensure that total Signatory Airline revenues, together with certain other Airport System revenues, will be sufficient to cover debt service on the Senior Lien Bonds and the Subordinate Lien Bonds and certain other expenses of the Authority. See APPENDIX E-“SUMMARY OF CERTAIN TERMS OF THE AIRPORT USE AGREEMENTS--Landing Fees.” The term of the Use Agreements was to expire on September 30, 2006 but was recently extended for two-one year terms to expire on September 30, 2008. The obligation of the Authority to impose rates, rentals, fees and other charges which will yield Revenues at least sufficient to pay, among other things, principal of, premium, if any, and interest on the Senior Lien Bonds and Subordinate Lien Bonds survives the termination of the Use Agreements. The Use Agreements are not and will not be pledged as security for either the Senior Lien Bonds or Subordinate Lien Bonds. See also “Rate Covenant” herein.

Concession Agreements. The Authority is party to a food and beverage concession agreement with OTG Management Tucson LLC pursuant to which the concessionaire pays the Authority a percentage of gross revenues, which percentage ranges from 13.5% to 17%, depending on the type of product and volume of sales. The food and beverage concession agreement expires June 30, 2014. The Authority is also party to a news and gift concession agreement with Paradies-Desert House LLC pursuant to which the concessionaire pays the Authority a percentage of gross revenues, which percentage ranges from 5% to 15%, depending upon the product, shop location and volume of sales. The news and gift concession agreement expires March 13, 2013.

Rental Car Agreements. Avis Rent A Car System, Inc., Budget Rent A Car System, Inc., Dollar Rent A Car Systems, Inc., Enterprise Leasing Company West, Midwest Car Corporation d.b.a. Alamo Rent A Car, Inc., Midwest Car Corporation d.b.a. National Car Rental, and The Hertz Corporation are the Airport's current on-airport rental car concession providers. Adobe Car & Van Rental and DTG Operations Inc., d.b.a. Thrifty Car Rental, are the Airport's current off-airport rental car concession providers. The on-airport rental car agreements expire July 31, 2007 and on November 1, 2006 the Authority issued an invitation for bids for seven new five-year rental car concession agreements to commence August 1, 2007. The Authority anticipates awarding the new agreements by March 2007. In addition to facility rent, on-airport rental car operators pay the Authority not less than 10% of gross revenues for the privilege of doing business on the airport.

Parking Agreements. The Authority has a management agreement with ACE Parking Management, Inc. for professional management of parking lots and shuttle bus operations at the Airport. The Authority pays the management company \$75,000 per year pursuant to a management agreement that expires November 30, 2008, subject to two, one-year extensions in the Authority's discretion.

THE AIRPORT SYSTEM

Airport Facilities

The Airport System consists of the Airport, the main airport serving the Tucson metropolitan area and southern Arizona, and Ryan Airfield, a general aviation reliever airport. As of November 28, 2006, the Airport was served by the carriers described below:

Airlines Providing Scheduled Service*
Tucson International Airport
(as of November 28, 2006)

MAJOR/NAT'L PASSENGER CARRIERS

Alaska
American
Continental
Delta
Frontier
JetBlue
Northwest
Southwest
United
US Airways/America West

FOREIGN FLAG PASSENGER CARRIERS

Aeromexico (Aerolitoral)

REGIONAL PASSENGER CARRIERS

America West Express (Mesa)
Continental Express (Expressjet)
Delta Connection (SkyWest)
United Express (SkyWest)

ALL-CARGO CARRIERS

ABX Air (DHL)
FedEx
UPS

Source: *Official Airline Guide*, Tucson Airport Authority.

*Excludes carriers operating non-scheduled (i.e. charter) flights.

As of November 28, 2006, these major/national, foreign flag and regional passenger carriers provided nonstop service to 18 cities on 67 daily flights with over 7,100 seats available.

Tucson International Airport

The Airport is located approximately eight miles south of the central business district of the City. The Airport encompasses approximately 8,244 acres of land and approximately 150 separate buildings providing approximately 3.2 million square feet of floor space.

The Airport receives its water supply from the City and is served by the Pima County Wastewater Management System. The Airport uses both gas and electricity for heating and cooling purposes with gas being supplied by Southwest Gas Corporation and electric power by Tucson Electric Power Company. Emergency generators are in place in case of a power failure.

Airfield. The existing airfield at the Airport has three active runways, two of which are designed and equipped as air carrier runways, with the third being available for use by general aviation users. Runway 11L/29R, the principal air carrier runway, is 10,996 feet long and 150 feet wide and can accommodate all types of aircraft currently operating in commercial service. Runway 03/21, the crosswind runway, is 7,000 feet long and 150 feet wide. Runway 11R/29L, the general aviation runway, is 8,408 feet long and 75 feet wide. The Authority plans to relocate and upgrade Runway 11R/29L from a general aviation runway to an air carrier runway in order to provide additional air carrier capacity, increase operational flexibility and provide equipment and facility redundancy. Weather conditions at the Airport are exceptionally good, with clear

weather occurring nearly 100% of the time. When the main parallel runways are in use, the airfield can accommodate nearly 150 aircraft takeoffs and landings per hour.

Terminal Complex. The terminal complex at the Airport encompasses approximately 55 acres and includes the aircraft parking apron, the passenger terminal building, the entrance roadway, and public and employee automobile parking areas. There are 19 airplane parking spaces at the main passenger terminal, plus two spaces at the Airport's International Building.

The passenger terminal building includes two concourses and contains approximately 452,025 square feet of floor space. All areas, except the baggage makeup rooms, are enclosed and air-conditioned. The main section of the terminal building is a three level structure. The concourses are at the second level and are connected to the main section of the terminal building.

To further serve the passengers there are two Airport Information Centers, two automated banking machines, a lounge for military personnel, and three meeting rooms. An adjacent consolidated rental car facility accommodates seven auto rental counters.

The Airport is an official United States Port of Entry with complete federal inspection facilities open to commercial airline passengers, general aviation users, and cargo operations 24-hours a day, seven days a week. These include clearance areas used by the federal agencies relating to immigration, public health, agriculture, and customs.

There are currently 7,022 public parking spaces located in three surface lots on the Airport. The Authority has a surface parking lot adjacent to the terminal building with 469 hourly parking spaces and 908 daily parking spaces. The Authority also operates the Park 'N Save economy parking lot that is located southeast of the terminal building that has 5,645 spaces. In October 2005, the Authority converted 301 of the Park 'N Save spaces to covered parking. The Authority is planning to convert the second floor of the rental car garage that is located adjacent to the terminal to 607 public parking spaces in August 2007.

Air Cargo Facilities. Air cargo is handled in three air freight buildings located southeast of the terminal building. The air freight buildings contain approximately 35,000 square feet of floor space.

General Aviation Facilities. There are four fixed base operators (FBOs) at the Airport that provide a full range of general aviation services, including major and minor airframe and engine repair, aircraft painting, repair of aircraft electronic equipment, aircraft sales and rentals, charter and air taxi service, and flight training. There are approximately 74 acres provided for general aviation, which includes hangar space for about 240 aircraft and tie-down positions for 350 aircraft. In addition to these FBO facilities, the Authority provides an additional 150 tie-down positions on the 26-acre transient apron located to the south, west, and northwest of the air traffic control tower. A 21,784 square foot Executive Terminal is located at the base of the control tower.

Other Areas. An industrial complex is located on the northwest side of the Airport, including the Tucson Industrial Center (TIC), which consists of three large, World War II-era hangars that are approaching the end of their useful lives. The Authority plans to demolish TIC and certain other facilities in the same area to make room for relocated Runway 11R/29L. The Authority will attempt to accommodate some of the displaced tenants in other areas of the Airport to the extent economically feasible. In the southwest industrial area of the Airport, Bombardier Aerospace leases a 108-acre tract for its aircraft modernization and service center and a 55-acre site for a facility it acquired from Lockheed-Martin in 2001.

Raytheon operates U.S. Air Force Plant 44 on land adjacent to the Airport and leases land from the Authority for office buildings and other support. The Raytheon operation is located on the south side of the Airport with some of the premises having airfield access.

Various other facilities are located on the Airport, including three fuel storage facilities with a total capacity of approximately 376,000 gallons, the air traffic control tower, district offices of the U.S. Department of Justice Drug Enforcement Administration, the National Weather Service, the University of Arizona Environmental Research Laboratory, SkyWest Airlines maintenance and crew domicile facilities, and the Authority's administrative building, maintenance buildings, and Aircraft Rescue and Firefighting facility.

The 162nd Tactical Fighter Training Group of the Arizona Air National Guard occupies facilities on an 83-acre site adjacent to the north side of the Airport along Valencia Road. This group uses the Airport's airfield to train F-16 pilots.

Ryan Airfield

Ryan is a general aviation airport that serves as a reliever airport for the Airport and accommodates a wide variety of general aviation activity. Ryan's airfield consists of a 5,500 foot runway with an instrument landing system, a 4,900 foot runway, and a 4,000 foot crosswind runway, and has a Federal Aviation Administration (FAA) contract control tower. Ryan has hangar and tie-down space to accommodate approximately 256 locally based aircraft, with additional tie-downs for itinerant aircraft. More than 20 tenants provide a complete range of general aviation services at Ryan.

The Airport Service Area

General. The Airport is located in Pima County, about eight miles south of central Tucson. It is the principal air carrier airport serving metropolitan Tucson, southern Arizona and northern Sonora, Mexico. Pima County is defined as the Tucson Metropolitan Statistical Area ("MSA") by the U.S. Bureau of the Census and is considered to be the Airport's primary service area (the "Airport Service Area") for purposes of information provided herein.

Pima County covers an area of 9,188 square miles and in 2005 had an estimated population of approximately 925,000 according to the U.S. Department of Commerce, Bureau of the Census. The 400 square miles comprising the City and the surrounding urban areas account for more than 95% of Pima County's population and the origins or destinations of most Airport users. The closest major airport is located in Phoenix ("PHX"), 120 miles to the north. Unlike

the Airport, PHX has a large connecting passenger traffic component, whereas traffic at the Airport consists largely of domestic origin and destination passengers. The border between the United States and Mexico is 60 miles to the south. For further detail on the population of Pima County, see APPENDIX A - "REPORT OF THE AIRPORT CONSULTANT."

Economic Base. According to the Eller College of Management at the University of Arizona, the State's economic outlook is positive, with continued population, employment, and income growth foreseen. Key factors that drive population growth, which in turn drives economic expansion, include a warm climate not prone to natural disasters, affordable housing, low taxes, and availability of jobs.

Changes in the region's economic profile affect the level of passenger traffic at the Airport. For example, the amount and type of commerce in the region affects the level of business travel to and from the Airport, and the amount of per capita personal income in the region affects the level of discretionary travel from the Airport. The area's stable and fundamentally strong economic profile underlies the demand for air passenger and cargo service.

The expansion of the MSA economy created employment opportunities at a rate that outpaced population growth until 2000. Since then, however, while population has continued to grow, employment has increased more modestly. Over the 35-year period from 1970 to 2005, non-agricultural employment in the MSA increased at a rate slightly lower than for the State, but at double the national rate of employment growth, implying a degree of long-term stability in the local economy.

Employment by sector in the MSA is different from the national profile in that the MSA has a proportionally greater presence of government, leisure & hospitality, and natural resources, mining, and construction employment. Manufacturing and financial activities make up a smaller portion of the MSA's employment base relative to the nation. The fastest growing sectors of MSA employment – (a) education and health services, (b) financial activities, and (c) other services – together comprise 22.3 percent of total non-agricultural employment in the MSA. Government accounts for 21.2 percent of local non-agricultural employment, compared to 16.1 percent in the State and 16.3 percent nationally. For additional information with respect to the economic base, see APPENDIX A - "REPORT OF THE AIRPORT CONSULTANT."

Summary of Aviation Operating Information

Aviation Operating Statistics. The following table presents a summary of certain aviation operating statistics for the Airport for the past five fiscal years ended September 30.

	<u>Fiscal Year Ending September 30</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Enplaned Passengers	1,729,336	1,766,859	1,841,791	2,023,785	2,120,996
Air Freight and Mail					
Boarded (Tons)	17,759	11,883	12,100	13,727	16,272
Airline Aircraft Departures	19,390	18,883	18,996	21,660	22,384
Landed Weight (millions of pounds)	2,555	2,443	2,347	2,577	2,683

Source: Authority

For further details on passenger and freight traffic at the Airport, see APPENDIX A-“REPORT OF THE AIRPORT CONSULTANT.”

Management's Discussion of Aviation Operations. The Airport, classified as a medium hub airport by the FAA, is currently served by 18 airlines, consisting of ten major/national domestic airlines, one foreign flag carrier, three regional carriers and three all-cargo carriers. The air passenger carriers offer nonstop service to 18 destinations and connecting service to most domestic air travel destinations and major international air travel destinations.

The history of the Airport's passenger traffic is characterized by its distribution among a significant number of air carriers and its strong origin and destination base without substantial connecting activity. No single air carrier (including wholly owned subsidiaries) has a market share in excess of 31%. Virtually all Tucson passenger traffic is origin and destination to or from Tucson.

The level of passenger traffic at the Airport remained relatively stable from 1995 to 2004 despite the 2001 economic recession and extraordinary events such as the September 11, 2001 terrorist attacks, the SARS outbreak, and the Iraq War. The number of passengers in FY2005, however, set a record at the Airport, and FY2006 traffic is higher still.

The most significant event affecting the level of passenger traffic at the Airport in the past 15 years was the start of low cost service in FY1994 by Morris Air which, together with Reno Air, drove a 26 percent increase in enplanements in that year. Enplanements at the Airport increased a further nine percent in FY1995, the year in which Southwest acquired Morris Air.

The level of passenger traffic at the Airport then remained relatively stable from FY1995 through FY2000, fluctuating between about 1.7 and 1.8 million annual enplanements, while passenger traffic nationwide showed a net 17.5 percent increase. Between FY2000 and FY2002, while passenger traffic nationwide declined 13.0 percent, reflecting extraordinary

events such as the 2001 economic recession and the September 11, 2001 terrorist attacks, it fell only 3.2 percent at the Airport.

From FY2002 to FY2006, traffic nationwide grew 6.4 percent, while it increased 22.6 percent at the Airport. In FY2005 alone, enplanements increased 9.9 percent at the Airport, reaching 2.0 million passengers, which exceeded the previous record (FY2001) level. In FY2006, enplanements increased 4.8 percent. Total cargo at the Airport increased 22% over the past ten years.

Future Development of the Airport System-The Master Plan and the Ryan Airfield Master Plan

In 2004, the Authority adopted a comprehensive plan (the “Master Plan”), which serves as a guide for the development of Airport facilities.

The Master Plan forecasts an annual increase in passengers of 2.5 percent and annual increase in operations of one percent over the next 20 years. By 2025 nearly six million total passengers (enplaning and deplaning) are expected at the Airport. Major elements of the recommended development plan for the next 20 years include:

1. *Airfield.* Relocate and upgrade parallel runway 11R/29L in order to provide additional air carrier capacity, increase operational flexibility, and provide equipment and facility redundancy. Upon completion of the new relocated runway, referred to as the near parallel runway, the existing runway would be converted to a taxiway. The Authority and the FAA are in the process of preparing an Environmental Impact Statement (EIS) for construction and operation of the near parallel air carrier runway for which an Administrative Record of Decision is expected in mid 2007. The relocated runway is expected to be operational in 2012.
2. *Terminal.* Expand the terminal facility to accommodate security screening, additional concessions, public restrooms, circulation, and gate space with an ultimate gate expansion to 29 from the current 19.
3. *Cargo Facilities.* Expand air freight facilities at their existing site, east of the passenger terminal, and reserve a site for a potential ground cargo processing center on the east side of Swan Road south of Los Reales Road.
4. *General Aviation/Corporate Facilities.* Expand and develop corporate and private general aviation facilities on the west side of Plumer Avenue north of the Airport executive terminal.
5. *Support Facilities.* Three sites have been identified as possible locations for a new air traffic control center that will eventually be built once the FAA has validated the need for a new tower, and funding has been approved. A location for a new Airport airfield maintenance complex as well as a new fuel storage facility is identified. The plan calls for development of sites for aircraft maintenance and repair and other industrial tenants.

The Authority plans to update the Ryan Airfield Master Plan in 2007. The current master plan recommends that the main runway be reconstructed to a basic transport category length of 8,300 feet and that additional FBO facilities and industrial sites be developed.

Noise Compatibility Program

In 1982, the Authority completed its first Part 150 Noise Compatibility Program, formally known as the Airport Noise Control and Land Use Compatibility (ANCLUC) study. The Part 150 Noise Compatibility Program was adopted by the FAA in 1984 and was updated in 1990. The primary purpose of the Part 150 Noise Compatibility Program was to promote compatibility of land uses in proximity of the Airport with the Airport's aircraft operations. For additional information with respect to this program, see "APPENDIX A-REPORT OF THE AIRPORT CONSULTANT."

THE CAPITAL IMPROVEMENT PROGRAM

Each year, the Authority reviews and evaluates its plans for capital improvements involving the Airport System. The product of this review and evaluation is the Authority's five-year Capital Improvement Program (the "CIP"). The goal of the CIP is to provide a detailed capital budget for the current fiscal year and a working plan for improvements anticipated for the four following years. The CIP is consistent with the Master Plan, and as such, it provides for Master Plan improvements, which will be implemented when activity levels dictate rather than according to a predetermined time schedule. The Authority has developed a multi-year CIP for the Airport and Ryan Airfield for FY2007-FY2011 that totals approximately \$193.5 million as summarized in APPENDIX A - "REPORT OF THE AIRPORT CONSULTANT."

Concourse Renovation Project

One of the primary projects in the CIP is the \$30.9 million Concourse Renovation Project that will be financed with the proceeds of the Series 2006 Bonds. With the completion of the Terminal Expansion Project in 2005, the main terminal has an estimated capacity of seven million annual passengers ("MAP"). However, the existing concourses were not re-developed or expanded under the recently completed Terminal Expansion Project. The Concourse Renovation Project is the first phase of redevelopment to ultimately balance the capacity of the concourse facilities with the capacity of the main terminal landside facilities. The existing concourses were designed to accommodate 2.8 MAP and are currently handling over 4.0 MAP. In August 2004, the Authority completed a terminal maximization program for the Airport, which identified the capacity of the existing terminal by functional component and identified a phased program for concourse expansion by planning demand level. On the basis of the terminal study, the Authority initiated negotiations with the Signatory Airlines and reached an agreement in concept and cost in November 2005 for the Concourse Renovation Project. The Concourse Renovation Project will renovate and reconfigure east and west concourses to provide additional functional space for gates/holdrooms, restrooms, concessions, and public circulation; modify security checkpoint and meeter/greeter space to ease congestion at concourse entrances; and relocate Customs and Border Patrol processing of commercial international passengers from the international arrivals building to the terminal among other enhancements.

In November 2006, the Board approved the Guaranteed Maximum Price (GMP) for the Concourse Renovation Project. Construction is underway and the Authority expects the project to be substantially complete by Thanksgiving 2007.

Other Major CIP Projects

Other major projects in the FY2007 - FY2011 CIP include:

1. *Near Parallel Carrier Runway 11R/29L.* The Authority is planning to construct a relocated and upgraded parallel runway at the west side of existing runway 11L/29R with a total project cost estimated at \$75.7 million. Existing Runway 11R/29L is capable of accommodating only general aviation aircraft. The replacement runway will be capable of accommodating all types of aircraft that serve the Airport. Design for the new runway will begin in 2009 with runway construction beginning in 2011 and ending in mid-2012. The Authority is planning to submit an application to the FAA for a Letter of Intent to secure Airport Improvement Program (“AIP”) grants for this project after the EIS process is complete.
2. *Maintenance Facility Relocation.* A new maintenance facility and warehouse will be constructed on Airport Drive across from the new air freight facility. The total project cost is estimated at \$7.1 million. This project was approved in the FY2004 budget and is expected to be constructed in FY2007.
3. *Sound Insulation.* The Authority will continue acoustical treatment to homes within the 65 Ldn noise contour to the northwest of the Airport. The total project cost is estimated at \$17.7 million from FY2007 to FY2011.
4. *Main Terminal Apron Reconstruction.* This project consists of the reconstruction of the entire terminal apron in nine phases to maximize AIP grant participation. Phases one through five are expected to be undertaken in the FY2007 - FY 2011 period for a total of \$11 million. Phases six through nine are expected to be constructed in the FY2012 - FY 2016 period.
5. *Aircraft Maintenance/Industrial Site.* This \$4.9 million project will provide infrastructure for the development of aircraft maintenance and industrial facilities on the southeast side of the Airport and will be undertaken during FY2007.
6. *Ryan Field Projects.* The Authority expects to spend about \$12.8 million on Ryan Airfield primarily for general aviation development for the FY2007-FY2011 period, most of which will be funded with grants.

Funding Plan

With certain exceptions, the Authority is required under the Use Agreements with the Signatory Airlines to obtain Majority-in-Interest (MII) approval before proceeding with capital projects. Capital improvements through FY2008, including the Concourse Renovation Project

that is being funded with the Series 2006 Bonds, have received MII approval and have been approved by the Board.

The Authority currently intends to fund the costs of the CIP as set forth below:

<u>Source</u>	<u>Amount</u>
Airport Improvement Program Grants	\$106,377,050
Arizona Department of Transportation Grants	15,573,878
PFC Pay-Go	1,919,104
Series 2006 Bonds	30,887,283
Future Bonds	13,464,952
TAA Funds	22,017,129
Other*	<u>3,249,010</u>
Total	<u>\$193,488,406</u>

*Includes Arizona National Guard and Department of Homeland Security Funds.

For further details on the expected sources of funding, see APPENDIX A - “REPORT OF THE AIRPORT CONSULTANT.”

Passenger Facility Charge Program

Authorization for the Passenger Facility Charge. The PFC is currently collected by air carriers using the Airport and remitted to the Authority pursuant to Section 1113(e) of the Federal Aviation Act, as amended, and the regulations promulgated thereunder (collectively, the “PFC Laws”). The PFC Laws empower the FAA to authorize a public agency that controls an airport to impose a PFC of \$1.00, \$2.00, \$3.00, \$4.00 or \$4.50 (the current maximum level) for each enplaned passenger at such airport, subject to certain exceptions described below. Proceeds of an authorized PFC may be used only to pay “allowable costs” of specific airport projects approved by the FAA, including debt service and other financing costs on bonds issued to finance such specific projects. Projects for which the FAA may authorize a PFC must (i) preserve or enhance safety, security or capacity of the national air transportation system, (ii) reduce noise or mitigate noise impacts resulting from an airport or (iii) furnish opportunities for enhanced competition between or among air carriers. All criteria must be adequately justified. For approval of a PFC level above \$3.00, the airport must (i) explain why the project cannot be paid from funds reasonably expected to be available from AIP, (ii) make adequate provision for financing the airside needs of the airport, (iii) explain how the project will make a significant contribution to improving air safety and security, increasing competition among air carriers, reducing current or anticipated congestion, or reducing the impact of aviation noise on people living near the airport and (iv) if one or two carriers control more than 50 percent of the passenger boardings, submit a competition plan. The authority to collect a PFC expires once collections reach a maximum amount authorized by the FAA. Such maximum collection amount may be unilaterally increased by up to 15% by the public agency charging the PFC or otherwise increased upon approval of the FAA.

Under the PFC Laws, substantially all air carriers serving an airport for which the FAA has authorized the collection of a PFC must collect such PFC at the time they sell an airline ticket to a passenger to be enplaned at the airport. Passenger enplanements subject to the charge include passengers originating their travel itineraries on departing flights out of the collecting airport or connecting passengers at the collecting airport whose itineraries originated in other cities, provided the airport is among the first two or last two airports collecting a PFC on such connecting passenger's itinerary. An authorized PFC may only be collected for "revenue passengers" enplaned at a collecting airport, including passengers using scheduled and non-scheduled airline service. "Revenue passengers" do not include passengers who do not pay for the air transportation which resulted in their enplanement, including passengers using frequent flyer awards.

Under the PFC Laws, the air carriers collecting a PFC on behalf of a public agency must remit the proceeds of the PFC to the public agency on a monthly basis, not later than the last day of the month following the month in which such proceeds were collected or the first business day thereafter. Prior to such remittance, however, collecting air carriers are entitled to retain any interest accrued on the investment of the proceeds of the PFC they collect, as well as \$0.11 of each PFC collected as compensation for administering the collection process.

Under the PFC Laws, the FAA may terminate a public agency's ability to impose, collect and apply the proceeds of a previously authorized PFC if the FAA finds that the public agency has violated the PFC Laws, including a violation of the agency's obligation under the PFC Laws to expend proceeds of its authorized PFC only on FAA-approved projects. A public agency's ability to impose, collect and apply the proceeds of a previously authorized PFC may also be terminated by the FAA if the agency is found to have violated the Airport Noise and Capacity Act of 1990 or its implementing regulations (collectively, the "Noise Law"). Both the PFC Laws and the Noise Law contain a variety of procedural safeguards, including an informal resolution procedure, and in the case of the PFC Laws, a public hearing, which would apply before a public agency's PFC program could be terminated. Under the PFC Laws and the Noise Law, termination proceedings would include a period of time to allow the airport agency to correct any violation identified by the FAA or otherwise settle any alleged violation. The public agency would also subject certain other of its funds, including federal airport improvement grants, to termination by violating the PFC Laws or the Noise Law. While the Authority is not aware of any action by the FAA to terminate its ability to impose, collect and apply the proceeds of its PFC program, there can be no assurance that the FAA will not terminate the PFC program in the future.

The Authority's Passenger Facility Charge Program. Effective October 1, 2006, the Authority increased its PFC on each eligible enplaned passenger at the Airport from \$3.00 to \$4.50. From February 1998, when the Authority initiated the collection of Passenger Facility Charges at the Airport, through September 30, 2006, the PFC Revenues of the Authority measured on a cash basis totaled \$41.5 million (excluding interest). The Authority expects that PFC collections received in each year through 2017 will be sufficient to pay in each year the dollar amount equal to debt service on the Series 2001 Subordinate Lien Bonds and approximately 79% of debt service on the Series 2006 Bonds due in each year and that the total amount of PFC Revenues to be collected under its current authorization will be received by

September 1, 2017, at which time the PFC authorization would expire unless amended. If the total amount of authorized PFC Revenues is collected prior to the final maturity of the Series 2001 Subordinate Lien Bonds or the Series 2006 Bonds, the Authority may do any combination of the following: (a) amend its PFC application to include debt service for the remainder of the term of such bonds, (b) pay scheduled debt service with accumulated excess PFC Revenues or (c) optionally redeem at par all or a portion of such bonds with accumulated excess PFC Revenues. For further discussion of the Authority's Passenger Facility Charge program, see APPENDIX A - "REPORT OF THE AIRPORT CONSULTANT." For further discussion of the risks associated therewith, see "-Certain Risks and Covenants Relating to the Passenger Facility Charge" below.

Certain Risks and Covenants Relating to the Amount and Timing of Receipt of PFC Revenues. PFC Revenues are dependent upon the number of enplaned passengers using the Airport. (For a summary of historical passenger enplanements at the Airport, see "THE AIRPORT SYSTEM-Summary of Aviation Operating Information" herein and APPENDIX A-"REPORT OF THE AIRPORT CONSULTANT"). In addition, the Authority's ability to recognize PFC Revenues that are sufficient to pay debt service on the Series 2001 Subordinate Lien Bonds and the dollar amount equal to approximately 79% of debt service on the Series 2006 Bonds will require (a) that the air carriers collecting the Passenger Facility Charge remit the net proceeds thereof to the Authority in accordance with the PFC Laws, (b) that the maximum amount of Passenger Facility Charge collections authorized by the FAA (either under the current authorization or as may be amended) not be exceeded prior to the payment, or provision for the payment, of the Series 2001 Subordinate Lien Bonds and the Series 2006 Bonds (c) that the Authority's ability to impose and collect the Passenger Facility Charge not be terminated by the FAA prior to the payment, or provision for the payment, of all such bonds and (d) PFC Revenues are received in each fiscal year in amounts at least equal to the amounts pledged for such year. For further discussion see APPENDIX A - "REPORT OF THE AIRPORT CONSULTANT."

To help ensure that each of these requirements is satisfied, the Authority has made the following covenants, among others, under the Supplemental Subordinate Lien Resolutions:

- the Authority will take all action reasonably necessary to cause the collection and remittance to the Authority of all PFC Revenues required by Federal law to be so collected and remitted; and
- the Authority will apply PFC Revenues, to the extent received in any fiscal year, to payments (i) in a dollar amount equal to, but not to exceed the principal of and interest on the Series 2001 Subordinate Lien Bonds coming due each fiscal year and (ii) a dollar amount equal to approximately 79% of principal of and interest on the Series 2006 Bonds coming due each fiscal year.

Despite the foregoing covenants, no assurance can be given that the PFC Laws will not be modified or restricted by the FAA or the U.S. Congress so as to reduce the amount of PFC Revenues available to the Authority. Further, even if the Authority takes all reasonably necessary action to cause the collection and remittance of PFC Revenues, there can be no assurance that the FAA will not terminate the Authority's PFC program.

PFC Revenues received in a fiscal year which exceed the amount pledged for debt service in that fiscal year may be applied by the Authority for any lawful purpose. Under the current PFC Laws, such purposes are limited to eligible projects or debt service related to eligible projects. Consequently, if PFC Revenues were received in excess of the amount pledged to debt service in a fiscal year and the Authority had other permitted uses for excess PFC Revenues received in prior years, but collections in a subsequent fiscal year were less than the amount pledged to debt service, the Authority would be permitted, but not required, to apply such excess PFC Revenues towards debt service on the Series 2001 Subordinate Lien Bonds and the Series 2006 Bonds. Further, the Authority expects that the total dollar amount of currently authorized PFC Revenues will be collected by September 1, 2017. No assurance can be given that sufficient excess PFC Revenues will be available to redeem the Series 2001 Subordinate Lien Bonds or the Series 2006 Bonds at the time the maximum amount of PFC Revenues has been collected or that the authorized amount of PFC Revenues will be increased.

SUMMARY OF FINANCIAL OPERATING INFORMATION

The following table presents a summary of Revenues, Operation and Maintenance Expenses, and Net Revenues for the past five fiscal years.

	<u>Fiscal Year Ending September 30</u>				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues					
Passenger Airline Rates & Charges	9,896,012	9,852,520	10,724,300	11,557,562	12,336,933
Concession Revenues	11,256,344	10,783,923	11,340,754	12,619,269	13,751,539
Customer Facility Charges	-	231,756	900,841	927,213	1,009,145
Product Sales	2,978,137	3,149,406	3,092,533	4,486,127	4,587,686
Other System Revenue	9,864,554	10,343,596	11,831,103	11,886,236	12,843,260
Interest Income*	1,491,106	1,286,655	948,175	413,604	792,395
Transfer from Airline Reserve Fund	3,085,237	3,679,672	1,946,342	1,850,886	1,850,387
Total Revenues	38,571,390	39,327,528	40,784,047	43,740,897	47,171,345
Operation and Maintenance Expenses					
Personnel Expenses	12,634,016	14,730,355	14,825,829	15,574,112	16,414,949
Contractual Services	6,216,718	5,903,745	5,842,420	6,104,801	5,885,644
Materials & Supplies	1,348,153	1,276,415	1,277,074	1,245,899	1,432,318
Cost of Product Sales	1,791,303	1,800,817	1,882,699	2,966,217	3,099,020
Other Operating Expenses	1,614,734	1,520,902	1,659,419	1,633,336	2,054,827
Total O&M Expenses	23,604,924	25,232,234	25,487,441	27,524,365	28,886,758
Net Revenues	<u>14,966,466</u>	<u>14,095,294</u>	<u>15,296,606</u>	<u>16,216,532</u>	<u>18,284,587</u>

* Excludes interest on interfund loans from the Special Reserve Fund, Insurance Reserve Fund and interest on the Construction Fund. Also excludes noncash amortization of bond premium.

Source: Authority

The following table presents a summary of Net Revenue, Senior Lien Bond Debt Service Coverage and Subordinate Lien Bond Debt Service Coverage for the past five fiscal years.

Fiscal Year Ending September 30

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Senior Lien Debt Service Coverage</u>					
Net Revenues	14,966,466	14,095,294	15,296,606	16,216,532	18,284,587
Senior Lien Debt Service	6,249,719	6,259,444	6,225,299	6,041,431	6,032,987
Senior Lien Debt Service Coverage (times)	2.39	2.25	2.46	2.68	3.03
<u>Subordinate Lien Debt Service Coverage (1)</u>					
Net Revenues		14,095,294	15,296,606	16,216,532	18,284,587
Plus: PFC Revenues Transferred for Subordinate Lien Debt Service		1,956,105	2,385,278	2,863,363	2,866,200
Subtotal		16,051,399	17,681,884	19,079,895	21,150,787
Less: Senior Lien Debt Service		(6,259,444)	(6,225,299)	(6,041,431)	(6,032,987)
Net Revenues Available for Subordinate Lien Debt Service		9,791,955	11,456,585	12,988,099	15,117,800
Subordinate Lien Debt Service		1,956,105	2,385,278	2,863,363	2,866,200
Subordinate Lien Debt Service Coverage (times)		5.01	4.80	4.55	5.27

(1) The Authority had no subordinate lien debt service in 2001.

Source: Authority

Management's Discussion of Financial Operations

In the five year period ended September 30, 2005, excess of Revenues over Operation and Maintenance Expenses (Net Revenues) as defined in the Bond Resolutions increased from \$15 million in 2001 to \$18.3 million in 2005. This represents an average annual increase of 5.1% over the five-year period. Excluding the impact of a drop in Net Revenues following the events of September 11, 2001, the average annual growth rate from 2002 through 2005 was 9.1%.

Total Revenue was \$38,571,390 in 2001 and grew to \$47,171,345 in 2005, for an average annual rate of growth of 5.2%. The largest increases by dollar volume were in concession revenues, which grew by \$2,495,195 or 22.2% and other system revenues, which increased by \$2,978,706 or 30.2% over the five-year period. Passenger airline revenues as a percentage of total revenues remained relatively flat at 25.7% in 2001 and 26.2% in 2005, reflective of the Airport's continued strong non-airline revenues, particularly concessions and non-airline space rentals.

Total Operation and Maintenance Expenses increased from \$23,604,924 in 2001 to \$28,886,758 in 2005, for an average annual growth rate of 5.2%. The largest increase is in personnel expenses, which grew by \$3,780,933 or 29.9% over the five-year period. Over half of this increase occurred in 2002 due mainly to increased security requirements following the events of September 11, 2001.

For a detailed discussion of operating results for fiscal years 2005 and 2004, see Management's Discussion and Analysis in the audited financial statements included herein in APPENDIX B.

APPENDIX C presents the Authority's unaudited operating results for the eleven months ended August 31, 2006 and 2005. On a GAAP basis, 2006 year-to-date operating revenues have increased \$2,514,096 or 6.2% over the prior year, with the most significant increases being a 9.8% increase in concession revenues and a 7.4% increase in space rentals. Year-to-date operating expenses are \$1,591,016 higher than the previous year. Personnel expenses accounted for most of the increase, of which nearly half was caused by higher employee retirement plan expenses. Year-to-date results have also been favorably impacted by an increase of \$1,518,904 in interest income due to favorable investment yields and higher invested balances.

The Authority prepares annual budgets, which serve as the foundation for short-term financial planning and control. All appropriations except open projects lapse at the end of each fiscal year. The annual budget is approved by the Board prior to implementation and, in accordance with the Use Agreements, is presented to the Signatory Airlines for review, but not approval. The Authority monitors its progress against the approved budget and the prior year with monthly financial reports that are presented to the Board. To further enhance internal controls and maximize revenues, the Authority initiated in 2004 an internal audit function to perform audits of both internal Authority operations as well as concessionaires and other tenant revenue-generating operations.

REPORT OF THE AIRPORT CONSULTANT

The Report of the Airport Consultant in connection with the Series 2006 Bonds is included as APPENDIX A to this Official Statement and has been prepared by John F. Brown Company, as consultant to the Authority. The Report provides certain information with respect to the Authority and presents forecasts of enplaning passengers; Revenues; Operation and Maintenance Expenses; Net Revenues; PFCs; debt service coverage for the Outstanding Senior Lien Bonds, Outstanding Subordinate Lien Bonds, the Series 2006 Bonds, and additional bonds that the Authority expects to issue in late 2009 or early 2010 for a future Runway 11R/29L project (the "2009 Bonds") which have been assumed for purposes of the Report, will be issued as Subordinate Lien Bonds; and the other fund deposit requirements of the Senior Lien and Subordinate Lien Bond Resolution in each year of the forecast period (FY2007 - FY2011), and sets forth the information and assumptions upon which the forecasts and the findings of the Report are based.

The financial forecasts are based on assumptions that were provided by, or reviewed and approved by, Authority management. In the opinion of the Airport Consultant, the assumptions provide a reasonable basis for the forecasts.

As stated in the Report, Revenues are forecast to be sufficient to meet Operation and Maintenance Expenses, debt service requirements on the Outstanding Senior Lien and Subordinate Lien Bonds, the Series 2006 Bonds, the 2009 Bonds, and the other fund deposit requirements of the Senior Lien and Subordinate Lien Bond Resolutions in each year of the forecast period (FY2007 - FY2011). The following table, which has been extracted from the Report, shows forecast Revenues, Operation and Maintenance Expenses, Net Revenues, annual Debt Service, pledged PFC Revenues, pledged Letter or Intent (LOI) grants expected from the Airport Improvement Program, and debt service coverage on the Outstanding and projected Senior Lien and Subordinate Lien Bonds. The forecast indicates compliance with the Rate Covenant for each Fiscal Year of the forecast period.

The Report of the Airport Consultant should be read in its entirety for a discussion of historical and forecast financial results of the Authority, and the assumptions and rationale underlying the forecast. As noted in the Report, any forecast is subject to uncertainties. Some of the assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

FINANCIAL FORECAST SUMMARY
Tucson Airport Authority
(for the Fiscal Year ending September 30)*

	Forecast				
	2007	2008	2009	2010	2011
Debt Service Coverage					
Senior Bond Debt Service Coverage Calculation					
Revenues	\$ 52,198,777	\$ 54,351,827	\$ 55,833,937	\$ 57,399,821	\$ 58,969,408
Operation and Maintenance Expenses	<u>(34,038,517)</u>	<u>(35,617,382)</u>	<u>(37,153,438)</u>	<u>(38,701,952)</u>	<u>(40,318,618)</u>
Net Revenues	\$ 18,160,260	\$ 18,734,446	\$ 18,680,499	\$ 18,697,868	\$ 18,650,790
Senior Bonds					
Existing	\$ 6,041,141	\$ 6,043,706	\$ 6,046,464	\$ 6,047,452	\$ 6,043,912
Planned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Senior Bond Aggregate Annual Debt Service	\$ 6,041,141	\$ 6,043,706	\$ 6,046,464	\$ 6,047,452	\$ 6,043,912
Senior Bond Debt Service Coverage	3.01	3.10	3.09	3.09	3.09
Required Minimum	1.25	1.25	1.25	1.25	1.25
Subordinate Bond Debt Service Coverage Calculation					
Revenues	\$ 52,198,777	\$ 54,351,827	\$ 55,833,937	\$ 57,399,821	\$ 58,969,408
Plus:					
PFC Revenues Transferred for Subordinate Debt Service	<u>4,643,146</u>	<u>5,123,174</u>	<u>5,315,726</u>	<u>9,100,125</u>	<u>8,806,720</u>
	\$ 56,841,923	\$ 59,475,001	\$ 61,149,663	\$ 66,499,946	\$ 67,776,128
Less:					
Operation and Maintenance Expenses	<u>(34,038,517)</u>	<u>(35,617,382)</u>	<u>(37,153,438)</u>	<u>(38,701,952)</u>	<u>(40,318,618)</u>
Senior Bond Debt Service	<u>(6,041,141)</u>	<u>(6,043,706)</u>	<u>(6,046,464)</u>	<u>(6,047,452)</u>	<u>(6,043,912)</u>
	\$ 16,762,266	\$ 17,813,914	\$ 17,949,761	\$ 21,750,541	\$ 21,413,599
Subordinate Bonds					
Existing	\$ 2,865,395	\$ 2,864,848	\$ 2,864,257	\$ 2,864,665	\$ 2,863,990
Proposed Series 2006 Bonds	1,777,751	2,802,006	2,915,654	2,918,530	2,919,672
Planned Series 2009 Bonds	-	-	6,030,341	9,828,821	9,552,485
Offset by LOI Grants	<u>-</u>	<u>-</u>	<u>(5,840,350)</u>	<u>(5,856,275)</u>	<u>(5,873,175)</u>
Subordinate Bond Aggregate Annual Debt Service	\$ 4,643,146	\$ 5,666,854	\$ 5,969,902	\$ 9,755,742	\$ 9,462,972
Subordinate Bond Debt Service Coverage	3.61	3.14	3.01	2.23	2.26
Required Minimum	1.10	1.10	1.10	1.10	1.10

*Debt service is shown on a deposit basis. Amounts shown for the Series 2006 Bonds and future bonds are preliminary estimates - debt service for the Series 2006 Bonds has not been updated to reflect actual debt service.

CERTAIN INVESTMENT CONSIDERATIONS

Investment in the Series 2006 Bonds involves risk. The Authority's ability to obtain Revenues from the operation of the Airport to pay the Series 2006 Bonds depends upon many factors, most of which are not under the control of the Authority. This section describes some of the risks associated with investing in the Series 2006 Bonds; however, prospective purchasers of the Series 2006 Bonds should give careful consideration to all of the information in this Official Statement.

Certain Factors Affecting the Air Transportation Industry and the Airport

General. No assurance can be given with respect to the levels of aviation activity that will be achieved at the Airport in future fiscal years. Traffic at the Airport is sensitive to a variety of factors including (1) the growth in the population and economy of the Air Service Area served by the Airport, (2) national and international economic conditions, (3) air carrier economics and air fares, (4) the availability and price of aviation fuel, (5) air carrier service and route networks, (6) the capacity of the air traffic control system, (7) the capacity of the

Airport/airways system, and (8) safety concerns arising from international conflicts and the possibility of additional terrorist attacks.

Aviation Security Requirements and Related Costs. The terrorist attacks of September 11, 2001, severely affected the air transportation industry. As a result of the events of September 11, 2001, the FAA instituted numerous safety and security measures for all U.S. airports including the Airport.

On November 19, 2001, the Aviation and Transportation Security Act (the “Aviation Security Act”) was enacted into law. The Aviation Security Act provided, among other things, for the establishment of the Transportation Security Administration (the “TSA”). Under the Aviation Security Act, the cost for and the provision of airport security was transferred to and now is administered by the federal government through TSA instead of private companies. TSA assumed responsibility for airport security at the Airport in September 2002. The Aviation Security Act also permitted the deployment of air marshals on all flights and required deployment of air marshals on all “high risk” flights.

Like many other airport operators, the Authority experienced increased operating costs due to compliance with security and operating requirements, including some that were federally mandated. The airlines and the federal government are primarily responsible for, and will bear most of the capital costs associated with, implementing the new security measures. The Aviation Security Act requires that TSA-approved explosive detection systems (“EDS”) be deployed at all U.S. airports to screen all checked baggage. EDS equipment and the facility modifications necessary to accommodate the equipment purchased were paid for by the federal government and installed at the Airport as part of the Terminal Expansion Project completed in 2005.

International Conflict and the Threat of Terrorism. The conflicts in Iraq and Afghanistan have had a negative effect on air travel domestically and internationally. As a result of the conflicts and related terrorist threats, airlines significantly reduced the number of transatlantic flights and airline revenues and cash flow were adversely affected. Uncertainty associated with war and the increased threats of future terrorist attacks, both domestically and internationally, may continue to have an adverse impact on air travel in the foreseeable future.

Cost of Aviation Fuel. According to the Air Transportation Association, fuel is the second largest cost component of airline operations after labor and continues to be an important and variable determinate of an air carrier's operating economics.

The significant and prolonged high levels of aviation fuel costs have had, and are likely to continue to have, an adverse impact on the air transportation industry by increasing airline operating costs, hampering airline recovery plans and reducing airline profitability.

Financial Condition of Certain Airlines Serving the Airports

General. The Authority derives a substantial portion of its operating revenues from landing and facility rental fees. The financial strength and stability of the airlines using the Airport, together with numerous other factors, influence the level of aviation activity at the

Airport and revenues of the Authority. Individual airline decisions regarding level of service also affect total enplanements.

The Authority cannot predict the duration or extent of reductions and disruptions in air travel or the extent of any adverse impact on Net Revenues, PFC Revenues, passenger enplanements, operations or the financial condition of the Authority that such disruptions and reductions may cause. In addition, the Authority cannot predict whether these and other factors will result in more airline bankruptcies. All airlines, including Delta and Northwest, that have filed for reorganization under the U.S. bankruptcy laws, have remitted all material payments due to the Authority under the Use Agreements, although each of these airlines does owe the Authority some pre-bankruptcy petition debt. Delta and Northwest have not assumed their respective obligations under their respective Use Agreements. However, both airlines continue to operate at the Airport under the terms of their respective agreements. The Authority is not able to predict how long any airline in bankruptcy protection will continue operating at the Airport or whether any of these airlines will liquidate or substantially restructure their operations. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. Further, the Authority cannot predict nor can it give any assurance that the airlines serving the Airport will continue to pay or to make timely payment of their obligations under the Use Agreement. The Authority cannot predict the likelihood of future incidents similar to the events of September 11, 2001, the likelihood of future air transportation disruptions or the impact on the Airport or the airlines if such incidents or disruptions do occur.

For additional information regarding airlines specifically, “INFORMATION CONCERNING THE AIRLINES” and regarding airlines generally, see APPENDIX A - “REPORT OF THE AIRPORT CONSULTANT.”

Effect of Airline Bankruptcies

Assumption or Rejection of Leases and Executory Contracts. An airline that has executed a Use Agreement or other executory contract with the Authority and seeks protection under the U.S. bankruptcy laws after October 17, 2005, must assume or reject: (a) its Use Agreement within 120 days after the bankruptcy filing subject to a court-approved, one-time 90-day extension (further extensions are subject to the consent of the lessor), and (b) its other executory contracts with the Authority prior to the confirmation of a plan of reorganization.

In the event of an assumption of any executory contract or lease, an airline would be required to cure any pre- and post-petition monetary defaults and provide adequate assurance of future performance under the applicable executory contract or lease. In the event of an assumption by a debtor airline and assignment to a third party, the assurance of future performance would have to be demonstrated by the proposed assignee.

Rejection of a Use Agreement or other executory contract with the Authority will give rise to an unsecured claim of the Authority for damages, the amount of which in the case of a Use Agreement or other lease is limited by the U.S. Bankruptcy Code generally to the amount 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. Claims for such damages are subject to the

Authority's duty to mitigate damages. The amount ultimately allowed in the event of a rejection of a Use Agreement or other executory contract could be considerably less, however, than the maximum amount allowed under the U.S. Bankruptcy Code. Amounts unpaid as a result of a rejection of a Use Agreement by an airline in bankruptcy can be passed on to the remaining Signatory Airlines under the Use 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.

Delta and Northwest were each operating at the Airport under a Use Agreement at the time of their respective filings for bankruptcy protection on September 14, 2005. As of October 31, 2006, neither Delta nor Northwest had yet assumed or rejected their respective Use Agreements, but each continue to operate at the Airport and each has agreed to extend the term of the current agreement by two years, subject to their rights under applicable bankruptcy laws.

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

PFCs. Pursuant to the PFC Laws, the FAA has approved the Authority's applications to require airlines to collect and remit to the Authority a \$4.50 PFC for each enplaning revenue passenger at the Airport. See "THE CAPITAL IMPROVEMENT PROGRAM-Passenger Facility Charge Program-Authorization for Passenger Facility Charge."

The PFC Laws provide that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the Authority) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. Airlines are permitted to commingle PFC collections with other revenues. Airlines that have filed for Chapter 7 or 11 bankruptcy protection, however, are required to segregate PFC revenue in a separate account for the benefit of the airport and cannot grant a third party any security or other interest in PFC revenue. The airlines are entitled to retain interest earned on PFC collections until such PFC collections are remitted. This procedure has been followed by United, Delta and Northwest during their respective bankruptcies. PFCs collected by those airlines are required by the bankruptcy court to be placed in accounts separate from other airline revenue accounts and are being paid to airports monthly in accordance with the PFC regulations. However, the Authority cannot predict whether an airline that files for bankruptcy protection will properly account for the PFCs or whether the bankruptcy estate will have sufficient moneys to pay the Authority in full for the PFCs owed by such airline. Although Delta and Northwest remain under Chapter 11 bankruptcy protection, they are current in the payment of both pre-petition and post-petition PFCs owed to the Authority.

Risks Related to PFC Revenues

For a discussion of certain risks related to PFC Revenues, see "THE CAPITAL IMPROVEMENT PROGRAM-Passenger Facility Charge Program-Certain Risks and Covenants Related to the Amount and Timing of Receipt of PFC Revenues."

Expiration of Airline Agreements and Federal Regulation Regarding Rates and Charges

The current Use Agreements are scheduled to expire on September 30, 2008. The Authority is negotiating new agreements, but cannot offer any assurance that airlines will be willing to execute new agreements with terms that are similar to the existing agreements.

The FAA Authorization Act of 1994 establishes that airline rates and charges set by airports be “reasonable” and mandates an expedited administrative process by which the Secretary of Transportation (the “*Secretary*”) shall review rates and charges complaints that are not under an agreement with the carriers. An affected air carrier may file a written complaint requesting a determination of the Secretary as to reasonableness within 60 days after such carrier receives written notice of the establishment or increase of such fee. During the pendency of the review, the airlines must pay the disputed portion of the fee to the airport under protest, subject to refund to the extent such fees are found to be unreasonable by the Secretary. The airport must obtain a letter of credit, surety bond or other suitable credit facility equal to the amount in dispute unless the airport and the complaining carriers agree otherwise.

Competition

Two other airports compete for air passenger traffic with the Airport, namely, Phoenix Sky Harbor International Airport (PHX) and, to a minor extent but possibly increasing in future, Williams Gateway Airport (IWA), located about 15 miles southeast of PHX. Both of these airports serve the Phoenix metropolitan area. PHX is located in the City of Phoenix approximately 120 miles northwest of TUS and IWA is located in Mesa approximately 25 miles southeast of Phoenix. The greater number of destinations, higher flight frequency, additional nonstop services and, often, lower airfares available at PHX attract some air travelers who would otherwise find the Airport more convenient. Other factors, such as the time and cost of driving, growing highway congestion on Interstate 10, and increasing parking costs at PHX, work to the Airport’s advantage in this regard. The proportion of traffic that elects to use PHX rather than the Airport is unknown, but it is believed that the proportion fluctuates as the above factors change. As population grows along the Interstate 10 corridor, more air travelers will have the opportunity to use either airport. IWA currently only has one passenger carrier (Vision Airlines) that operates four flights per week to North Las Vegas Airport. A second passenger carrier (Western) intends to operate four charter flights per week to Bellingham, Washington beginning in January, 2007.

Cost of Capital Improvement Program

The Authority has entered into agreements providing for a guaranteed maximum price (“GMP”) for the major components of the 2006 Project. Such GMP’s are subject to adjustment under limited circumstances, including changes in scope, unforeseen site conditions and force majeure events. For those other elements of the CIP for which a GMP has not been obtained, the estimated costs of, and the projected schedule for, the Authority’s CIP are subject to a number of uncertainties. The ability of the Authority to complete the CIP may be adversely affected by various factors including: (1) estimating errors, (2) design and engineering errors, (3) changes to the scope of the projects, including changes to federal security regulations, (4) delays in contract awards, (5) material and/or labor shortages, (6) unforeseen site conditions, (7) adverse weather conditions and other force majeure events, (8) contractor defaults, (9) labor

disputes, (10) unanticipated levels of inflation and (11) environmental issues. No assurance can be made that the existing projects will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue additional indebtedness and may result in increased costs per enplaned passenger to the airlines, thereby making the Airport less economically competitive.

Uncertainties of Projections, Forecasts and Assumptions

This Official Statement, and particularly the information contained under the caption “Report of the Airport Consultant - Financial Forecast Summary” and the Report of the Airport Consultant that is attached as Appendix A, contains statements relating to future results that are “forward looking statements” as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement and its appendices, the words “estimate,” “forecast,” “intend,” “expect,” “projected,” and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Among many factors that may cause projected revenues and expenditures to be materially different from those anticipated include an inability to incur debt at assumed interest rates, construction delays, increases in construction costs, general economic downturns, factors affecting the airline industry in general or specific airlines, federal, state or local legislation and/or regulations, changes in the Authority’s operational plans and procedures, and regulatory and other restrictions, including but not limited to those that may affect the ability to undertake, the timing or the costs of certain projects or operations. Any forecast is subject to such uncertainties. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Report of the Airport Consultant

The Report of the Airport Consultant included as Appendix A to this Official Statement contains certain assumptions and forecasts. The Report of the Airport Consultant should be read in its entirety for a discussion of historical and forecast results of the Authority and the assumptions and rationale underlying the forecasts. As noted in the Report of the Airport Consultant, any forecast is subject to uncertainties. There will usually be differences between actual and forecast results because not all events and circumstances occur as expected, and those differences may be material.

Accordingly, the projections contained in the Report of the Airport Consultant or that may be contained in any future certificate of the Authority or a consultant are not necessarily indicative of future performance, and neither the Airport Consultant nor the Authority assumes any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the Authority are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the Series 2006 Bonds are cautioned not to place undue reliance upon the Report of the Airport Consultant or upon any projections or requirements for projections. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Net Revenues and PFCs may be materially less than

expected and consequently, the ability of the Authority to make timely payment of the principal of and interest on the Series 2006 Bonds may be materially adversely affected.

Neither the Authority's independent auditors, nor any other independent accountants have compiled, examined or performed any procedures with respect to the Net Revenues forecast, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the Net Revenues forecast, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the Net Revenue forecast.

Limitation of Remedies

The Bond Resolutions provide limited remedies for Owners if defaults occur and do not provide for acceleration prior to maturity. The availability of those remedies may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally; the application of equitable principles and the exercise of judicial discretion in appropriate cases; common law and statutes affecting the enforceability of contractual obligations generally; principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the Authority. The Authority can not assure Owners that the remedies provided in the Bond Resolutions will be available or effective to make Owners whole if a default occurs.

Future Legislation

The operation of the Airport and the ability of the Authority to generate Net Revenues sufficient to pay the Series 2006 Bonds may be adversely affected by future federal, state or local legislation that affects the Airport directly, or activities at the Airport. Legislation that could adversely affect the Net Revenues includes, but is not limited to, legislation limiting the use of Airport properties, legislation imposing additional liabilities or restrictions on the operation of the Airport or the Airlines and other persons using the Airport, changes in environmental laws, reductions in federal funding for the Airport, and elimination or reduction of the ability of the Authority to impose passenger facility charges or other fees and charges for use of Airport products or services. In addition, the United States Congress could enact legislation making interest earned on the Series 2006 Bonds includable in a bondholder's gross income, and the Arizona Legislature could enact legislation subjecting Series 2006 Subordinate Lien Bond interest to State personal income taxation.

INFORMATION CONCERNING THE AIRLINES

Certain of the airlines (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 SEC. Certain information, including financial information, concerning such airlines (or their respective parent corporations) is disclosed in reports and statements filed with the SEC. Such reports and statements can be inspected and copies obtained at prescribed rates at the SEC's principal offices at 100 F Street, N.E., Washington, D.C. 20549, and should be available for inspection and copying at the SEC's regional offices located at 233 Broadway, New York, New York 10279, and 500 W. Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain

information on the hours of operation of the Public Reference Room by calling the SEC at 1-800-SEC-0380. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Some of the airlines are required to file periodic reports of financial and operating statistics with the United States Department of Transportation (“USDOT”). Such reports can be inspected at the Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs Administration, USDOT, 400 Seventh Street, S. W., Washington, D.C. 20590, and copies of such reports can be obtained from the USDOT at prescribed rates.

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

The Authority has no responsibility for the completeness or accuracy of information available from the USDOT or SEC, including, but not limited to, updates of information on the SEC's Internet site or links to other Internet sites accessed through the SEC's site.

LITIGATION

General Matters

To the best knowledge of the Authority, after reasonable investigation, there is no litigation pending in any court, or threatened, questioning the existence of the Authority, or which would restrain or enjoin the issuance or delivery of the Series 2006 Bonds, or which concerns the proceedings of the Authority taken in connection with the Series 2006 Bonds or the pledge or application of any Net Revenues or PFC Revenues provided for their payment, or which contests the powers of the Authority with respect to the foregoing.

The Authority is contingently liable in respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of Authority management, such matters are covered by insurance or will not have a materially adverse effect on the Authority's financial position and results of operations or its ability to pay the principal of and interest on the Series 2006 Bonds.

Payment of Costs

Final judgments and costs imposed upon the Authority with respect to legal matters are, after all appropriate appeals have been taken, treated as “capital project costs” under the Use Agreements. Legal fees and other expenses incurred by the Authority in connection with such matters are treated as Operation and Maintenance Expenses under the Use Agreements. Under the Use Agreements both Operation and Maintenance Expenses and capital project costs (as well as interest on loans obtained by the Authority to pay for capital project costs) are deducted from Revenues for purposes of determining landing fees to be paid by the Signatory Airlines.

APPROVAL OF LEGAL PROCEEDINGS

The authorization, issuance and sale of the Series 2006 Bonds are subject to the approval of Squire, Sanders & Dempsey L.L.P., Bond Counsel to the Authority. Certain legal matters in connection therewith will be approved by Marjorie Perry, Esq., Vice President and General Counsel for the Authority. The form of opinion of Bond Counsel is included herein as APPENDIX H.

Certain legal matters will be passed upon for the Underwriters by their counsel, Greenberg Traurig, LLP.

TAX MATTERS

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law: (i) interest on the Series 2006 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except for interest on a Series 2006 Bond for any period during which that Series 2006 Bond is held by a "substantial user" or a "related person," as those terms are used in Section 147(a) of the Code, and (ii) interest on the Series 2006 Bonds is exempt from Arizona state income tax. Interest on the Series 2006 Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2006 Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Authority contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2006 Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the Authority's certifications and representations or the continuing compliance with the Authority's covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Series 2006 Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Authority may cause loss of such status and result in the interest on the Series 2006 Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2006 Bonds. The Authority has covenanted to take the actions required of it for the interest on the Series 2006 Bonds to be and to remain excluded from gross income for federal income tax purposes, and not

to take any actions that would adversely affect that exclusion. After the date of issuance of the Series 2006 Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds or the market prices of the Series 2006 Bonds.

Interest on the Series 2006 Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2006 Bonds. Bond Counsel will express no opinion regarding those consequences.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress. There can be no assurance that legislation enacted or proposed, or clarification of the Code, after the date of issuance of the Series 2006 Bonds, will not have an adverse effect on the tax status of interest on the Series 2006 Bonds or the market prices of the Series 2006 Bonds.

Prospective purchasers of the Series 2006 Bonds should consult their own tax advisors regarding pending or proposed federal tax legislation, and prospective purchasers of the Series 2006 Bonds at other than their original issuance at the respective prices indicated on the inside cover of this Official Statement should also consult their own tax advisors regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Series 2006 Bonds ends with the issuance of the Series 2006 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the beneficial owners regarding the tax status of interest on the Series 2006 Bonds in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2006 Bonds, under current IRS procedures, the IRS will treat the Authority as the taxpayer and the beneficial owners of the Series 2006 Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2006 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market prices for the Series 2006 Bonds.

Original Issue Discount and Original Issue Premium

Certain of the Series 2006 Bonds (“Discount Bonds”) as indicated on the inside cover of this Official Statement were offered and sold to the public at an original issue discount (“OID”). OID is the excess of the stated redemption price at maturity (the principal amount) over the “issue price” of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner’s gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Series 2006 Bonds, and (ii) is added to the owner’s tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the [inside] cover of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Series 2006 Bonds (“Premium Bonds”) as indicated on the inside cover of this Official Statement were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, 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 that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner’s tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside cover of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Discount and Premium Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

RATINGS

Moody's Investors Service ("Moody's") and Fitch, Inc. ("Fitch") have provided ratings for the Series 2006 Bonds of "Aaa", and "AAA", respectively, with the understanding that upon delivery of the Series 2006 Bonds, the Insurer will issue a financial guaranty insurance policy insuring payment of the principal of and interest on the Series 2006 Bonds when due. The Series 2006 Bonds have received underlying ratings of "A2", and "A" from Moody's and Fitch, respectively. These ratings reflect only the view of such organizations and an explanation of the significance of such ratings may be obtained only from the rating agency furnishing such ratings. There is no assurance that such ratings will be maintained for any given period of time or that such ratings will not be revised downward, suspended or withdrawn entirely by such rating agencies, if in their sole judgment, circumstances so warrant. Any such downward revision, suspension or withdrawal of such ratings may have an adverse effect on the market price of the Series 2006 Bonds.

INDEPENDENT AUDITORS, ADVISORS AND CONSULTANTS

Independent Auditors

The financial statements of the Authority for the fiscal year ended September 30, 2005 are included in APPENDIX B to this Official Statement. Such financial statements have been audited by DeVries CPAs of Arizona, P.C., Tucson, Arizona, independent auditors as stated in their report appearing in APPENDIX B.

The financial statements of the Authority for the eleven-month periods ended August 31, 2006 and August 31, 2005, appearing in APPENDIX C to this Official Statement, are unaudited.

Financial Advisor

The Authority has retained the services of First Albany Capital Inc., New York, New York, as Financial Advisor, in connection with the authorization and delivery of the 2006 Bonds. The Financial Advisor is not contractually obligated to undertake, and has not undertaken to make, an independent verification or to assume the responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement.

CONTINUING DISCLOSURE

The Authority will undertake to provide certain annual financial information and notices of the occurrence of certain events, if material, pursuant to a Continuing Disclosure Undertaking ("Continuing Disclosure Undertaking"). For a description of this undertaking, see APPENDIX F- "Form of Continuing Disclosure Certificate". The Authority has complied in all material respects with its existing undertaking pursuant to SEC Rule 15c2-12(b)(5).

UNDERWRITING

The Series 2006 Bonds are being purchased by Bear, Stearns & Co. Inc. as representative of itself and UBS Securities LLC (collectively, the “Underwriters”). The Underwriters have jointly and severally agreed to purchase the Series 2006 Bonds at a price of \$33,936,961.81, reflecting the principal amount thereof, plus a net original issue premium of \$1,990,540.95, less an Underwriters’ Discount of \$163,579.14. The Bond Purchase Agreement dated December 6, 2006 between the Authority and Bear, Stearns & Co. Inc. as representative of the Underwriters (the “Bond Purchase Agreement”) provides that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters intend to offer the Series 2006 Bonds to the public at the offering prices set forth on the cover page of this Official Statement. The Underwriters may offer and sell to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriters.

MISCELLANEOUS

The foregoing summaries or descriptions of provisions in the Series 2006 Bonds, the Use Agreements, the Bond Resolutions, and all references to other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is hereby made to the complete documents relating to such matters for further information. Copies of the Use Agreements and the Bond Resolutions are available from the President and Chief Executive Officer of the Authority, 7005 South Plumer, Tucson, Arizona 85706.

Any statements made in this Official Statement, including the Appendices hereto, indicated to involve matters of opinion or estimates are represented as opinions or estimates in good faith. No assurances can be given, however, that the facts will materialize as so opined or estimated.

This Official Statement has been duly authorized and approved by the Board of the Authority and duly executed and delivered on its behalf by the official signing below.

**TUCSON AIRPORT AUTHORITY,
INC.**

By /s/ Bonnie A. Allin
President and CEO

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APPENDIX A
REPORT OF THE AIRPORT CONSULTANT

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APPENDIX A

REPORT OF THE AIRPORT CONSULTANT

TUCSON AIRPORT AUTHORITY, INC.

TUCSON, ARIZONA

by the

JOHN F. BROWN COMPANY, INC.

NOVEMBER 28, 2006



November 28, 2006

Ms. Bonnie Allin
President/Chief Executive Officer
Tucson Airport Authority, Inc.
Tucson International Airport
7005 South Plumer Avenue
Tucson, Arizona 85706

Re: Tucson Airport Authority, Inc., Subordinate Lien Revenue Bonds, Series 2006

Dear Ms. Allin:

We are pleased to submit this Report of the Airport Consultant (the Report). The Report was prepared in connection with the issuance of Tucson Airport Authority, Inc., Subordinate Lien Airport Revenue Bonds Series 2006 (the 2006 Bonds). The Report presents our forecast of passengers enplaning at Tucson International Airport (the Airport or TUS) and evaluates the ability of the Tucson Airport Authority, Inc. (the Authority or TAA) to generate Net Revenues¹ sufficient to meet the Rate Covenant (defined below) under the Airport Revenue Bond Resolution, as amended and supplemented (the Senior Lien Resolution) and the Subordinate Lien Revenue Bond Resolution, as amended and supplemented (the Subordinate Lien Resolution), for the forecast period FY2007 through FY2011.²

Proceeds of the 2006 Bonds will be used to (1) pay project costs of the Concourse Renovation Project, (2) pay capitalized interest on a portion of such bonds, (3) fund a debt service reserve for the 2006 Bonds, and (4) pay certain costs of issuance.

BACKGROUND

The Authority is a civic, non-profit corporation as provided for under Arizona law that is governed by a Board of Directors (the Board). The Authority and the City of Tucson (the City) entered into a lease for the Airport that extends to 2048 and a separate lease for Ryan Airfield (collectively, the Airport System). The Authority operates and manages the Airport System as an essential governmental function under Arizona law. The Authority's airport system includes the Airport and Ryan Airfield (RYN).

The Board approved a master plan for the Airport in 2004 that sets out long-term goals. The Authority has developed a multi-year capital improvement program (CIP) for TUS and RYN

1. Capitalized terms not otherwise defined in this Report shall have the meaning given in the Senior Lien Resolution, the Subordinate Lien Resolution, and the Preliminary Official Statement.

2. The Authority's Fiscal Year ends September 30.

for FY2007–FY2011 that totals approximately \$193.5 million. The CIP is updated periodically and the capital budget for the upcoming Fiscal Year is adopted annually by the Board as part of the budget process. The Concourse Renovation Project (\$30.9 million) in FY2007 and the near parallel carrier Runway 11R/29L project (\$75.7 million) in FY2009 and FY2010 are the two major projects in the CIP and the only ones expected to be financed with debt. The Concourse Renovation Project will renovate and reconfigure east and west concourses to provide additional functional space for gates/holdrooms, restrooms, concessions, and public circulation; modify security checkpoint and meeter/greeter space to ease congestion at concourse entrances; and relocate Customs and Border Patrol (CBP/FIS) processing of commercial international passengers from the international arrivals building to the terminal among other enhancements. The relocation and upgrade of parallel Runway 11R/29L will provide additional air carrier airfield capacity, increase operational flexibility, and provide equipment and facility redundancy.

The Authority expects to fund all of the costs of the Concourse Renovation Project with the proceeds of the 2006 Bonds. The Authority expects to secure Airport Improvement Program (AIP) grants to fund 80 percent of the cost of the Runway 11R/29L project through a Letter of Intent with the Federal Aviation Administration (FAA). Although the specific terms of the financing for the runway project are not known at this time, for purposes of this Report, it was assumed that the Authority would issue Subordinate Lien Bonds in FY2009 (the 2009 Subordinate Lien Bonds) for both the TAA share (20 percent) and the LOI share (80 percent) of estimated costs for this project. Therefore, the projected Debt Service associated with this project is included in the financial forecasts accompanying this Report. However, instead of Subordinate Lien Bonds, the Authority may decide to issue these bonds as other forms of debt, including Senior Bonds or Junior Subordinate Lien Obligations.

With certain exceptions, the Authority is required under the Airline Use Agreements (Use Agreements) with the Signatory Airlines to obtain Majority-in-Interest (MII) approval before proceeding with capital projects. The improvements in FY2007 and FY2008 of the FY2007–FY2011 CIP, which are funded in part by the 2006 Bonds, have received MII approval and have been approved by the Board. On November 7, 2006, the Board approved the Guaranteed Maximum Price (GMP) contract for construction of the Concourse Renovation Project.

SENIOR LIEN RESOLUTION AND SUBORDINATE LIEN RESOLUTION

The Authority has issued Senior Lien Bonds under the terms and conditions of the Senior Lien Resolution adopted December 4, 1990, as amended and restated as of November 28, 2006. The Authority currently has four series of Senior Lien Bonds outstanding – the Series 2001A-C Refunding Bonds and the Series 2003 Bonds – with an aggregate principal amount outstanding of \$40.7 million as of December 1, 2006.

The 2006 Bonds are being issued under the terms and conditions of the Subordinate Lien Resolution adopted by the Authority initially in 2001, as amended and supplemented as of November 28, 2006, and the Second Supplemental Subordinate Lien Resolution authorizing the



issuance of the 2006 Bonds. The Authority currently has one series of Subordinate Lien Bonds outstanding, the 2001 Subordinate Lien Bonds with an aggregate principal amount of \$39.3 million outstanding as of December 1, 2006.

The 2006 Bonds will be special obligations of the Authority secured by a pledge of and lien upon the Net Revenues of the Authority junior and inferior to the Senior Lien Bonds issued under the Senior Lien Resolution. Under the Second Supplemental Subordinate Lien Resolution, the Authority intends to additionally pledge Passenger Facility Charges (PFC) revenues equal to approximately 79 percent of the annual debt service on the 2006 Bonds, which is the estimated PFC eligibility for the Concourse Renovation Project. The 2006 Bonds are the second series of Subordinate Lien Revenue Bonds issued under the Subordinate Lien Resolution and have a parity lien on Net Revenues and PFC Revenues with the 2001 Subordinate Lien Bonds.

The 2006 Bonds do not constitute and are not an obligation or indebtedness of the City of Tucson, Pima County, the State of Arizona, or any municipality, instrument, or political subdivision thereof other than the Authority. The Authority has no taxing power.

In the Senior Lien Resolution, Net Revenues are defined as Revenues less the Operation and Maintenance Expenses. Revenues are generally defined as all income and revenue from all sources collected or received by the Authority in connection with the Airport System, including all rates, charges, rentals, fees, investment income (except as excluded), plus the Required Transfer Amount³ Revenues include receipts from rental car customer facility charges (CFCs), but specifically exclude (1) bond and loan proceeds, (2) proceeds from condemnation or insurance awards or settlements and associated interest earnings, except insurance proceeds from rental or business interruption insurance, (3) revenues derived from any Special Facility, (4) grants from public agencies, (5) PFC Revenues, (6) other gifts or grants, (7) investment income from the Construction Fund and escrow funds, (8) arbitrage earnings, (9) proceeds of any Support Facility in connection with Variable Rate Bonds, and (10) Released Revenues.⁴

Operation and Maintenance Expenses are defined as the reasonable and necessary expenses of the Authority to administer, operate, maintain, and repair the Airport System. Under the Bond Resolutions, Operation and Maintenance Expenses exclude depreciation and expenses associated with Special Facilities.

Debt Service is defined under the Senior Lien and Subordinate Lien Resolutions as the aggregate amount required to be deposited during each period or year in the applicable bond fund to (1) provide for the payment of interest, except to the extent interest is to be paid from capitalized interest, amounts credited to any Airport Interest Account for series, or any other

3. Required Transfer Amount is defined as monies available in the Airline Reserve Account of the Airport Improvement Fund at the end of each Fiscal Year that are transferred by the Authority to the Revenue Fund under contractual obligations with the airlines.

4. Released Revenues are defined as revenues that can be excluded from Revenues upon certain approvals and opinions from the Authority, its Accountant, its Airport Consultant, the Rating Agencies, and Bond Counsel.



amounts available for the payment of interest, (2) provide for the payment at maturity of any Bonds issued in serial form, and (3) provide for the retirement of any Bonds issued in term form. Under the Subordinate Lien Resolution, federal or state grants or other monies that have been irrevocably committed or are held by the Authority or by a fiduciary and are to be set aside exclusively to be used to pay the principal of and/or interest on all or a portion of any Series of Bonds are excluded from the calculation of Subordinate Lien Aggregate Annual Debt Service.

RATE COVENANT

In Section 5.02 of the Senior Lien Resolution, the Authority covenants to impose and prescribe such schedule of rates, rentals, fees and charges (1) to produce Revenues for each Fiscal Year at least sufficient (i) to pay Operation and Maintenance Expenses, (ii) to pay the principal and interest and premium on the Senior Lien Bonds, (iii) to pay the principal and interest and premium on Subordinate Lien Bonds, Junior Subordinate Lien Obligations, and all other claims, charges and obligations payable from Revenues, and (iv) to carry out all provisions and covenants of the Senior Lien Resolution, and (2) to produce Net Revenues, together with any Coverage Transfer Amount,⁵ to be equal to at least 125 percent of Senior Lien Aggregate Annual Debt Service on all Senior Lien Bonds Outstanding.

In Section 5.03 of the Subordinate Lien Resolution, the Authority covenants to impose and prescribe such schedule of rates, rentals, fees and charges (1) to produce Revenues at least sufficient to pay (i) Operation and Maintenance Expenses, (ii) the principal and interest and premium on the Senior Lien Bonds, Subordinate Lien Bonds, and Junior Subordinate Lien Obligations, , (iii) all other claims, charges and obligations payable from Revenues, and (iv) all provisions and covenants of Senior Lien Resolution, and (2) to produce Net Revenues, after deducting Senior Lien Aggregate Annual Debt Service, together with the Coverage Transfer Amount and PFC Revenues applied to the payment of Debt Service on Subordinate Lien Bonds Outstanding, to be equal to at least 110 percent of Subordinate Lien Aggregate Annual Debt Service during such Fiscal Year on all Subordinate Lien Bonds Outstanding.

These two provisions are collectively referred to as the “Rate Covenant.”

PASSENGER FACILITY CHARGES

PFCs are fees imposed on enplaned passengers by airport sponsors to generate revenues for airport projects that increase capacity, enhance competition among and between air carriers, enhance safety or security, or mitigate noise impacts. PFCs were established by Title 49 U.S.C. §40117, and authorized airport sponsors to collect PFCs in the amount of \$1.00 to \$3.00 per

5. Coverage Transfer Amount is defined as monies available in the Airport Improvement Fund at the end of the preceding Fiscal Year, other than those constituting Required Transfer Amounts, which may be added to Net Revenues for purposes of calculating both the Rate Covenant and the Additional Bonds Test (discussed later). Under the Senior Lien Bond Resolution, the Coverage Transfer Amount may not exceed twenty-five percent (25%) of the Senior Lien Aggregate Annual Debt Service and under the Subordinate Lien Bond Resolution, the Coverage Transfer Amount may not exceed ten percent (10%) of Subordinate Lien Aggregate Annual Debt Service.



eligible enplaning originating and connecting passenger. The Aviation Investment and Reform Act (AIR-21) increased the maximum PFC airport sponsors could collect to \$4.50 per enplaning passenger. In return for the right to assess PFCs in the amount of \$1.00 to \$3.00, large and medium-hub airports (such as TUS) must forego 50 percent of their AIP entitlement funds. Large and medium-hub airports that collect a PFC of \$4.00 or \$4.50 must forego 75 percent of their AIP entitlement funds.

Beginning February 1, 1998, the Authority imposed a PFC of \$3.00 per eligible passenger at the Airport under the terms of its initial PFC application and the Record of Decision (97-01-C-01-TUS) issued by the FAA. In March 2006, the Authority submitted to the FAA (1) an amendment to its existing PFC program to increase the current PFC level from \$3.00 to \$4.50 per eligible passenger and (2) a new application to impose and use PFCs at the \$4.50 level for the Concourse Renovation Project. On June 6, 2006, the Authority received approval for the new application (06-02-C-00-TUS) and on April 7, 2006, the Authority received approval for the amendment. The increase in the PFC level from \$3.00 per passenger to \$4.50 started October 1, 2006. The Authority currently has approval from the FAA to collect \$100.5 million under PFC application 97-01-C-01-TUS and \$44.2 million under PFC application 06-02-C-00-TUS extending through April 1, 2013. As of September 30, 2006, the Authority had collected \$41.5 million in PFCs, plus associated interest.

The Airport has pledged a portion of its PFC Revenues as additional security for the Series 2001 Subordinate Lien Bonds with annual debt service of approximately \$2.9 million and will pledge additional PFC Revenues for a portion of the Debt Service on the proposed 2006 Bonds (estimated to be \$2.4 million per year). With an estimated 89 percent of passengers eligible to pay PFCs, the Airport is projected to collect approximately \$8.4 million of PFC Revenues in FY2007, with amounts increasing thereafter with growth in enplanements.

AIRLINE USE AGREEMENTS

The Authority has entered into separate but substantially similar Airport Use Agreements (Use Agreements) with various airlines (the Signatory Airlines). The initial 30-year Use Agreement was executed in 1976 and has been extended for two one-year terms to expire on September 30, 2008. The Authority expects that prior to the expiration of the Use Agreements, it will (1) negotiate new agreements, (2) enter into month-to-month agreements, or (3) set rates and charges by resolution.

For financial planning purposes, it was assumed that the existing residual ratemaking methodology, including the Required Transfer Amount, would remain in place throughout the forecast period. The Authority believes that a new agreement for the period beyond FY2008 will result in Revenues from airline rates and charges equal to or greater than those provided for under the terms of the existing Use Agreements.



Under the Use Agreements, a Majority-In-Interest (MII) of the Signatory Airlines must approve certain capital improvements in order to include their costs in the Airport System Income Requirement, which is the rate base for calculating annual adjustments to the landing fee rate. The Authority has received MII approval for the Concourse Renovation Project, which is being financed by the 2006 Bonds, as well as for all of the other improvements in FY2007 and FY2008 of the FY2007-FY2011 CIP.

REPORT PURPOSE AND SCOPE

This Report presents the results of our evaluation of the ability of the Authority to generate Net Revenues during the FY2007 through FY2011 forecast period, together with pledged PFC Revenues, that are sufficient to satisfy the requirements of the Rate Covenant, taking into account the Outstanding Senior Lien Bonds, Outstanding Subordinate Lien Bonds, the 2006 Bonds, and the planned 2009 Subordinate Lien Bonds (assumed to be issued in FY2009 for the Runway 11R/29L project).

In order to issue additional Subordinate Lien Bonds on a parity with Outstanding Subordinate Lien Bonds, Section 2.02 of the Subordinate Lien Resolution (the Additional Bonds Test) provides, among other things, that either:

- The Net Revenues for the most recent Fiscal Year, after deducting Senior Lien Maximum Aggregate Annual Debt Service, together with the Coverage Transfer Amount and the total amount of PFC Revenues and federal or state grants or other monies pledged as additional security for payment of Subordinate Lien Bonds, will equal at least 110 percent of Subordinate Lien Maximum Aggregate Annual Debt Service on all Subordinate Lien Bonds Outstanding and the Subordinate Lien Bonds of the Series proposed to be issued. (The historical test.)
- As certified by an Airport Consultant, the estimated Net Revenues, after deducting Senior Lien Aggregate Annual Debt Service, together with the Coverage Transfer Amount and the total amount of PFC Revenues and federal or state grants or other monies pledged as additional security for payment of Subordinate Lien Bonds, will equal at least 110 percent of Subordinate Lien Aggregate Annual Debt Service on all Subordinate Lien Bonds Outstanding and the Subordinate Lien Bonds of the Series proposed to be issued for each of the three Fiscal Years following the earlier of project completion or depletion of Construction Interest Account. (The prospective test.)

Since the 2006 Bonds will be issued in FY2007 and the Concourse Renovation Project will be completed in FY2008, the Forecast Period will be FY2007 through FY2011, inclusive.

This analysis was prepared to support the certification required above from the Airport Consultant and includes allowances for the future issuance of additional Subordinate Lien Bonds in 2009 for the Runway 11R/29L project.



In preparing this Report, we have reviewed documents, opinions, and matters to the extent we deemed necessary to prepare the forecasts set out in the Financial Exhibits attached to this Report. In general, we reviewed the Authority's policies and plans for the development, financing, and pricing of Airport properties; legal, regulatory, and contractual provisions governing the Authority's financial operations; underlying demand for the use of the Airport; factors influencing the realization of this underlying demand; and factors influencing future Revenues and Operation and Maintenance Expenses. We have relied upon Authority management for estimates of project costs and construction schedules for the Capital Improvement Program and upon the Financial Advisor for the sources and uses of funds and the debt service requirements of the 2006 Bonds.

Section I, Background, provides background about the Authority and the Airport, and describes the FY2007-FY2011 CIP. Section II, Economic Base for Air Transportation describes the economic factors and community of interest factors affecting air traffic at TUS. Section III, Airport Activity, describes historical traffic trends, identifies key non-economic factors affecting future air traffic at TUS, and presents our forecast of enplaned passengers. Section IV, Financial Framework, describes the legal and contractual framework governing the business and financial operation of the Authority. Section V, Financial Analysis, and the Financial Exhibits that follow, present our forecast of Revenues, Operation and Maintenance Expenses, and Net Revenues and the key assumptions underlying these forecasts.

SUMMARY OF FINANCIAL FORECASTS

Our forecasts of Revenues, Operation and Maintenance Expenses, and Net Revenues are presented in the Financial Exhibits. The forecasts cover the period FY2007 through FY2011. The following table summarizes our forecasts of Revenues, Operation and Maintenance Expenses, Net Revenues, pledged PFC Revenues, anticipated LOI grants, and deposits to the various funds and accounts under the Senior Lien Resolution and the Subordinate Lien Resolution, as well as Debt Service coverage. The forecasts indicate compliance with the Rate Covenant for each Fiscal Year of the forecast period.



**Financial Forecast Summary
Tucson Airport Authority
(for the Fiscal Year ending September 30)**

	Forecast 2007	2008	2009	2010	2011
Debt Service Coverage					
Senior Bond Debt Service Coverage Calculation					
Revenues	\$ 52,198,777	\$ 54,351,827	\$ 55,833,937	\$ 57,399,821	\$ 58,969,408
Operation and Maintenance Expenses	(34,038,517)	(35,617,382)	(37,153,438)	(38,701,952)	(40,318,618)
Net Revenues	\$ 18,160,260	\$ 18,734,446	\$ 18,680,499	\$ 18,697,868	\$ 18,650,790
Senior Bonds					
Existing	\$ 6,041,141	\$ 6,043,706	\$ 6,046,464	\$ 6,047,452	\$ 6,043,912
Planned	-	-	-	-	-
Senior Bond Aggregate Annual Debt Service	\$ 6,041,141	\$ 6,043,706	\$ 6,046,464	\$ 6,047,452	\$ 6,043,912
Senior Bond Debt Service Coverage	3.01	3.10	3.09	3.09	3.09
Required Minimum	1.25	1.25	1.25	1.25	1.25
Subordinate Bond Debt Service Coverage Calculation					
Revenues	\$ 52,198,777	\$ 54,351,827	\$ 55,833,937	\$ 57,399,821	\$ 58,969,408
Plus:					
PFC Revenues Transferred for Subordinate Debt Service	4,643,146	5,123,174	5,315,726	9,100,125	8,806,720
	\$ 56,841,923	\$ 59,475,001	\$ 61,149,663	\$ 66,499,946	\$ 67,776,128
Less:					
Operation and Maintenance Expenses	(34,038,517)	(35,617,382)	(37,153,438)	(38,701,952)	(40,318,618)
Senior Bond Debt Service	(6,041,141)	(6,043,706)	(6,046,464)	(6,047,452)	(6,043,912)
	\$ 16,762,266	\$ 17,813,914	\$ 17,949,761	\$ 21,750,541	\$ 21,413,599
Subordinate Bonds					
Existing	\$ 2,865,395	\$ 2,864,848	\$ 2,864,257	\$ 2,864,665	\$ 2,863,990
Proposed Series 2006 Bonds	1,777,751	2,802,006	2,915,654	2,918,530	2,919,672
Planned Series 2009 Bonds	-	-	6,030,341	9,828,821	9,552,485
Offset by LOI Grants	-	-	(5,840,350)	(5,856,275)	(5,873,175)
Subordinate Bond Aggregate Annual Debt Service	\$ 4,643,146	\$ 5,666,854	\$ 5,969,902	\$ 9,755,742	\$ 9,462,972
Subordinate Bond Debt Service Coverage	3.61	3.14	3.01	2.23	2.26
Required Minimum	1.10	1.10	1.10	1.10	1.10

Sources: First Albany Capital Inc. for debt service on the 2006 Bonds. Tucson Airport Authority, Inc. and John F. Brown Company, Inc. for all others.

UNDERLYING ASSUMPTIONS

To the best of our knowledge and belief as of the date of this Report, the forecast appropriately presents the projected financial results of the Authority for the forecast period. The forecast is based on assumptions reflecting conditions we expect to exist and the course of action that management expects to take during the forecast period. We have relied upon management of the Airport for representations about its plans and expectations and for disclosure of significant information that might affect the realization of forecast results. Representatives of the Authority have reviewed our assumptions and concur that they provide a reasonable basis for the forecast. However, any forecast is subject to uncertainties. There will usually be differences between actual and forecast results because not all events and circumstances occur as expected, and those differences may be material. We have no responsibility to update this Report for events and circumstances occurring after the date of the Report.



Ms. Bonnie Allin
President/Chief Executive Officer

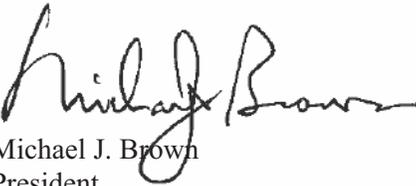
A-10

November 28, 2006

We are pleased to have had this opportunity to be of service to the Authority in this matter.

Sincerely,

JOHN F. BROWN COMPANY, INC.

A handwritten signature in black ink, appearing to read "Michael J. Brown". The signature is written in a cursive style with a large, prominent initial "M".

Michael J. Brown
President



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I. BACKGROUND

A. ORGANIZATION AND MANAGEMENT

The Tucson Airport Authority (the Authority or TAA) was established on April 12, 1948, as a civic, non-profit corporation as provided for under Arizona law. The Authority was established to develop, promote, operate, and maintain airports and air transportation facilities adjacent to the City of Tucson (the City) and in Pima County. Under Arizona law, the City is authorized to acquire, own, control, equip, improve, maintain, operate, and regulate airports, and to enter into agreements with corporations engaged in the air transportation industry for the operation and maintenance of airports. The Authority operates the Airport System as an essential governmental function under Arizona law.

As of September 30, 2006, the Authority had 106 active members. It is governed by a Board of Directors (the Board) of nine members. Members of the Board are elected annually, typically to staggered three-year terms. The Board appoints the President/Chief Executive Officer who appoints various senior management and staff positions and oversees day-to-day operations for the Authority.

Of the 309 full-time equivalent positions authorized in the Authority's FY2007 budget, there were 295 active full-time equivalent employees as of September 30, 2006.

Table I.1
Authorized Authority Positions
Tucson Airport Authority
(FY2007 Budget)

Department	Positions
Administration	9.0
Legal	2.5
Management	3.0
Finance	9.75
Human Relations	5.5
Planning & Development	29.75
Contracting/Procurement	12.75
Communications	14.0
Information Services/Governmental Affairs	4.0
Information Technologies & Telecommunications	11.0
Custodial	55.0
Fire	18.0
Flight Line	33.0
Maintenance	40.0
Operations	5.0
Police	53.5
Ryan Airfield	3.0
	<u>308.75</u>

Source: Tucson Airport Authority records.

B. EXISTING FACILITIES

The Airport System consists of Tucson International Airport (the Airport or TUS) and Ryan Airfield (Ryan or RYN). In October 1948, the Authority and the City entered into a 25-year lease for TUS, which was later extended to 2048. The Authority entered into a separate lease with the City for RYN, which expires in 2053. TUS is a full commercial service airport serving the Tucson metropolitan area, southern Arizona, and northern Sonora, Mexico. Ryan is a general aviation airport that serves as a reliever airport for TUS.

TUS occupies approximately 8,244 acres of land located primarily in an unincorporated area of Pima County approximately eight miles south of the downtown area of the City. RYN is located 12 miles southwest of downtown Tucson and comprises about 1,804 acres of land. Ryan's airfield accommodates a wide variety of general aviation activity.

**Table I.2
Facilities Profile
Tucson International Airport
(as of August 2006)**

Runways	<u>Length</u>	<u>Width</u>
11L-29R (air carrier)	10,996 feet	150 feet
3-21 (air carrier)	7,000 feet	150 feet
11R-29L (general aviation)	8,408 feet	75 feet
Terminal	<u>Active Gates</u> ¹	<u>Square feet</u>
East Concourse	6	
West Concourse	9	
	15	452,025
Public parking spaces (Authority-owned)		
Hourly	469	
Daily	908	
Park 'N Save covered economy	308	
Park 'N Save uncovered economy	<u>5,337</u>	
	7,022	
Rental car garage spaces		
Level 1 (Rental car ready/return)	713	
Level 2 (Rental car storage) ²	631	
Level 3 (employee)	<u>661</u>	
	2,005	

Source: Tucson Airport Authority records.

Notes: 1. There are 11 identified gate positions on the west concourse and 8 on the east concourse, but only 15 of these are currently active and served by jet bridges. The existing 19 gate positions do not have sufficiently sized passenger holding areas to support aircraft operations at each gate. The Concourse Renovation Project is designed to address this imbalance.
2. Upon the expiration of the existing rental car agreements in August 2007, the second level of the rental car garage will be converted to 607 public parking spaces. Rental car storage will be moved to a new surface lot.

TERMINAL FACILITIES

The terminal building at TUS consists of a main terminal with two concourses totaling 452,025 square feet of floor space. The terminal building is a three-level structure and each of the concourses has two stories. The ground level of the main terminal includes baggage claim areas, baggage service offices, inbound and outbound baggage makeup, military lounge, restrooms, and

ground transportation services. The second level of the terminal includes ticket counters and lobby, airline ticket offices, passenger security checkpoints, concession space, and restrooms. The third level includes a restaurant, bar, kitchen, restrooms, and conference rooms. Upper and lower roadways serve the first two levels of the terminal. Holdrooms and concessions are located on the second level of each concourse and airline operations space is on the ground level.

There are 11 identified gate positions on the west concourse of which nine are currently active and served by jet bridges. There are eight identified gate positions on the east concourse of which six are currently active and served by jet bridges. Each concourse has a passenger security screening checkpoint with three lanes.

Processing of international arriving passengers (both commercial and general aviation) currently takes place in the 15,600 square foot international terminal building located a short walk from the terminal building where Customs and Border Patrol maintains offices. There are two aircraft parking positions at the international terminal building. Commercial airline arrivals will be relocated to the lower level of the east concourse as part of the Concourse Renovation Project (described later). Authority administrative offices currently occupy a portion of the international terminal.

The original east and west concourses of the terminal were single-story structures completed in 1962. They were enveloped by new two-level ramped structures in 1984 and extended. Two small additions were constructed in 1991 and 1995.

The Terminal Expansion Project completed in 2005 expanded landside terminal areas and functions to accommodate current and forecast increases in demand. This project, which was funded primarily with proceeds of the PFC-backed 2001 Subordinate Lien Bonds and PFC pay-as-you-go revenues, included (1) construction of new commercial/enplaning/deplaning roadways, (2) addition of 80,000 square feet to the baggage and ticketing levels, and (3) renovation of an additional 80,000 square feet of existing space on the first and second levels of the terminal. The renovated and expanded bag claim area provides for seven bag claim devices with a total of 986 linear feet of claim frontage. Checked baggage screening at TUS is a variation of an in-line system whereby the Transportation Security Administration (TSA) removes bags from the outbound baggage belt, and sends them through the Explosive Detection Systems (EDS) screening device. After clearing, baggage is placed back onto the individual airline's bag makeup device.

LANDSIDE FACILITIES AND GROUND ACCESS

As shown in Table I.2, there are currently 7,022 public parking spaces located in three surface lots on the Airport. The hourly lot is immediately in front of the terminal and the daily lot is located behind it. Both are within walking distance of the terminal building and are not served by shuttle vans. The airport-owned Park 'N Save economy lot is located on Airport property just beyond the terminal loop road (off South Tucson Boulevard) and is serviced by shuttle vans. In August 2007, the Authority intends to convert the second level of the rental car garage to public parking, creating 607 spaces of covered parking adjacent to the terminal building for premium parking, thereby increasing the number of public parking spaces on-Airport to 7,629. Customers using the rental car garage will use "pay-on-foot" payment kiosks.

Privately operated off-Airport parking lots, most of which are located on South Tucson Boulevard, offer competitive parking rates and shuttle bus service to the terminal. Major operators include Parking Company of America (2,520 spaces), Chateau Travel (400 spaces) and Trax Transportation (100 spaces). On the basis of off-Airport revenues and parking spaces, it is estimated that the Authority serves roughly 51 percent of the daily and long-term parking market and has roughly twice the number of available spaces as off-Airport operators – 6,553 vs. 3,020 – thereby providing capacity for future growth in this market segment.

In mid 2002, the new rental car facility opened adjacent to the terminal. It includes an 18,000 square foot customer service building, which is attached to the terminal with a climate-controlled corridor, and a three-story, 2,005-space parking structure. The customer service building includes common space, check-in counters, and offices. Level one of the rental car garage houses rental car ready and return functions and level two is used for rental car storage. The third level is used for employee parking. There are seven quick turn around (QTA) facilities located behind the garage, including car wash, office space, break room and storage space. In August 2007, the Authority plans to relocate the level two rental car storage spaces to a new surface lot adjacent to the QTA facilities and to convert level two to public parking. After that time, the Authority will offer 7,629 public parking spaces on Airport.

Seven rental car companies operate from the rental car facility – Alamo, Avis, Budget, Dollar, Enterprise, Hertz, and National. Thrifty and Adobe operate from off-Airport locations and shuttle their customers to and from the rental customer service building.

Roadway access to the terminal is provided by South Tucson Boulevard with easy access to Interstates 10 and 19.

AIRFIELD FACILITIES

The Airport has three active runways, including two air carrier runways (Runway 11L/29R and Runway 3/21) and one general aviation runway (Runway 11R/29L). Parallel Runways 11L/29R (10,996 feet in length) and 11R/29L (8,408 feet) are oriented in a northwest/southeast direction and are separated by a distance of 706.5 feet. Crosswind Runway 3/21 (7,000 feet) is oriented in a northeast/southwest direction.

The principal air carrier runway, Runway 11L/29R, is capable of handling any size passenger aircraft currently in use and is used almost exclusively by air carrier and military aircraft when weather conditions permit. The Authority just completed a \$13.3 million reconstruction of Runway 11L/29R with four-inch asphaltic concrete replacing the previous three-inch surface. Weather conditions at TUS are exceptionally good, with clear weather occurring nearly 100 percent of the time. TUS has an Airport Surveillance Radar (ASR) and Instrument Landing System (ILS) (Category I) for precision approaches to Runway 11L.

Runways 11L/29R and 3/21 have aircraft arresting devices that are used by the Arizona Air National Guard and are grooved asphalt.

OTHER FACILITIES

The major cargo carriers operating at the Airport are DHL Worldwide Express, FedEx, and United Parcel Service (UPS). UPS started service in June 2006. These carriers currently lease

approximately 35,000 square feet of cargo space in three air freight buildings located southeast of the terminal building.

There are four fixed base operators (FBOs) at TUS that provide a full range of general aviation services, including major and minor airframe and engine repair, aircraft painting, repair of aircraft electronic equipment, aircraft sales and rentals, charter and air taxi service, and flight training. There are approximately 74 acres provided for general aviation, which includes hangar space for about 240 aircraft and tie-down positions for 350 aircraft. In addition to these FBO facilities, TAA provides an additional 150 tie-down positions on the 26-acre transient apron located to the south, west, and northwest of the air traffic control tower. A 21,784 square foot Executive Terminal is located at the base of the control tower.

An industrial complex is located on the northwest side of the Airport, including the Tucson Industrial Center (TIC), which consists of three large, WWII era hangars that are approaching the end of their useful lives. The Authority plans to demolish the TIC and certain other facilities in the same area to make room for relocated Runway 11R/29L. The Authority will attempt to accommodate some of the displaced tenants in other areas of the Airport to the extent economically feasible. In the southwest industrial area of the Airport, Bombardier Aerospace leases a 108-acre tract for its aircraft modernization and service center and a 55-acre site for a facility it acquired from Lockheed-Martin in 2001.

Raytheon operates U.S. Air Force Plant 44 on land adjacent to TUS and leases land from the Authority for office buildings and other support. The Raytheon operation is located on the south side of the Airport with some of the premises having airfield access.

Various other facilities are located on the Airport, including three fuel storage facilities with a total capacity of approximately 376,000 gallons, the air traffic control tower, district offices of the U.S. Department of Justice Drug Enforcement Administration, the National Weather Service, the University of Arizona Environmental Research Laboratory, SkyWest Airlines maintenance and crew domicile facilities, and the Authority's administrative building, maintenance buildings, and Aircraft Rescue and Firefighting facility.

The 162nd Tactical Fighter Training Group of the Arizona Air National Guard occupies facilities on an 83-acre site adjacent to the north side of the Airport along Valencia Road. This group uses the TUS airfield to train F-16 pilots.

RYAN AIRFIELD

Ryan is a general aviation airport that serves as a reliever airport for TUS and accommodates a wide variety of general aviation activity. Ryan's airfield consists of a 5,500 foot runway with an instrument landing system, a 4,900 foot runway, and a 4,000 foot crosswind runway, and has a Federal Aviation Administration (FAA) contract control tower. Ryan has hangar and tie-down space to accommodate approximately 256 locally based aircraft, with additional tie-downs for itinerant aircraft. More than 20 tenants provide a complete range of general aviation services at Ryan.

C. MASTER PLANS

The 2004 TUS Master Plan was approved by the Authority Board in August 2004. The Master Plan serves as a guide for the future development of Airport facilities. The Master Plan forecasts an annual increase in passengers of 2.5 percent and an annual increase in operations of one percent over the next 20 years. By 2025 nearly six million total passengers are expected at TUS, according to the Master Plan forecast. Major elements of the recommended development plan for the next 20 years include:

1. ***Airfield.*** Relocate and upgrade parallel Runway 11R/29L in order to provide additional air carrier capacity, increase operational flexibility, and provide equipment and facility redundancy. Upon completion of the new relocated runway, referred to as the near parallel runway, the existing runway would be converted to a taxiway. The Authority and the FAA are in the process of preparing an Environmental Impact Statement (EIS) for construction and operation of the near parallel runway for which an Administrative Record of Decision is expected in mid 2007. The relocated runway is expected to be operational in 2012.
2. ***Terminal.*** Expand the terminal facility to accommodate additional security screening, additional concessions, public restrooms, circulation, and gate space with an ultimate gate expansion to 29 from the current 19.
3. ***Cargo Facilities.*** Expand air freight facilities at their existing site, east of the passenger terminal, and reserve a site for a potential ground cargo processing center on the east side of Swan Road south of Los Reales Road.
4. ***General Aviation/Corporate Facilities.*** Expand and develop corporate and private general aviation facilities on the west side of Plumer Avenue north of the TUS executive terminal.
5. ***Support Facilities.*** Three sites have been identified as possible locations for a new air traffic control center that will eventually be built once the FAA has validated the need for a new tower, and funding has been approved. Locations for a new TUS airfield maintenance complex as well as a new fuel storage facility have been identified. The plan calls for development of sites for aircraft maintenance and repair and other industrial tenants.

The Authority plans to update the Ryan master plan next year. The current master plan recommends that the main runway be reconstructed to a basic transport category length of 8,300 feet and that additional FBO facilities and industrial sites be developed.

D. PART 150 NOISE COMPATIBILITY PROGRAM

In 1982, the Authority completed its first Part 150 Noise Compatibility Program; formally know as Airport Noise Control and Land Use Compatibility (ANCLUC) study. The Part 150 Noise Compatibility Program was adopted by the FAA in 1984 and was updated in 1990. The primary purpose of the Part 150 Noise Compatibility Program was to promote compatibility of land uses in proximity of TUS with the Airport's aircraft operations. Two key components of the Part 150 Noise Compatibility Program are: aircraft noise exposure maps depicting the existing and the forecast noise levels around the Airport and a noise compatibility program outlining mitigation recommendations to reduce the effects of aircraft noise on surrounding properties. Several recommendations outlined in the 1982 and 1990 noise compatibility programs have been

implemented, including: relocating runway 11L-29R 2,250 feet to the southeast, imposing a night curfew on conducting engine run-ups, maintaining the Arizona Air National Guard's current level of operations, insulating buildings and residences within the 65+ Ldn noise contours to reduce interior noise level, preventing the development of incompatible uses through planning and zoning process, and the acquisition of vacant property within the 65+ Ldn contours. Approximately 1,894 acres of vacant land located southeast of the Airport have been acquired for noise buffering through the FAA AIP Noise Compatibility grant program. Also, a total of 1,402 homes have been registered under the sound insulation program. As of August 2006, 662 homes have been insulated for sound attenuation.

In September 2005, the U.S. Department of Transportation's Office of Inspector General (OIG) issued an audit report to the FAA entitled "The Management of Land Acquired Under Airport Noise Compatibility Programs." The audit reviewed the FAA's management and oversight of 11 of the 108 airports that have received AIP Noise Compatibility grants and included TUS.

Included in the OIG report was a recommendations that the FAA should recover its share of the proceeds from airports' disposal of land acquired with AIP noise compatibility grants. The OIG asserted that certain land that had been purchased with AIP noise grants, including 1,195 acres acquired at TUS, was no longer needed for noise compatibility purposes and that the land either had been or should have been disposed of pursuant to the applicable statute and grant assurance.

The FAA responded to the OIG audit recommendations by requiring that each of the 11 audited airports (including TUS): (1) submit detailed Noise Land Inventory Maps to the FAA by January 2007, (2) consult with the FAA to determine whether the subject land is in fact unneeded for noise compatibility within the meaning of the statute and applicable grant assurance, and (3) submit Noise Land Reuse Plans by September 2007 pertaining to any land determined to be unneeded for noise compatibility purposes, with such plans including a proposed method and schedule for disposing of any unneeded land. Since the applicable statute and grant assurance are unclear and the FAA has not yet issued guidance with regard to when land is no longer needed for noise compatibility purposes, the Authority is presently unable to determine or estimate what the ultimate outcome of the above process will be.

E. CAPITAL IMPROVEMENT PROGRAM

The Authority has developed a multi-year capital improvement program (CIP) for TUS and RYN for FY2007-FY2011 that totals approximately \$193.5 million as summarized in Table I.3. The CIP is updated periodically and the capital budget for the upcoming Fiscal Year is adopted annually as part of the budget process. As noted earlier, the Board has already approved the FY2007 and FY2008 capital budgets.

**Table I.3
Summary of FY2007-FY2011 Capital Improvement Plan
Tucson Airport Authority**

PROJECT	Project Start Year	ANGI/DHS	Entitlement	Noise	AIP	Runway	Discretionary	ADOT	Sources of Funds				Total	
									GARBs	PFC-backed	PFC PAYGO	CIF		
Tucson International Airport														
Vehicle and Cargo Inspection System / 1	2007	32,000	-	-	-	-	-	-	-	-	-	-	-	32,000
Perimeter Security - Valencia Equipment / 1	2007	18,500	-	-	-	-	-	-	-	-	-	-	-	18,500
Install Leak Detection System	2007	-	-	-	-	-	-	-	-	-	-	-	-	155,648
Concourse Renovation	2007	-	-	-	-	-	-	-	-	24,413,040	-	-	-	30,887,283
Terminal Column Wrap / 1	2007	535,755	-	-	-	-	-	-	-	-	-	-	-	535,755
Terminal Security Barriers	2007	-	498,877	-	-	-	-	-	-	-	-	-	-	503,928
Recycle Maintenance Facility (Construction) / 2	2007	-	257,700	-	-	-	-	-	-	-	-	-	-	7,099,290
RAC parking structure construction	2007	-	-	-	-	-	-	-	-	-	-	-	-	343,897
TIC Upgrade Phase 1 / 3	2007	-	-	-	-	-	-	-	-	-	-	-	-	400,000
Aero Park Blvd. Site Development	2007	-	-	-	-	-	-	-	-	-	-	-	-	1,510,254
Security Upgrades	2007	-	699,257	-	-	-	-	-	-	-	-	-	-	766,810
Security Upgrades	2007	-	256,261	-	-	-	-	-	-	-	-	-	-	281,420
Airport Maintenance Building	2007	-	-	-	-	-	-	-	-	-	-	-	-	4,986,354
Master Plan Update - Phase 1	2007	-	-	-	-	-	-	-	-	-	-	-	-	2,198,354
Rental Car OTA Driveway/Pavement Repair	2007	-	-	-	-	-	2,000,000	-	-	-	-	-	-	446,472
EA land acquisition RW3-21 RPZ	2007	-	-	-	-	-	-	-	-	-	-	-	-	30,000
Airport Wash Study and Letter of Map Revision	2007	-	-	-	-	-	-	-	-	-	-	-	-	61,267
Pavement Preservation - Tweway A, Roadway	2007	-	-	-	-	-	-	-	-	-	-	-	-	208,573
Airfield Lighting and Signage	2008	-	-	-	-	-	-	720,110	-	-	-	-	-	80,946
Sound Insulation Program - Area 2	2008	-	-	-	-	-	1,939,486	-	-	-	-	-	-	79,971
RAC Storage Overflow Ramp Paving	2008	-	-	-	-	-	-	-	-	-	-	-	-	657,188
RAC Service Center Infrastructure	2008	-	-	-	-	-	-	-	-	-	-	-	-	1,216,200
EOC Relocation	2008	-	-	-	-	-	-	540,000	-	-	-	-	-	600,000
RW 1/R/25L Tenant Relocation Area 1	2008	-	-	-	-	-	3,820,893	-	-	-	-	-	-	4,196,017
Airfield Drainage Improvements	2008	-	-	-	-	-	-	187,562	-	-	-	-	-	188,373
Security Upgrades	2008	-	-	-	-	-	-	166,354	-	-	-	-	-	4,165,545
Upgrade Part 150 Program	2008	-	4,000,000	-	-	-	-	-	-	-	-	-	-	4,165,545
Upgrade Part 150 Program	2008	-	746,278	-	-	-	-	-	-	-	-	-	-	86,634
Pavement Preservation - Seal Coating	2008	-	-	-	-	-	-	-	-	-	-	-	-	137,753
Main Terminal Apron Recon-Phase 2	2008	-	-	-	-	-	2,000,000	-	-	-	-	-	-	98,177
Land Acquisition - Obstin	2008	-	-	-	-	-	-	684,000	-	-	-	-	-	76,000
Rehabilitate Existing Skylights (Admin)	2009	-	-	-	-	-	-	-	-	-	-	-	-	117,514
Upgrades Perimeter Road from WYV Dr to Twy A 13	2009	-	1,381,250	-	-	-	1,117,611	-	-	1,680,000	-	-	-	54,862
Upgrades Perimeter Road from Twy A 13 to Twy A 14	2009	-	-	-	-	-	5,338,750	-	-	-	-	-	-	1,427,335
Pavement Preservation - Parking Lots	2009	-	-	-	-	-	-	-	-	-	-	-	-	694,641
800 MHz Upgrade - IT Master Plan	2009	-	-	-	-	-	-	-	-	-	-	-	-	689,307
800 MHz Hand Held Replacement Radios for Ops - IT Master Plan	2009	-	-	-	-	-	-	-	-	-	-	-	-	643,354
Sound Insulation Program	2009	-	-	-	-	-	-	186,354	-	-	-	-	-	4,412,708
Main Terminal Apron Construction Phase 3	2009	-	-	-	-	-	-	-	-	-	-	-	-	2,196,354
Sound Insulation Program	2009	-	-	-	-	-	-	-	-	-	-	-	-	1,332,866
Land Acquisition - Burbach Trail (RPZ)	2009	-	-	-	-	-	-	1,220,937	-	-	-	-	-	1,335,596
Sound Insulation Program	2010	-	-	-	-	-	-	186,354	-	-	-	-	-	4,412,708
Airport Lighting Control and Monitoring System (ALCMS)	2010	-	-	-	-	-	-	104,098	-	-	-	-	-	2,328,824
Main Terminal Apron Construction Phase 4	2010	-	-	-	-	-	-	2,120,627	-	-	-	-	-	2,196,354
Development of Near Parallel Carrier Runway (Construction)	2010	-	-	-	-	-	-	2,000,000	-	-	-	-	-	67,324,759
Master Plan Update	2010	-	1,379,822	-	-	-	-	-	-	-	-	-	-	1,379,822
Master Plan Update	2010	-	-	-	-	-	-	40,060,884	-	-	-	-	-	40,060,884
Park Avenue Improvements	2010	-	-	-	-	-	-	50,425	-	-	-	-	-	76,865
Park Avenue Improvements	2010	-	-	-	-	-	-	616,358	-	-	-	-	-	1,000,000
Pavement Preservation - Seal Coating	2010	-	-	-	-	-	-	1,024,068	-	-	-	-	-	1,236,606
Pavement Preservation - Seal Coating	2010	-	-	-	-	-	-	1,112,945	-	-	-	-	-	593,418
Perimeter Fencing for Acquisition	2010	-	-	-	-	-	-	-	-	-	-	-	-	53,557
Sound Insulation Program	2011	-	-	-	-	-	-	48,228	-	-	-	-	-	4,412,708
Land Acquisition - Valencia RPZ	2011	-	-	-	-	-	-	186,354	-	-	-	-	-	2,031,436
Perimeter Fencing for Acquisition	2011	-	-	-	-	-	-	928,253	-	-	-	-	-	2,196,354
Main Terminal Apron Construction Phase 5	2011	-	-	-	-	-	-	2,455,434	-	-	-	-	-	2,196,354
Drainage Detention Basin	2011	-	-	-	-	-	-	2,000,000	-	299,104	-	-	-	375,450
Aircraft Fueling/Service Center	2011	-	-	-	-	-	-	340,072	-	-	-	-	-	124,914
Pavement Preservation - Seal Coat Park & Save Lot	2011	-	-	-	-	-	-	-	-	-	-	-	-	569,300
Remains for Vehicle Washrack	2011	-	-	-	-	-	-	-	-	-	-	-	-	114,173
TUS FY2007-FY2011		\$ 586,235	\$ 16,851,267	\$ 16,746,278	\$ 47,855,069	\$ 20,579,931	\$ 6,528,861	\$ 6,474,243	\$ 37,877,991	\$ 1,919,104	\$ 3,353,208	\$ 17,314,328	\$ 2,662,757	\$ 180,726,791

Sources: Tucson Airport Authority, Inc. All cost estimates are stated in future dollars. Costs beyond FY2008 assume 3 percent escalation per year.
Notes: 1. Indicates projects that will only be undertaken if the Authority receives 100 percent funding from the Department of Homeland Security.
2. The maintenance facility was approved in the FY2004 budget.
3. The TIC upgrade project cost was reduced from its original budget of \$2,000,000 to \$400,000 by the Authority.

Table I.3 (continued)
Summary of FY2007-FY2011 Capital Improvement Plan
Tucson Airport Authority

PROJECT	Project Start Year	ANG/DMS	Sources of Funds					PFC PA/GO	PFC-backed	TAA Funds	Other	Total
			Entitlement	Noise	Runway	Discretionary	ADOT					
Ryan Airfield												
Perimeter Road at Ryan - Phase I	2007	-	-	-	-	688,055	-	-	76,451	-	-	764,506
Airfield Electrical Vault	2007	-	-	-	-	147,600	-	-	16,400	-	-	164,000
Pavement Preservation Sealcoating Roadways and Parking	2007	-	-	-	-	-	-	-	-	248,569	-	248,569
Lighting Detection for AVOS	2007	-	-	-	-	21,886	-	-	2,430	-	-	24,316
Fire Hydrant at Restaurant & Aviator Lane	2007	-	-	-	-	28,549	-	-	3,172	-	-	31,721
New Equipment for Control Tower	2007	-	150,000	-	-	3,847	-	-	3,948	-	-	157,895
Install PAPI-2 on RWY 6L/24R	2008	-	-	-	-	210,878	-	-	23,431	-	-	234,309
Install PAPI-2 on RWY 6R	2008	-	-	-	-	67,744	-	-	6,972	-	-	74,716
Install MITL on TWY A	2008	-	-	-	-	584,411	-	-	64,935	-	-	649,346
Install REIL's on RWY 24L	2008	-	-	-	-	325,246	-	-	36,138	-	-	361,384
Replace RWY 24L Signage	2008	-	-	-	-	13,365	-	-	13,365	-	-	26,730
PEMA Remapping	2008	-	150,000	-	122,269	-	-	-	35,000	-	-	299,000
REIL for 6L/24R	2008	-	-	-	-	-	-	-	23,389	-	-	23,389
Fortify Existing Flood Protection Dike	2008	-	-	-	-	210,595	-	-	170,000	-	-	380,595
Install PAPI - 4 on Runway 15/33	2008	-	-	-	-	224,891	-	-	24,988	-	-	249,879
Install MITL on TWY D, E and Exits	2009	-	-	-	-	476,744	-	-	52,972	-	-	529,716
Install MITL RWY 15/33	2009	-	-	-	-	323,555	-	-	35,951	-	-	359,506
Install REIL on RWY 15/33	2009	-	-	-	-	437,171	-	-	47,866	-	-	485,037
Install REIL on RWY 6L/24R	2009	-	-	-	-	125,921	-	-	13,640	-	-	139,561
Runway Pavement Preservation	2009	-	150,000	-	-	232,170	-	-	25,737	-	-	307,907
Runway Pavement Preservation	2009	-	-	-	-	99,886	-	-	11,098	-	-	110,984
Security Perimeter Fencing	2009	-	-	-	1,230,820	32,390	-	-	32,390	-	-	1,295,600
EA for Runway Extension	2009	-	-	-	-	39,429	-	-	4,381	-	-	43,810
Perimeter Road - Phase II	2009	-	-	-	-	1,630,545	-	-	181,172	-	-	1,811,717
Install MITL on Taxiway B2	2009	-	-	-	-	275,378	-	-	30,588	-	-	305,966
Install MITL on Taxiway B4	2009	-	-	-	-	275,378	-	-	30,588	-	-	305,966
Install Lighting Control & Monitoring System (ALCMS) & Generator Vault	2010	-	-	-	-	553,096	-	-	14,555	-	-	567,651
Install PAPI - 4 on Runway 6R	2010	-	-	-	-	224,981	-	-	24,988	-	-	249,969
Overhead Wings Alarm ID	2010	-	-	-	-	61,539	-	-	6,559	-	-	68,098
Upgrade Existing Airfield Damage System	2011	-	-	-	-	1,882,499	-	-	49,539	-	-	1,932,038
RYN FY2007 - FY2011		\$ -	\$ 450,000	\$ -	\$ -	\$ 7,045,518	\$ -	\$ -	\$ 1,101,024	\$ 248,569	\$ -	\$ 8,403,111
TAA FY2007-FY2011 Total		\$ 588,295	\$ 17,301,267	\$ 16,746,278	\$ 47,835,069	\$ 24,494,436	\$ 6,474,243	\$ 37,877,991	\$ 1,919,104	\$ 4,454,232	\$ 2,662,757	\$ 193,468,406

Source: Tucson Airport Authority, Inc. All costs are stated in future dollars. Costs beyond FY2008 assume three percent escalation per year.

The CIP represents, to the Authority's best knowledge and belief at this time, all of the significant capital improvements expected to be undertaken through FY2011. The forecast period extends to FY2011; therefore, most of the cost impact of the CIP is reflected in the financial projections for FY2011. Cost estimates were provided by the Authority and its consultants and include allowances for design, construction management, and contingencies. Cost estimates for future projects include allowances for cost escalation based on an inflation factor of three percent per year for projects, except for the Concourse Renovation Project, for which there is a Guaranteed Maximum Price (GMP) contract in place. The Authority has included a ten percent contingency for all CIP projects, plus an additional 15 to 20 percent allowance for larger, more complex projects.

The Authority reassesses its capital needs at least annually and will modify the CIP as necessary to accommodate traffic activity, security needs, and other factors, which could result in increases or decreases to the CIP, or extend the timing to complete certain projects.

CONCOURSE RENOVATION PROJECT

One of the primary projects in the CIP is the \$30.9 million Concourse Renovation Project that will be financed with the 2006 Subordinate Lien Bonds. With the completion of the Terminal Expansion Project in 2005, the landside portion of the main terminal has an estimated capacity of seven million annual passengers (MAP). However, the existing concourses were not re-developed or expanded under the Terminal Expansion Project. The Concourse Renovation Project is the first phase of redevelopment to ultimately balance the capacity of the concourse facilities with the capacities of the main terminal landside facilities. The existing concourses were designed to accommodate 2.8 MAP and are currently handling over 4 MAP.

In August 2004, the Authority completed a terminal maximization program for TUS, which identified the capacity of the existing terminal by functional component and identified a phased program for concourse expansion by planning demand level. On the basis of the terminal study, the Authority initiated negotiations with the Signatory Airlines and reached an agreement in concept and cost in November 2005 for the Concourse Renovation Project, which includes the following elements:

1. Renovate and reconfigure east and west concourses to provide additional functional space for gates/holdrooms, restrooms, concessions, and public circulation.
2. Acquire and install four new loading bridges.
3. Upgrade existing mechanical, electrical, plumbing, and sewer systems to service loads of existing space as well as future construction, and to bring existing concourses up to code and improve environmental conditions. This includes upgrades to the central plant.
4. Reconfigure, upgrade and expand restrooms to comply with code occupancy and Americans with Disabilities Act (ADA) requirements, and to increase the number of fixtures and stalls to increase capacity.
5. Make modifications to the slope of the east concourse entrance ramp to comply with ADA accessibility guidelines.
6. Renovate and upgrade existing concourse finishes, including new holdroom seating, new audio and visual paging systems (both public and gate), new gate podiums and backwalls, and new Gate Information Displays (GIDs).

7. Install new ticket counter shells in the terminal lobby.
8. Modify security checkpoint and meeter/greeter space to ease congestion at concourse entrances.
9. Relocate Customs and Border Patrol (CBP/FIS) processing of commercial international passengers from the international arrivals building by providing a minimal CBP/FIS passenger processing facility on the apron level of the east concourse. This facility will be served by a swing gate from the second (departure) level. CBP administrative offices and general aviation inspection services will remain in their current location.
10. Construct Phase I of a new central receiving dock for product receiving and storage and potentially for future screening of employees.
11. Reduce the size of the existing third floor mezzanine restaurant and convert the balance of the space into a new conference center with restrooms.
12. Associated planning, design, construction, construction management, project management and related soft costs.

Among other things, the Concourse Renovation Project will (a) mitigate the imbalance between landside and airside terminal capacity by creating more functional space on the concourses to support gates, (b) activate an additional gate, (c) provide three common use gates with regional jet (RJ) compatible loading bridges, (d) expand concourse concessions to improve financial performance and customer service, and (e) relocate international commercial passenger arrivals from the International Building to the Main Terminal to enhance security, improve efficiency, and enhance customer service.

In November 2006, the Board approved a GMP construction contract for the Concourse Renovation Project. Construction is underway and the Authority expects the project to be substantially complete by Thanksgiving 2007.

OTHER MAJOR CIP PROJECTS

Other major projects in the FY2007 - FY2011 CIP include:

1. ***Near Parallel Carrier Runway 11R/29L.*** The Authority is planning to construct a relocated and upgraded parallel runway at the west side of existing runway 11L/29R with a total project cost estimated at \$75.7 million. Existing Runway 11R/29L is capable of accommodating only general aviation aircraft. The replacement runway will be capable of accommodating all types of aircraft that serve the Airport. Design for the new runway will begin in 2009 with runway construction beginning in 2011 and ending in mid 2012. The Authority is planning to submit an application to the FAA for a Letter of Intent (LOI) to secure AIP grants for this project after the EIS process is complete.
2. ***Maintenance Facility Relocation.*** A new maintenance facility and warehouse will be constructed on Airport Drive across from the new air freight facility. The total project cost is estimated at \$7.1 million. This project was approved in the FY2004 budget and is expected to be constructed in FY2007.
3. ***Sound Insulation.*** The Authority will continue acoustical treatment to homes within the 65 Ldn noise contour to the northwest of the Airport. The total project cost is estimated at \$17.7 million from FY2007 to FY2011.

4. **Main Terminal Apron Reconstruction.** This project consists of the reconstruction of the entire terminal apron in nine phases to maximize AIP grant participation. Phases one through five are expected to be undertaken in the FY2007 – FY 2011 period for a total of \$11 million. Phases six through nine are expected to be constructed in the FY2012 – FY 2016 period.
5. **Aircraft Maintenance/Industrial Site.** This \$4.9 million project will provide infrastructure for the development of aircraft maintenance and industrial facilities on the southeast side of the Airport and will be undertaken during FY2007.
6. **Ryan Field Projects.** The Authority expects to spend about \$12.8 million on Ryan Airfield primarily for general aviation development for the FY2007 – FY2011 period, most of which will be funded with grants.

FUNDING PLAN

With certain exceptions, the Authority is required under the Airport Use Agreements with the Signatory Airlines to obtain Majority-in-Interest (MII) approval before proceeding with capital projects. Capital improvements through FY2008 (as shown in Table I.3), including the Concourse Renovation Project that is being funded with the 2006 Bonds, have received MII approval and been approved by the Board.

Table I.3 also shows expected sources of funding for the CIP, which are preliminary. The Authority intends to fund the costs of the CIP through a combination of internally generated cash flow (Capital Improvement Fund and Special Reserve Fund), passenger facility charges (PFCs), Airport Improvement Program (AIP) grants-in-aid, Arizona Department of Transportation (ADOT) grants, Department of Homeland Security (DHS) funds, and proceeds of Subordinate Lien Bonds (PFC-backed and non-PFC-backed) issued under the Subordinate Lien Bond Resolution. It was assumed that the AIP program would be reauthorized by Congress next year in a form substantially similar to the existing program.

Regarding relocated Runway 11R/29L, it was assumed that the Authority would receive an LOI from the FAA for 80 percent AIP funding provided over a 10-year period. Although the specific terms of the financing for the runway project are not known at this time, for purposes of this report, it was assumed that the Authority would issue Subordinate Lien Bonds for both the TAA share (20 percent) and the LOI share (80 percent) of costs for this project. However, TAA may decide to issue these bonds as other forms of debt, including Senior Lien Bonds or Junior Subordinate Lien Obligations. Further, it was assumed that (1) the LOI share of the Subordinate Lien Bonds would be issued in a variable rate mode with an all-in interest cost of 5.0 percent, (2) principal would be paid back over the 10-year LOI period from LOI receipts, and (3) the interest on the LOI-supported bonds would be paid from PFC Revenues expected to be authorized under a future PFC application. Regarding the TAA share of costs for this project, it was assumed that fixed rate Subordinate Lien Bonds would be issued at an interest rate of 6.5 percent with a term of 20 years and that the associated debt service would be paid with PFC Revenues.

II. ECONOMIC BASE FOR AIR TRANSPORTATION

This section profiles Tucson's regional economy, including current conditions and trends. In particular, the following discussion focuses on demographic and economic factors that will affect future demand for air passengers at TUS.

A. AIRPORT SERVICE REGION

The Airport is located in Pima County, in the south-central portion of Arizona (hereinafter, Arizona or the State), approximately eight miles south of Tucson's central business district. Tucson, its suburbs, and outlying areas of Pima County provide the primary economic base for air transportation at the Airport. The Tucson Metropolitan Statistical Area (MSA), as defined by the U.S. Office of Management and Budget, shares the same boundaries as Pima County.

The limits to an airport's service region are generally determined by the driving distance and travel time to other nearby commercial service airports, as well as the availability, price, and quality of airline service at those other airports. The only other major air service airport in Arizona is Phoenix Sky Harbor International Airport (PHX), serving the Phoenix metropolitan area, which is located approximately 120 miles northwest of TUS. Unlike TUS, PHX has a large connecting passenger traffic component, whereas traffic at TUS consists largely of domestic origin & destination (O&D) passengers. In CY2005, airlines reported 1.9 million domestic outbound O&D passengers at TUS, only one-sixth of the domestic outbound O&D passengers reported at PHX (11.6 million passengers). PHX serves as a major hub for Southwest Airlines and US Airways (the result of the US Airways/America West merger); both airlines also serve TUS. Williams Gateway Airport (IWA), located on the southeastern periphery of the Phoenix metropolitan area, is being considered to potentially assist in meeting future commercial aviation demand that would otherwise be accommodated at PHX.

According to the Eller College of Management at the University of Arizona, the State's economic outlook is positive, with continued population, employment, and income growth foreseen. Key factors that drive population growth, which in turn drives economic expansion, include a warm climate not prone to natural disasters, affordable housing, low taxes, and availability of jobs.

The population of the MSA in 2005 was approximately 958,000. Based on 2005 population estimates by the U.S. Census Bureau, Arizona was the 17th largest state in the nation and ranked second (behind Nevada) in percentage population growth between 2000 and 2005. Pima County, a 9,200 square mile geographic region anchored by the city of Tucson and including the 4,450 square mile Tohono O'Odham Nation, is well-known as a tourist destination, the home of the University of Arizona, and a retirement community.

Changes in the region's economic profile affect the level of passenger traffic at TUS. For example, the amount and type of commerce in the region affects the level of business travel to and from TUS, and the amount of per capita personal income in the region affects the level of discretionary travel from TUS. The area's stable and fundamentally strong economic profile underlies the demand for air passenger and cargo service.

Figure II.1
The Tucson Metropolitan Statistical Area



Source: John F. Brown Company, Inc.

B. DEMOGRAPHIC PROFILE

POPULATION

Local population is one of the primary determinants of airline traffic demand at an airport. Table II.1 presents the historical and forecast population for the nation, the State, and the MSA. Historically, population has grown more rapidly in the State than the MSA, and more rapidly in the MSA than the nation. This general pattern is forecast to continue through 2010. In 2005, the MSA was home to 15.6 percent of the total population of the State. According to the Census Bureau, 32.1 percent of the MSA's population was of Hispanic origin and 29.1 percent reported Mexican ancestry. Additionally, 13.8 percent of the MSA population was foreign born.

Table II.1
Population Trends
(in thousands)

Year	United States	Arizona	MSA	MSA as % of United States	MSA as % of Arizona
1970	203,302	1,775	352	0.2%	19.8%
1980	226,542	2,717	531	0.2	19.5
1990	248,710	3,665	667	0.3	18.2
2000	281,422	5,131	844	0.3	16.4
2005E	296,410	6,045	958	0.3	15.8
2010F	308,936	7,028	1,087	0.4	15.5
<u>Average Annual Compound Growth:</u>					
1970-2005	1.1%	3.6%	2.9%		
1970-1980	1.1	4.3	4.2		
1980-1990	0.9	3.0	2.3		
1990-2000	1.2	3.4	2.4		
2000-2005	1.0	3.3	2.6		
2005-2010	0.8	3.1	2.6		

Sources: Historical—U.S. Department of Commerce, Bureau of the Census website, accessed June 20, 2006.

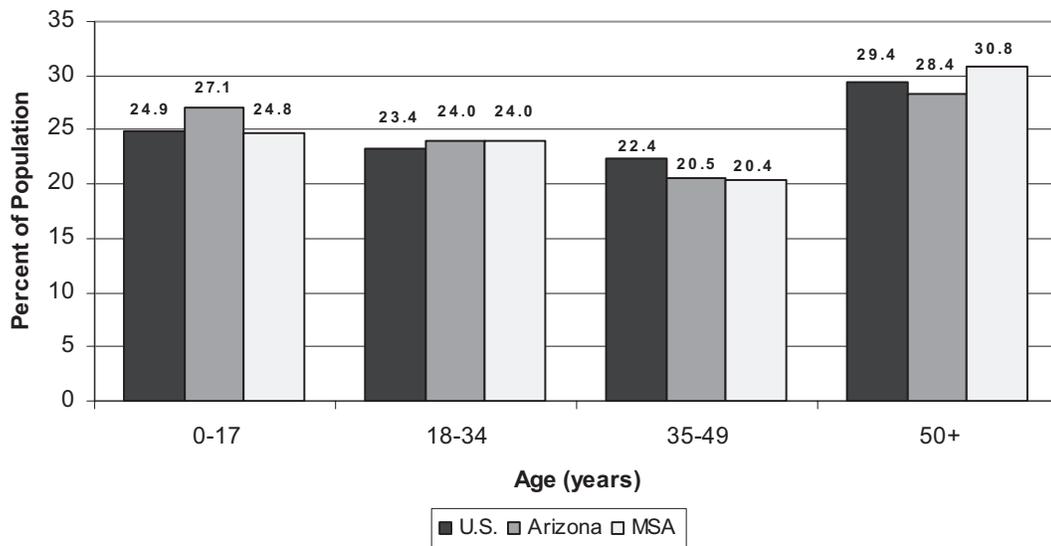
Estimated and Forecast—National: Bureau of the Census; State and MSA: University of Arizona, Eller College of Management, Economic & Business Research Center.

Notes: E=Estimated; F=Forecast.

AGE DISTRIBUTION

Figure II.2 presents the population age distribution in 2004 for the U.S., Arizona, and the MSA. The median age for the MSA is 36.1 years, roughly equal to the median age for the nation (36.2 years) but higher than the State (34.1 years). However, as shown in Figure II.2, the MSA has slightly larger proportions of residents in the 50+ and 18-34 age brackets relative to the nation. This unique pattern may be partly explained by the popularity of the area as a retirement destination, by the presence of a large university and community college, and by a sizable military community. Retirees, in particular, have the time and often the accumulated financial resources for discretionary leisure air travel.

Figure II.2
2004 Population Age Distribution



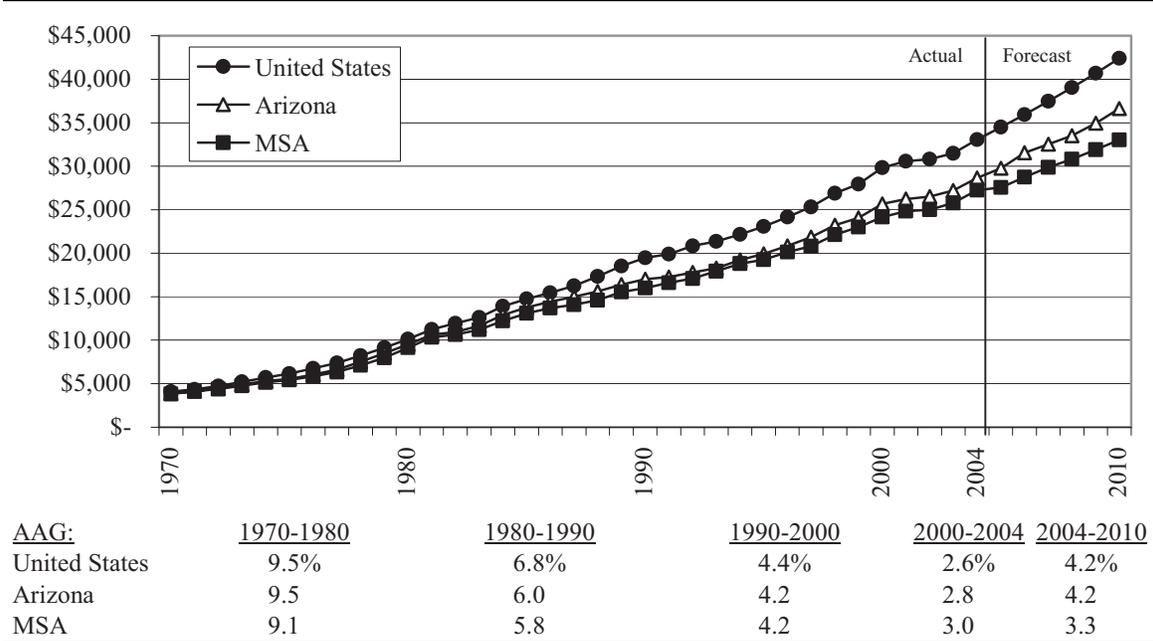
Source: 2005 Survey of Buying Power, *Sales & Marketing Management*, September 2005.

PERSONAL INCOME

Trends in the growth and distribution of personal income are determining factors in the underlying demand for air transportation. Growth of income is caused in part by the expansion of economic activity. The income generated by increased economic activity leads to greater levels of disposable income for individuals which, in turn, positively affects the demand for air travel. As shown in Figure II.3, the per capita personal income in the MSA has historically been lower than per capita personal income for the State and the nation due, at least in part, to a sizeable local student, senior, and military population. However, while the MSA's per capita personal income growth rate lagged national and State growth rates from 1970 to 1990, it has exceeded those rates from 2000 to the present as shown in Figure II.3. The MSA's per capita personal income growth rate is forecast to be slower than the national and State growth rates from 2004 to 2010.

Additionally, the overall cost of living in the MSA is comparable to the national average, with a composite cost of living index of 100.3 compared to a national average of 100.0.⁶ Tucson Regional Economic Opportunities, Inc. (TREO), the MSA’s economic development agency, states that Tucson’s labor, materials, and utilities costs are lower than the national average. Offsetting this are above-average transportation and health care costs.

Figure II.3
Per Capita Personal Income



Sources: Historical—U.S. Department of Commerce, Bureau of Economic Analysis website, accessed July 5, 2006.
Forecast—National: Bureau of Labor Statistics; State and MSA: University of Arizona, Eller College of Management, Economic & Business Research Center.

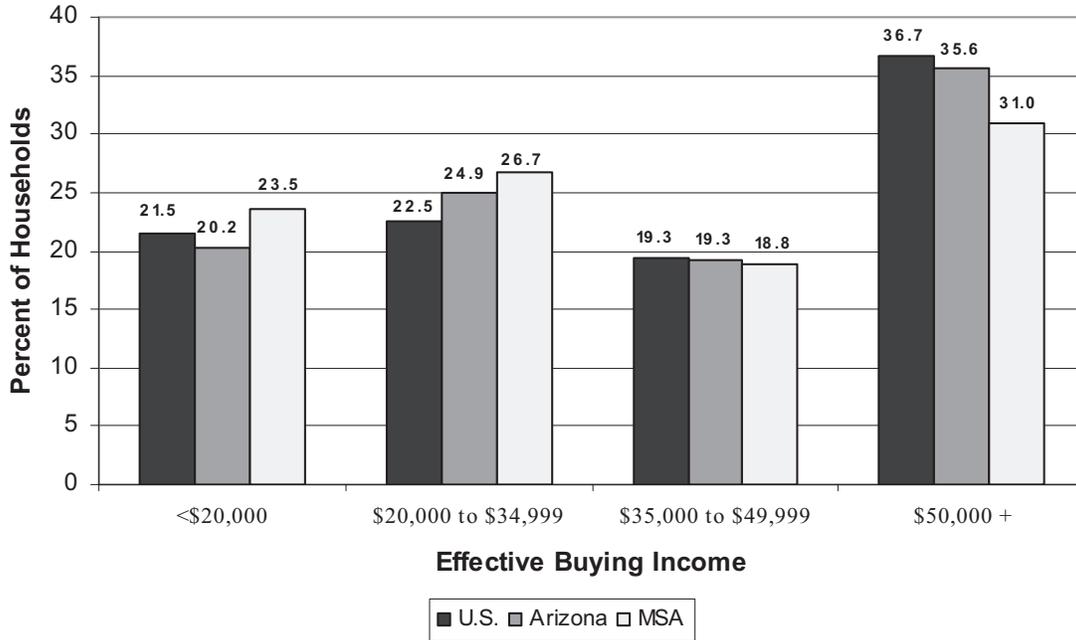
Note: AAG=Average annual compound growth.

HOUSEHOLD EFFECTIVE BUYING INCOME (EBI)

Figure II.4 presents the distribution of effective buying income (EBI) by household for the nation, the State, and the MSA. The average EBI for households in the MSA is lower than that of the State and the nation. However, it is worth noting that the MSA is home to more than 100,000 college students and 130,000 residents over the age of 65. EBI reflects neither inherited nor accumulated wealth, and so to the extent that either of these items are material, income comparisons could somewhat understate the true spending ability of certain segments of the MSA.

6. Based on 1st Quarter 2006. The MSA housing index is 97.6 compared to a national average of 100.0. The Council for Community and Economic Research’s Cost of Living Index includes 283 major metropolitan areas every quarter and reflects cost differentials for the standard of living present in a professional and/or managerial household.

Figure II.4
Percentage Distribution of
Household Effective Buying Income
(2004)



Source: 2005 Survey of Buying Power, *Sales & Marketing Management*, September 2005.

Notes: Effective Buying Income, often referred to as “disposable income,” includes wages and salaries, net farm and non-farm self-employment income, net rental and royalty income, dividends, interest, Social Security and other retirement and disability income, public assistance income, unemployment compensation, Veterans Administration payments, alimony and child support, military family allotments, net winnings from gambling, and other periodic income less personal taxes, personal contributions for social insurance, and taxes on owner-occupied non-business real estate.

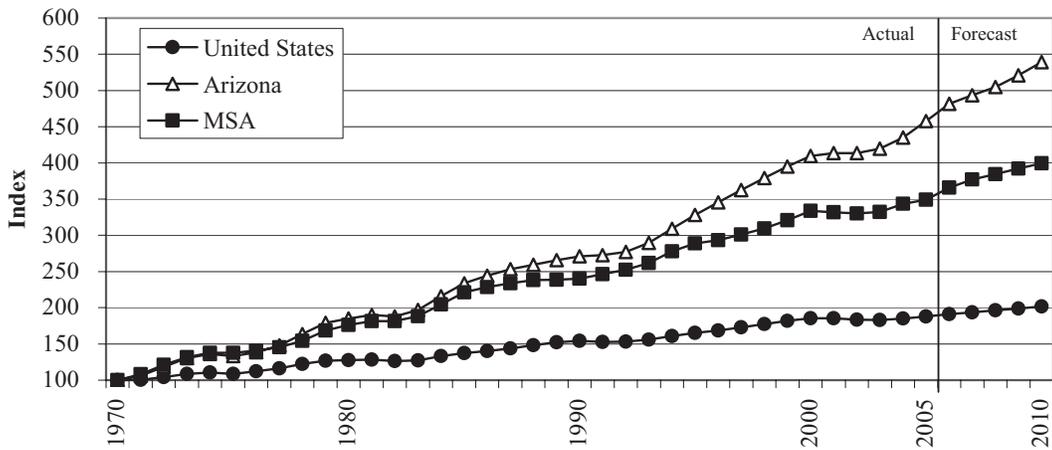
C. ECONOMIC BASE

This section of the report analyzes employment trends, describes employment by major sector, lists the primary area employers, and discusses segments of economic activity.

EMPLOYMENT TRENDS

The expansion of the MSA economy created employment opportunities at a rate that outpaced population growth until 2000. Since then, however, while population has continued to grow, employment has increased more modestly. Over the 35-year period from 1970 to 2005, non-agricultural employment in the MSA increased at a rate slightly lower than for the State, but at double the national rate of employment growth. Except for the last five years, the growth in jobs since 1970 has exceeded the growth in population by a significant margin, implying a stable local economy. Growth in jobs through 2010 is projected match population growth.

Figure II.5
Comparative Index of Total Non-Agricultural Employment
 (1970=100)



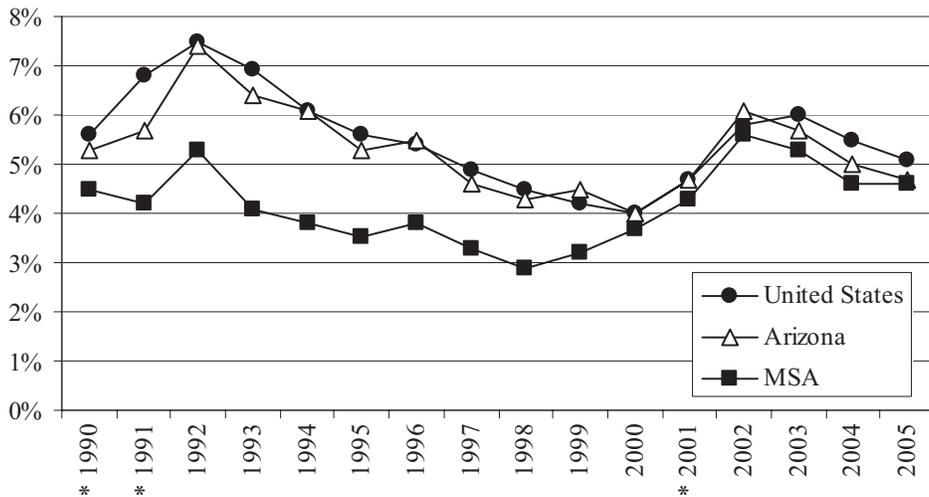
<u>AAG:</u>	<u>1970-1980</u>	<u>1980-1990</u>	<u>1990-2000</u>	<u>2000-2005</u>	<u>2005-2010</u>
United States	2.5%	1.9%	1.9%	0.3%	1.4%
Arizona	6.4	3.9	4.2	2.3	3.3
MSA	5.8	3.1	3.4	0.9	2.7

Sources: Historical—U.S. Department of Labor, Bureau of Labor Statistics (“BLS”) website, accessed July 5, 2006.
 Forecast—National: Bureau of Labor Statistics; State and MSA: University of Arizona, Eller College of Management, Economic & Business Research Center.

Notes: AAG=Average annual compound growth.

Expansion of the economy of the MSA is reflected, in part, through its unemployment rate, which has remained below, but has converged with, the national and State unemployment rates over the past 15 years (see Figure II.6).

Figure II.6
Civilian Unemployment Rate



Source: U.S. Department of Labor, BLS website, accessed July 5, 2006.

Note: *Indicates national recession during all or part of year, according to the National Bureau of Economic Research (NBER).

EMPLOYMENT BY MAJOR SECTOR

Non-agricultural employment figures presented in Table II.2 compare the growth and structure of the economies of the MSA, the State, and the nation. Expansion of the economy of the MSA is reflected, in part, in employment growth which, during the 1995-2005 period, increased at an average annual rate of 1.9 percent compared to 1.3 percent for the nation and 3.4 percent for the State.

Employment by sector in the MSA is different from the national profile in that the MSA has a proportionally greater presence of government, leisure & hospitality, and natural resources, mining, and construction employment. Manufacturing and financial sectors account for a smaller portion of the MSA's employment base relative to the nation. The fastest growing sectors of MSA employment – (a) education and health services, (b) financial activities, and (c) other services – together comprise 22.3 percent of total non-agricultural employment in the MSA. Government accounts for 21.2 percent of local non-agricultural employment, compared to 16.1 percent in the State and 16.3 percent nationally. Government employment in the MSA is elevated due in large part to the University of Arizona, and is, in fact, understated since the Current Employment Statistics (CES) program from which Table II.2 data is drawn excludes military personnel.⁷ (The education and health services sector contains only privately-owned facilities. Publicly-owned educational and health facilities are included in the government industry sector at all three geographic levels.)

Table II.2
Average Annual Non-Agricultural Employment Growth 1995-2005
and Employment Share by Industry 2005

Industry	AAG 1995-2005			2005 Percent of Total		
	United States	Arizona	MSA	United States	Arizona	MSA
Government	1.2%	2.7%	1.2%	16.3%	16.1%	21.2%
Trade, Transportation, Utilities	0.8	3.0	1.3	19.4	19.4	16.0
Education & Health Services	2.7	4.9	3.5	13.0	10.9	13.8
Professional/Business Services	2.8	5.4	3.1	12.6	14.7	12.5
Leisure & Hospitality	2.0	2.6	1.5	9.6	10.1	11.0
Manufacturing	-1.9	-0.5	0.3	10.7	7.2	7.7
Nat. Resources, Mining, Construction	2.9	5.1	1.7	5.9	9.1	7.4
Financial Activities	1.8	4.7	3.5	6.1	6.9	4.5
Other Services	1.7	3.6	3.7	4.0	3.7	4.0
Information	<u>0.8</u>	<u>2.4</u>	<u>1.0</u>	<u>2.3</u>	<u>1.8</u>	<u>2.0</u>
TOTAL	1.3%	3.4%	1.9%	100.0%	100.0%	100.0%

Source: U.S. Department of Labor, BLS website, accessed June 20, 2006.

Notes: AAG=Average annual compound growth; percentages may not sum to totals due to rounding.

7. As shown in Table II.3, there is a sizable military presence in the MSA.

MAJOR EMPLOYERS

The 20 largest private employers and 10 largest public employers in Greater Tucson⁸ (based on the number of full-time equivalent employees) are presented in the following table.

Table II.3
Top Private and Public Employers in Greater Tucson
(2006)

Company Name	Number of Employees	Industry Sector
Private:		
* Raytheon Missile Systems	10,756	Manufacturing
* Wal-Mart	4,980	Retail
* Phelps Dodge Mining Co.	4,123	Natural Resources & Mining
Carondelet Health Network	3,751	Health Services
TMC HealthCare	3,276	Health Services
University Medical Center Corp.	2,969	Health Services
Fry's Food and Drug Stores	2,063	Retail
CheckMate Professional Employer	2,036	Professional & Business Services
Bashas'	2,021	Retail
Northwest Medical Center	1,900	Health Services
* IBM	1,800	Manufacturing
University Physicians Healthcare	1,731	Health Services
ASARCO	1,689	Natural Resources & Mining
* Safeway Stores	1,600	Retail
Afni	1,437	Professional & Business Services
Intuit	1,420	Professional & Business Services
* Home Depot	1,360	Retail
* Walgreens	1,350	Retail
Long Realty	1,333	Real Estate
UniSource Energy, Tucson Electric Power	1,223	Utilities
Public:		
U.S. Army Intelligence Center; Fort Huachuca	13,098	Military
University of Arizona	10,282	Education
State of Arizona	9,742	Public Administration
Davis-Monthan Air Force Base	8,233	Military
Tucson Unified School District No. 1	7,623	Education
Pima County	6,765	Public Administration
City of Tucson	5,306	Public Administration
Tohono O'Odham Nation	3,665	Public Administration
U.S. Border Patrol	2,500	Public Administration
Pima Community College	2,248	Education

Source: Tucson Star 200 website, accessed June 28, 2006.

Note: * Ranked in Fortune 500 list of largest U.S. companies (based upon revenues) in 2005.

8. Greater Tucson is defined here to include Pima County (the MSA), along with Cochise, Graham, Greenlee, Pinal, and Santa Cruz Counties. The MSA accounts for nearly 68 percent of the population of Greater Tucson, according to Census Bureau estimates.

Seven of the companies above are ranked (based upon revenues) in the Fortune 500 list of largest U.S. companies. The MSA also benefits from having a fundamentally stable industry base that includes a large component of the military and postsecondary education, along with a variety of health services, retail, and business services.

The top employer in Greater Tucson is the U.S. Army Intelligence Center at Fort Huachuca, a major military installation located in Cochise County just southeast of the MSA, with 13,100 employees. The region's second-largest employer, and top private sector employer, is Raytheon Missile Systems with 10,700 employees. The Raytheon Company is a world leader in the development and production of missile systems and related weaponry, and it was the Department of Defense's fifth largest contractor in terms of prime contract awards in 2004, worth \$8.3 billion. The region's third-largest employer, with 10,300 employees, is the University of Arizona, the State's only member of the prestigious Association of American Universities, a group of 62 leading North American research universities.

SEGMENTS OF ECONOMIC ACTIVITY

High-tech industry makes up an important part of the MSA economy. The aerospace, manufacturing, and information technology industry cluster is the largest segment of Greater Tucson's high-tech economy, and accounts for more than 30,000 jobs and over \$4 billion per year in revenues. Members' businesses range from design, manufacturing, and distribution to workflow automation, technology consulting, and e-commerce.

The optics industry is another important component of the area's high-tech economy. Tucson is known as "Optics Valley" because of its concentration of optics-related companies, with 80 percent of the 200 Arizona Optics Industry Association Member companies located in Greater Tucson. The optics industry includes, among other aspects, optical design and engineering, telecommunication fiber optic components, lasers, semiconductors, plastic optics, microscopes, and telescopes. The Arizona Optics Industry Association states that the optics industry in Tucson may account for over \$600 million in revenue and more than 1,400 jobs.

Tucson Regional Economic Opportunities, Inc. (TREO) serves as the area's economic development agency. TREO aims to attract relocating businesses to the MSA, retain and expand existing businesses, support entrepreneurial ventures, and evolve into a public-private partnership. Among its recent successes, TREO helped to match the needs of four major manufacturers to existing but empty facilities in Tucson. The new facilities are expected to add \$24.6 million in annual payroll, \$67 million in capital investment, and up to 850 new jobs to the area's economy.

Finally, tourism is a key component of the MSA's economy, employing roughly 11 percent of the labor force and producing more than \$1.5 billion in revenue annually, according to a University of Arizona study. A 2004 study by D.K. Shifflet and Associates suggests that one-third of all Tucson visitors have household incomes greater than \$75,000 annually, and seven of every ten travel to Tucson for leisure purposes, primarily sightseeing, shopping, and dining.

D. INFLUENCE OF MEXICO

Due in large part to its geographic proximity to the border, just 70 miles by road, Tucson has strong business and economic ties to northern Mexico. Interstate 19 provides an important transportation and trade conduit from the MSA south to the Mexican border city of Nogales. The passage of the North American Free Trade Agreement (NAFTA) in 1994 and subsequent establishment of maquiladoras (border factories where U.S. raw materials are exported to Mexico for manufacturing, to take advantage of lower labor costs, and then imported back into the U.S. for distribution) led to enhanced cross-border trade. In addition, Tucson has been experiencing recent growth in leisure travel by Mexicans to the U.S. This growth is being fostered by the Tucson-Mexico Trade Office's "Vamos a Tucson" program.

According to foreign trade data compiled by the Department of Commerce, nearly a third of Arizona's total value of exports in 2005 was bound for Mexico. Also in 2005, the Nogales Customs District (which includes Tucson) was the fifth largest customs district in the country in terms of total value of imports from Mexico. On a national basis, Mexico is one of the U.S.'s most important trading partners, ranking as its second largest export market (behind Canada) and its third largest import market (behind Canada and China).

E. EDUCATION

The MSA has a prominent research university and a sizable two-year community college. The University of Arizona (37,000 students) is the State's oldest university and a doctoral-granting research institution offering 334 academic fields of study. Among those fields, the areas of optics, water research, and astronomy are particularly noteworthy. The university ranks in the top ten of NASA grant recipients. Pima Community College (75,400 students) offers 160 academic programs on six campuses, and it ranks among the largest two-year community colleges in the nation. The MSA's population is generally well-educated according to Census Bureau data; nearly 30 percent of residents over age 25 hold at least a bachelor's degree (compared to 27 percent for the nation overall), and roughly 42 percent of that group also hold a graduate, professional, or doctoral degree (37 percent nationally).

F. DEFENSE AND HOMELAND SECURITY

Arizona has a sizeable defense presence. The Department of Defense awarded \$3.0 billion in contracts and grants to two companies based in Tucson (including a \$2.6 billion contract to Raytheon) in FY2004, the most recent year for which data were available. The two largest military installations in the State in terms of active duty military and civilian personnel, Davis-Monthan Air Force Base and Camp Huachuca, are located in and near the MSA, respectively.

The U.S. Border Patrol, a branch of the Department of Homeland Security, has 2,500 of its total 11,300 employees stationed in Greater Tucson. The Tucson Sector, which stretches from the edge of Yuma County in the west to the New Mexico border in the east, is one of the busiest gateways along the U.S.-Mexican border. Phase II of the Arizona Border Control Initiative, announced in March 2005, has greatly reduced the inflow of illegal aliens, narcotics, and weapons through the Tucson Sector.

G. LOCAL ATTRACTIONS

The MSA has traditionally been a regional destination, drawing tourists primarily from the western half of the country. However, in recent years, with the growth and development of a number of upscale resorts, Tucson's national stature has been increasing. International tourism is viewed as having considerable growth potential as well, with tourism from Mexico accounting for \$300 million in annual local revenues, according to the Metropolitan Tucson Convention & Visitors Bureau.

Located within the MSA are numerous tourist attractions as well as recreational and meeting facilities. Tucson is renowned for its temperate climate, having 350 days of sunshine per year on average, mild winter temperatures, and low desert humidity. This climate is conducive to outdoor recreational activities and is a major draw for out-of-state retirees looking to relocate. Conventions and corporate meetings can be accommodated at the Tucson Convention Center, located downtown, with 205,000 square feet of meeting space, while smaller groups can be accommodated in other venues in the city and in the various resorts located in the foothills surrounding the city. Moreover, the area is home to a multitude of cultural, historical, and artistic attractions.

One of Tucson's most well-known and popular attractions, with more than 500,000 visitors annually, is the Arizona-Sonora Desert Museum, a combination zoo, natural history museum, and botanical garden. Also located in the MSA are Saguaro National Park and Organ Pipe Cactus National Monument, both preserving scenic tracts of desert with abundant cacti, along with Mission San Xavier del Bac, a Moorish-style Spanish mission constructed in the late eighteenth century and located on the San Xavier Indian Reservation. The Pima Air and Space Museum, located near the Davis-Monthan Air Force Base, is one of the largest air and space museums in the western U.S.

The area boasts collegiate and professional sports programs. The University of Arizona's Wildcats participate in the NCAA's PAC-10 Division I Conference, and each athletic program provides top quality sports attractions and facilities. The MSA is also home to the Tucson Sidewinders, a minor league baseball team based at Tucson Electric Park that is the Triple-A affiliate of the Arizona Diamondbacks. Tucson is also the spring training base for the Diamondbacks, the Chicago White Sox, and the Colorado Rockies.

Tucson is home to two of the top three "destination spas" in the world in 2006, as voted by a *Condé Nast Traveler* reader poll in 2006. Tucson is also a golfer's destination, with local courses designed by Tom Fazio and Jack Nicklaus.

Some popular local annual events include: the Tucson Gem, Mineral and Fossil Showcase (February), one of the largest such events in the world; the Tucson Rodeo and Parade (February); the PGA Accenture Match Play golf tournament (February); the Arizona International Film Festival (April); La Fiesta de San Augustin (August), celebrating Tucson's patron saint; and El Tour de Tucson (November), the largest "perimeter" cycling event in the country.

H. ASSUMPTIONS RELATED TO FORECAST

For purposes of the air traffic forecast included in Section III of this report, we assume the following economic conditions:

- Population growth of the MSA will continue to outpace that of the nation, as indicated by projections issued by the Census Bureau and the University of Arizona.
- The business environment in the MSA will remain strong, as suggested by projections issued by the Bureau of Labor Statistics and the University of Arizona.
- The economy will continue to be oriented principally to sectors that exhibit long-term stability and a moderate propensity for travel by air, including government, education, and health services.
- Periodic contractions of the domestic economy, such as the slow-down which many economic commentators suggest is starting to occur, will depress the willingness and ability to travel by air. On average, however, we assume the U.S. economy will expand at a moderate rate of growth and income in the MSA will keep pace with monetary inflation during the forecast period.

III. AIRPORT ACTIVITY

Tucson International Airport is designated as a medium hub airport by the FAA. When ranked by enplaned passengers in 2005, TUS placed second in Arizona and 64th among U.S. airports (see Table III.1). TUS placed similarly among U.S. airports when ranked by domestic origin and destination (O&D) passengers.⁹ In FY2006, connecting traffic amounted to less than one percent of enplaned passengers at the Airport.

Table III.1
Ranking Among U.S. Airports
(for calendar year 2005)

Total Enplaned Passengers			Domestic Outbound O&D Passengers		
Rank	Airport	Passengers	Rank	Airport	Passengers
1	Atlanta	43,020,532	1	Las Vegas	16,119,350
:			:		
8	Phoenix	20,411,832	6	Phoenix	11,597,480
:			:		
61	Anchorage	2,379,933	62	Manchester	2,098,070
62	Manchester	2,166,623	63	Memphis	2,017,290
63	Omaha	2,102,251	64	Omaha	1,903,180
64	Tucson	2,067,819	65	Tucson	1,877,540
65	Norfolk	1,946,371	66	Norfolk	1,803,810
66	Louisville	1,868,052	67	Louisville	1,696,400
67	Oklahoma City	1,785,205	68	Anchorage	1,615,560

Sources: Airports Council International, *Worldwide Airport Traffic Report, 2005*; DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1.

A. PASSENGER TRENDS

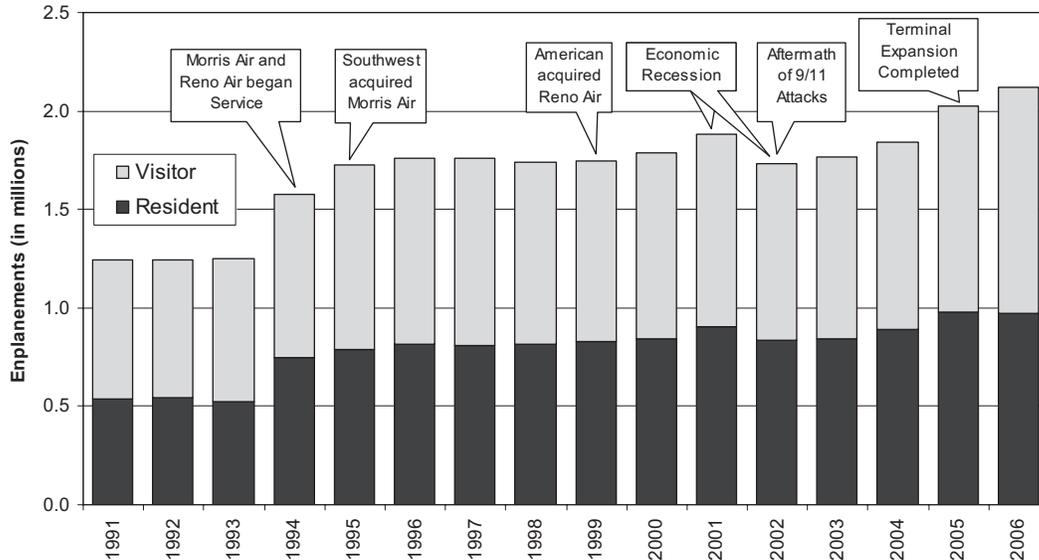
The most significant event affecting the level of passenger traffic at TUS in the past 15 years was the start of low-cost carrier service in FY1994 by Morris Air and Reno Air that drove a 26 percent increase in enplanements in that year (see Figure III.1). Enplanements at TUS increased a further nine percent in FY1995, the year in which Southwest acquired Morris Air.

The level of passenger traffic at TUS then remained relatively stable from FY1995 through FY2000, fluctuating between about 1.7 and 1.8 million annual enplanements, while passenger traffic nationwide showed a net 17.5 percent increase. Between FY2000 and FY2002, while passenger traffic nationwide declined 13.0 percent, reflecting extraordinary events such as the 2001 economic recession and the September 11, 2001 terrorist attacks, it fell only 3.2 percent at TUS.

From FY2002 to FY2005, traffic nationwide grew 6.4 percent, while it increased 22.6 percent at TUS. In FY2005 alone, enplanements increased 9.9 percent at TUS, reaching 2.0 million passengers, which exceeded the previous record (FY2001) level. In FY2006, enplanements increased 4.8 percent.

9. O&D passengers are those passengers who originate or terminate their journeys at TUS. They include both residents of, and visitors to, the Tucson area.

Figure III.1
History of Passenger Enplanements
Tucson International Airport
(for the 12 months ended September 30)



Sources: Tucson Airport Authority; DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1.
 Notes: E=Estimated. FY2006 total and all resident/visitor splits estimated by John F. Brown Company, Inc.

Regional Airport Competition

There are three key factors that affect passenger levels at TUS. First, the demographic and economic growth in the Tucson MSA, discussed in Section II of this Report, accounts for some of the growth in air travel by residents and visitors at the Airport. Second, changes in air service and airfares by the carriers serving TUS affect the Airport’s passenger traffic; these changes are discussed further in the pages that follow. And third, it is highly unlikely that the 30 percent growth in traffic over the past five years to areas east of the Mississippi River, for example, derived entirely from demographic, economic, and service changes in the TUS market itself. Rather, relative changes in service and fares between TUS and Phoenix Sky Harbor International Airport (PHX) affects the levels of capture, and re-capture, of passengers by the two airports. In the past few years, those changes appear to have favored TUS.

Regarding all domestic O&D air travel at TUS and PHX as a single “Southern Arizona” market helps to put some of the changes in traffic levels at TUS into perspective. While shifts in the two airports’ share of the Southern Arizona market are small in percentage terms, even a small percentage change can have a material effect on the passenger traffic level at TUS. As shown in Table III.2, the Airport has served roughly 14 percent of the Southern Arizona market over the past decade. Its market share declined from FY1996 through FY2000, partly explaining the flat traffic experienced at TUS over that period. Passenger traffic at TUS was not affected as negatively by the events of FY2001 as it was at PHX, and the Airport regained some market share. In FY2003 and FY2004, PHX experienced stronger growth than TUS and the Airport’s market share declined again. TUS experienced an uptick in market share (from 13.3 to 13.8

percent) in FY2005, and saw its share increase further in the first nine months of FY2006 (from 13.6 to 13.9 percent).

Table III.2
Southern Arizona Trends in Domestic O&D Passengers¹
Tucson and Phoenix Sky Harbor International Airports
(for the 12 months ended September 30; in thousands)

Year	TUCSON (TUS)			PHOENIX (PHX)			SOUTHERN ARIZONA (TUS+PHX)	
	Outbound Passengers	% of So. Ariz.	% Chg. Yr-to-Yr	Outbound Passengers	% of So. Ariz.	% Chg. Yr-to-Yr	Outbound Passengers	% Chg. Yr-to-Yr
1995	1,575.3	15.1%		8,870.4	84.9%		10,445.8	
1996	1,600.2	14.2	1.6%	9,662.9	85.8	8.9%	11,263.2	7.8%
1997	1,616.8	14.1	1.0	9,885.6	85.9	2.3	11,502.3	2.1
1998	1,610.7	14.1	-0.4	9,797.6	85.9	-0.9	11,408.4	-0.8
1999	1,631.1	14.0	1.3	10,037.2	86.0	2.4	11,668.4	2.3
2000	1,636.4	13.3	0.3	10,673.4	86.7	6.3	12,309.9	5.5
2001	1,663.7	13.9	1.7	10,346.3	86.1	-3.1	12,010.0	-2.4
2002	1,543.3	14.1	-7.2	9,435.2	85.9	-8.8	10,978.5	-8.6
2003	1,575.5	13.4	2.1	10,155.8	86.6	7.6	11,731.3	6.9
2004	1,668.0	13.3	5.9	10,900.0	86.7	7.3	12,568.0	7.1
2005	1,836.8	13.8	10.1	11,497.3	86.2	5.5	13,334.1	6.1
FYTD'05	1,396.6	13.6%		8,843.5	86.4%		10,240.1	
FYTD'06	1,486.0	13.9	6.4%	9,224.0	86.1	4.3%	10,710.0	4.6%

Source: DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1.

Note: 1. Total domestic O&D revenue passengers enplaned on scheduled domestic flights operated by both certificated and commuter carriers. Excludes O&D traffic on domestic charter flights, as well as all international O&D, connecting, and non-revenue passengers.

FYTD=Fiscal year-to-date, October through June.

The dynamics of these shifts in the two airports' share of the Southern Arizona market are complex. They result from differences between TUS and PHX in levels of service to various destinations, including type of aircraft operated, nonstop vs. multi-stop and connection, time of day, and flight frequency. They result from differences between TUS and PHX in the airfares being offered to various destinations, and the relationship between the fare and the associated levels of service. They result from changes in the ease of accessing each airport, including driving cost, highway congestion, and the availability and cost of parking, and the relative perception by passengers of each airport's accessibility and ease of use.

In 2002, the Authority began an air service development program to monitor capacity changes and passenger leakage, analyze service deficiencies and potential new service opportunities, and to convey these to prospective carriers. In 2005, the Authority launched a marketing program designed to increase customer awareness of destinations, airline, and airport services, and to characterize the airport as convenient, user-friendly, and competitive. It is likely, although not directly measurable, that at least some of the strong growth in TUS enplanements in recent years has been the result of these programs.

TUS Passenger Trends by Destination Area

Of the 2.1 million enplanements at TUS in FY2006, the vast majority (92 percent) were domestic O&D travelers, with international, connecting, charter, and non-revenue passengers accounting for the remaining eight percent of the Airport total (see Table III.3). About one-third (33 percent) of the domestic O&D passengers traveled between TUS and California, Nevada, and other airports in Arizona. Another 38 percent traveled between TUS and cities east of the Mississippi River. The remaining domestic O&D passengers (29 percent) traveled between TUS and the rest of the country which, for purposes of analysis, are broken arbitrarily into two areas labeled “Other Northern” and “Other Southern” (see map in Figure III.2).

Over the 1995-2005 period, there was a shift in the shares of total domestic O&D passengers traveling between TUS and the four geographical areas (see chart in Figure III.2). Passenger traffic between TUS and California/Nevada/Arizona (the S.W. Tri-state region) showed no net growth over the 10-year period, and its share of the TUS total declined accordingly. Travel between TUS and the eastern part of the country, on the other hand, grew by 35 percent over the period. Passenger traffic to and from the “Other Northern” and “Other Southern” areas also increased substantially (up 30 percent and 40 percent, respectively). As a result, traffic at the Airport has been diversifying and the Airport is now less dependent on the short-haul traffic in the S.W. Tri-state region, in part because service provided to other regions of country has been improving.

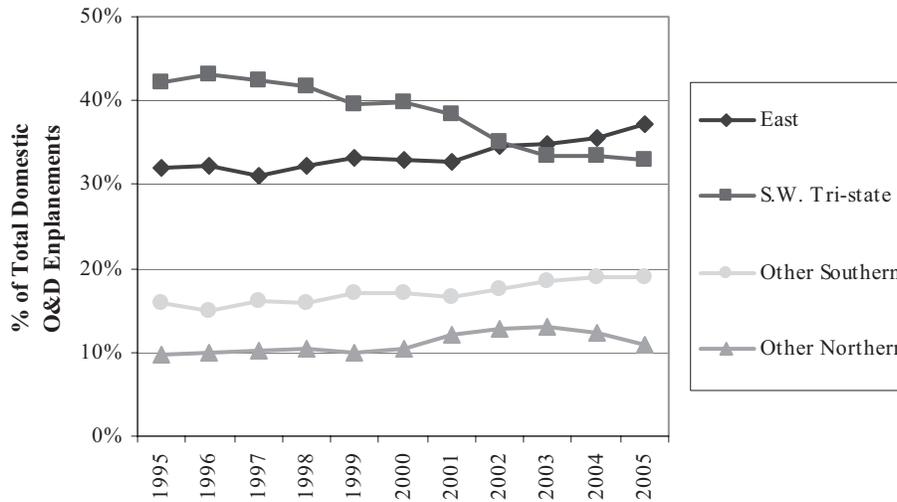
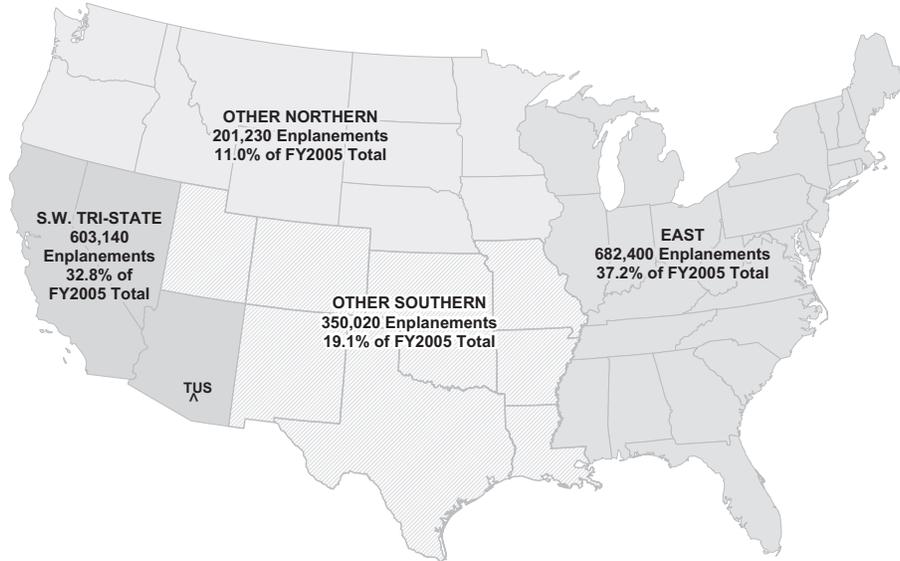
Table III.3
Enplaned Passenger History, by Segment
Tucson International Airport
(for fiscal years ended September 30)

Fiscal Year	Revenue Passengers							Total Psgrs. ⁵	% Chg. from Prev. Year
	On U.S. Carriers			On		Total Revenue Psgrs.	Non-Revenue Psgrs.		
	Domestic O&D ¹	Domestic Bound for Intl. ²	All Other ³	U.S. Carrier Total	Foreign -flag Carriers ⁴				
1995	1,575,340	65,370	41,813	1,682,523	40,804	1,723,327	n.a.	1,723,327	
1996	1,600,220	74,400	45,439	1,720,059	38,776	1,758,835	n.a.	1,758,835	2.1%
1997	1,616,770	79,350	30,723	1,726,843	35,183	1,762,026	n.a.	1,762,026	0.2
1998	1,610,740	82,470	15,237	1,708,447	30,129	1,738,576	n.a.	1,738,576	-1.3
1999	1,631,110	80,630	11,901	1,723,641	24,832	1,748,473	n.a.	1,748,473	0.6
2000	1,636,430	83,370	42,370	1,762,170	23,994	1,786,164	n.a.	1,786,164	2.2
2001	1,663,660	84,640	42,021	1,790,321	19,829	1,810,150	72,128	1,882,278	5.4
2002	1,543,300	72,730	31,924	1,647,954	15,617	1,663,571	65,765	1,729,336	-8.1
2003	1,575,500	70,060	42,585	1,688,145	12,728	1,700,873	65,986	1,766,859	2.2
2004	1,668,010	83,010	19,905	1,770,925	13,454	1,784,379	57,412	1,841,791	4.2
2005	1,836,790	91,450	23,657	1,951,897	15,233	1,967,130	56,655	2,023,785	9.9
2006	1,954,060	103,270	2,070	2,059,400	7,401	2,067,319	54,195	2,120,996	4.8
Average Annual Compound Growth:									
1995-2001	0.9%	4.4%	0.1%	1.0%	-11.3%	0.8%	n.c.	1.5%	
2001-2002	-7.2	-14.1	-24.0	-8.0	-21.2	-8.1	-8.8%	-8.1	
2002-2006	6.1	9.2	-49.5	5.7	-17.0	5.6	-4.7	5.2	
1995-2006	2.0	4.2	-23.9	1.9	-14.4	1.7	n.c.	1.9	

Sources: Tucson Airport Authority; DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1.

- Notes:
1. Passengers who boarded scheduled domestic flights bound for U.S. destinations. 2006 estimated by John F. Brown Co.
 2. Passengers who boarded domestic flights at TUS and traveled to other U.S. gateway airports where they made connections to international destinations. 2006 estimated by John F. Brown Co.
 3. Includes connecting passengers, as well as those enplaned on domestic charter flights and international flights operated by U.S. carriers.
 4. Includes scheduled flights only. Charter flights on foreign flag carriers are not included.
 5. Enplanement totals published in Authority's CAFR.

Figure III.2
Destination Areas of Domestic O&D Enplanements
Tucson International Airport
(fiscal years ended September 30)



Source: DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1.

Top City Pair Markets and Air Fares

Nearly 70 percent of domestic O&D passengers at the Airport in FY2005 traveled in the top 20 city-pair markets (see Table III.4). O&D passenger travel between TUS and the Los Angeles area represented the single largest domestic market, accounting for 13.4 percent of the total. The second-ranking market (Las Vegas) accounted for 6.6 percent of the total.

Between FY1995 and FY2000, the average passenger fare paid at TUS increased nearly three percent per year, on average, while domestic O&D traffic increased less than one percent per year. Over the subsequent five years, by contrast, the average fare declined 1.4 percent per year while O&D passengers increased 2.3 percent per year.

Table III.4
Top 20 Domestic O&D Passenger Markets
Tucson International Airport

(for the 12 months ended September 30, ranked on 2005 outbound O&D passengers)

Rank	City Market	1995	2000	2004	2005	Market as % of 2005 Total	Net Change		
							1995- 2000	2000- 2004	2004- 2005
Outbound O&D Passengers:									
1	Los Angeles ¹	290,110	261,990	221,450	245,990	13.4%	-28,120	-40,540	24,540
2	Las Vegas	108,810	104,750	104,280	121,270	6.6	-4,060	-470	16,990
3	Chicago ²	57,970	74,260	77,950	95,870	5.2	16,290	3,690	17,920
4	San Diego	87,010	99,580	89,580	93,160	5.1	12,570	-10,000	3,580
5	San Francisco ³	105,130	113,760	86,400	88,220	4.8	8,630	-27,360	1,820
6	Washington/Baltimore ⁴	55,310	58,730	77,960	85,030	4.6	3,420	19,230	7,070
7	Denver	51,450	44,370	65,170	64,840	3.5	-7,080	20,800	-330
8	New York ⁵	67,530	68,810	55,730	62,500	3.4	1,280	-13,080	6,770
9	Seattle	41,350	47,300	61,260	59,830	3.3	5,950	13,960	-1,430
10	Salt Lake City	32,720	30,090	42,560	54,390	3.0	-2,630	12,470	11,830
11	Dallas/Ft. Worth ⁶	31,860	45,340	46,000	48,090	2.6	13,480	660	2,090
12	Albuquerque	17,430	34,250	35,730	39,770	2.2	16,820	1,480	4,040
13	Minneapolis/St. Paul	29,840	24,720	36,860	36,450	2.0	-5,120	12,140	-410
14	Atlanta	18,740	23,130	31,090	31,710	1.7	4,390	7,960	620
15	Portland, OR	25,150	27,390	29,980	27,620	1.5	2,240	2,590	-2,360
16	Philadelphia	18,340	17,050	18,560	25,660	1.4	-1,290	1,510	7,100
17	Sacramento	20,610	25,130	20,410	24,970	1.4	4,520	-4,720	4,560
18	Boston	29,850	25,860	21,500	23,830	1.3	-3,990	-4,360	2,330
19	Houston ⁷	18,480	18,490	18,750	23,130	1.3	10	260	4,380
20	Orlando	<u>12,150</u>	<u>10,940</u>	<u>17,320</u>	<u>20,840</u>	<u>1.1</u>	<u>-1,210</u>	<u>6,380</u>	<u>3,520</u>
	Top 20 Markets	1,119,840	1,155,940	1,158,540	1,273,170	69.3%	36,100	2,600	114,630
	All Other	<u>455,500</u>	<u>480,490</u>	<u>509,470</u>	<u>563,620</u>	<u>30.7</u>	<u>24,990</u>	<u>28,980</u>	<u>54,150</u>
	Total—All Markets	1,575,340	1,636,430	1,668,010	1,836,790	100.0%	61,090	31,580	168,780
Average One-Way Fare Paid:									
1	Los Angeles ¹	\$53.52	\$62.37	\$76.67	\$78.47		16.5%	22.9%	2.3%
2	Las Vegas	42.44	56.18	59.38	61.50		32.4	5.7	3.6
3	Chicago ²	163.68	166.58	136.31	129.62		1.8	-18.2	-4.9
4	San Diego	47.62	55.86	60.53	62.63		17.3	8.4	3.5
5	San Francisco ³	83.03	110.78	118.07	124.85		33.4	6.6	5.7
6	Washington/Baltimore ⁴	225.54	241.92	192.87	180.46		7.3	-20.3	-6.4
7	Denver	123.28	178.30	121.35	129.76		44.6	-31.9	6.9
8	New York ⁵	204.17	215.37	180.65	178.04		5.5	-16.1	-1.4
9	Seattle	109.24	131.70	115.62	126.20		20.6	-12.2	9.1
10	Salt Lake City	78.94	111.35	110.03	110.66		41.1	-1.2	0.6
11	Dallas/Ft. Worth ⁶	178.06	209.37	171.80	178.90		17.6	-17.9	4.1
12	Albuquerque	113.79	62.14	62.90	63.97		-45.4	1.2	1.7
13	Minneapolis/St. Paul	160.79	177.58	134.09	152.00		10.4	-24.5	13.4
14	Atlanta	210.78	240.57	181.47	181.87		14.1	-24.6	0.2
15	Portland	103.79	130.89	112.76	127.19		26.1	-13.9	12.8
16	Philadelphia	206.24	251.97	181.15	150.96		22.2	-28.1	-16.7
17	Sacramento	89.88	111.60	119.00	126.15		24.2	6.6	6.0
18	Boston	203.10	243.35	201.20	203.27		19.8	-17.3	1.0
19	Houston ⁷	146.11	183.55	162.39	160.78		25.6	-11.5	-1.0
20	Orlando	188.66	217.00	151.81	143.84		15.0	-30.0	-5.2
	Top 20 Markets	\$105.30	\$124.23	\$115.75	\$117.07		18.0%	-6.8%	1.1%
	All Other	<u>171.59</u>	<u>186.26</u>	<u>164.92</u>	<u>168.08</u>		<u>8.5</u>	<u>-11.5</u>	<u>1.9</u>
	Total—All Markets	\$124.46	\$142.44	\$130.77	\$132.72		14.4%	-8.2%	1.5%

Source: DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1.

Notes: 1. Market includes Los Angeles, Ontario, Burbank, Orange County, and Long Beach airports; 2. Market includes O'Hare and Midway airports; 3. Market includes San Francisco, Oakland, and San Jose airports; 4. Market includes Reagan, Dulles, and Baltimore airports; 5. Market includes LaGuardia, Kennedy, and Newark airports; 6. Market includes Dallas/Ft. Worth airport and Love Field; 7. Market includes Hobby and Bush airports.

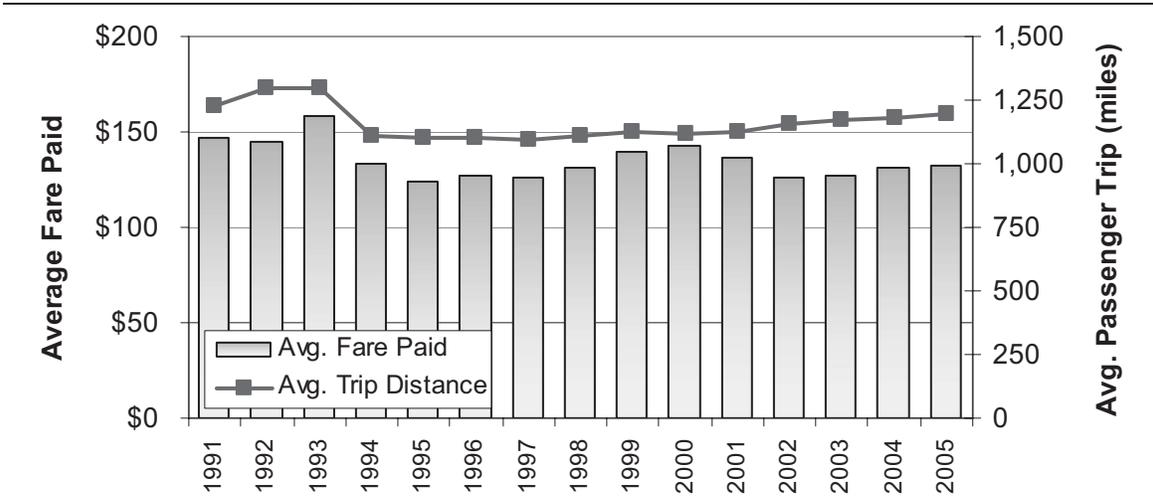
AAG=Average Annual Growth.

Average fares include the dilutive effect of passengers traveling on frequent flyer reward program tickets.

Percentages may not sum to totals due to rounding.

The air passenger travel market at TUS has experienced relatively little net change in airfares, however, over the past eleven years, following a decline between 1993 and 1995 that coincided with Morris Air's (later Southwest's) start-up of service at the Airport. Since then, the average fare paid for domestic trips at TUS increased from \$124 in FY1995 to \$133 in FY2005, following a peak of \$142 in FY2000 (see Figure III.3). Over the same period, the average passenger trip increased from about 1,100 to 1,200 miles. Airfares at TUS, on average, are somewhat higher than at PHX, the only other major air service airport in Arizona. During FY2005, for example, domestic fares at PHX averaged about \$118 for a trip averaging 1,161 miles, compared to domestic fares at TUS which averaged about \$133 for a trip averaging 1,196 miles.

Figure III.3
Average Fare Paid vs. Average Passenger Trip Distance
for Domestic O&D Passengers
Tucson International Airport
 (for the 12 months ended September 30)



Source: DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1.

International Passengers

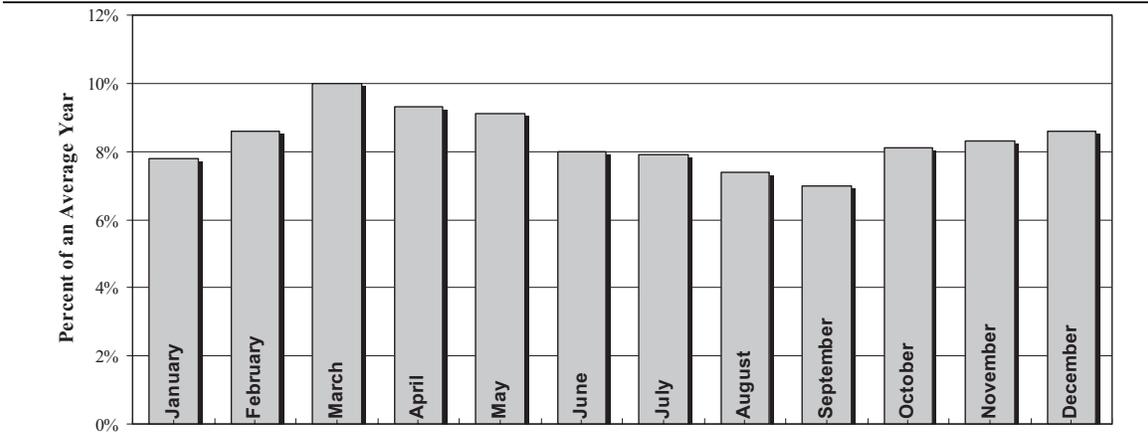
International passengers account for only a small proportion of the Airport total. Fewer than one percent of all passengers enplaned in FY2006 boarded international flights at TUS, and virtually all were bound for Mexico. However, the recorded number of international enplanements understates the number of international travelers using the Airport. A large proportion of internationally-bound passengers at TUS use domestic flights to travel to other U.S. gateway airports where they connect with international flights to their destinations. In FY2006, for example, more than 103,000 passengers departed from the Airport on domestic flights and connected to international flights elsewhere.

Seasonality

Throughout the year, the level of passenger traffic at TUS tends to fluctuate above and below the monthly average, according to the season (see Figure III.4). Passengers tend to peak in the first half of the year (January through June); traffic in the first two quarters is typically about

five percent above the average. The third quarter (July through September) experiences the lowest passenger volumes, typically 11 percent below the average. Traffic volumes in the fourth quarter (October through December) tend to mirror the average.

Figure III.4
Monthly Variation of Enplaned Passengers
Tucson International Airport
(Fiscal Years 2004 through 2006)



Source: Tucson Airport Authority.

Note: Based on 16-year monthly average, from June 1990 through May 2006, but omitting FY2002 due to the aftermath of the September 11 terrorist attacks.

B. AIRLINE ACTIVITY

TUS is served by a diverse group of air carriers. At the end of September 2006, scheduled service was provided at the Airport by 18 airlines, consisting of ten major/national domestic airlines, four regional carriers, one foreign-flag carrier, and three all-cargo carriers (see Table III.5).

Over the past three years, the degree of airline concentration has increased at TUS. The share of total enplanements accounted for by the top two airlines (Southwest and American) increased from 46 percent in FY2003 to 53 percent in FY2006. However, two additional carriers introduced service at the Airport in recent months; Frontier began mainline service at the Airport in August 2006 (after serving the Airport through Frontier JetExpress for several years) and JetBlue began in September 2006.

The ranking of carriers at the Airport has changed since FY2003. A history of enplaned passengers by carrier is presented in Table III.6, and the carriers are grouped by airline affiliation. Market shares were calculated for each airline group, rather than for the individual carriers, because each carrier within the group operates under the same brand.

Southwest has the largest presence at the Airport, accounting for 30.3 percent of total enplanements at TUS in FY2006. Since FY2003, Southwest has consistently grown at a higher rate than the Airport overall, and it has also accounted for the largest share of the Airport’s growth in enplanements.

Table III.5
Airlines Providing Scheduled Service¹
Tucson International Airport
(as of November 28, 2006)

MAJOR/NAT'L PASSENGER CARRIERS	REGIONAL PASSENGER CARRIERS
Alaska	America West Express (Mesa)
American	Continental Express (Expressjet)
Continental	Delta Connection (SkyWest)
Delta	United Express (SkyWest)
Frontier	
JetBlue	ALL-CARGO CARRIERS
Northwest	ABX Air (DHL)
Southwest	UPS
United	Federal Express
US Airways/America West	
FOREIGN FLAG PASSENGER CARRIERS	
Aeromexico (Aerolitoral)	

Source: *Official Airline Guide*, Tucson Airport Authority.

Note: 1. Excludes carriers operating non-scheduled (i.e. charter) flights.

American ranked second in FY2006, accounting for 22.5 percent of total enplanements at TUS, up from 20.1 percent in FY2003. Third-ranking America West saw its share at TUS decline slightly over the past few years, and it shifted virtually all of its activity at TUS to its regional affiliate, Mesa, in FY2004.¹⁰

Two significant air service shifts have occurred in recent years at TUS. One is a material increase in seat capacity offered by the regional codesharing affiliates of the network carriers (see Figure III.5). Regional carriers accounted for about 30 percent of all scheduled domestic departing seats at TUS in FY2006, compared to less than one percent in FY2000. Some of the network airlines rely heavily on their regional affiliates at the Airport. In FY2006, for example, United Express carrier, SkyWest, provided about 70 percent of United's capacity at TUS. The regional affiliates of Delta and Continental provided about 42 percent and 41 percent, respectively, of their network airline partners' capacity at TUS. American, Alaska, and Northwest, on the other hand, make no use of regional affiliates at TUS.

At the same time as regional carrier capacity has been increasing, a second shift was occurring. Low-cost carriers (LCCs) have continued to increase their share of capacity at TUS, largely through the use of codesharing affiliated carriers.¹¹ In FY2006, LCCs and their affiliates accounted for nearly half (49 percent) of scheduled domestic departing seats at the Airport, up from 43 percent in FY2000. Traditional network carriers and their affiliates, on the other hand, have seen their share of capacity at TUS decline, from 57 percent to 51 percent over the same six-year period.

10. America West merged with US Airways in September 2005. However, as of November 2006, America West and US Airways continued to operate under separate operating certificates.

11. The LCCs that served TUS as of September 30, 2006, were Southwest, Frontier, JetBlue, and, for the purpose of this report, America West. Although America West has merged with US Airways, it has continued to operate as a separate carrier as of the date of this report. Future categorization of the merged airline is uncertain.

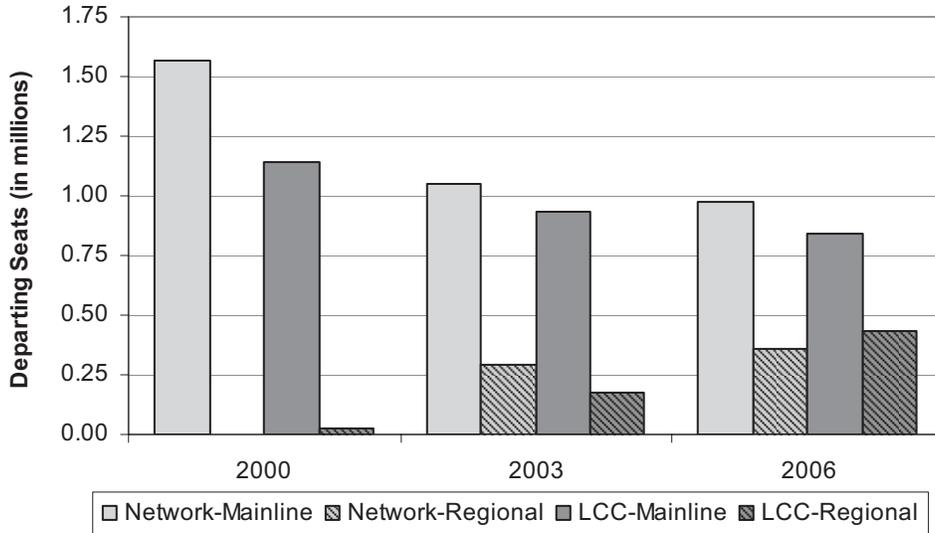
Table III.6
Comparison of Enplaned Passengers, by Carrier
Tucson International Airport
(by fiscal year, ended September 30; figures sum upwards)

Sector	FY2003		FY2004		FY2005		FY2006		
	Published Carrier	Operating Carrier	Psgs.	Share	Psgs.	Share	Psgs.	Share	
TOTAL—All Passengers			1,766,859		1,841,791		2,023,785		2,120,996
% Change from Prev. Yr.					4.2%		9.9%		4.8%
Non-revenue Passengers			65,986		57,412		56,655		54,195
TOTAL—Revenue Psgrs.			1,700,873	100.0%	1,784,379	100.0%	1,967,130	100.0%	2,066,801
% Change from Prev. Yr.					4.9%		10.2%		5.1%
Revenue Passengers:									
DOMESTIC			1,688,145	99.3%	1,770,925	99.2%	1,951,897	99.2%	2,059,400
Southwest			446,414	26.2	497,044	27.9	565,741	28.8	625,448
American			342,183	20.1	364,104	20.4	425,519	21.6	465,783
America West			258,697	15.2	246,313	13.8	276,477	14.1	261,219
<i>America West¹</i>			139,302		144		442		2,008
<i>Mesa (incl. Freedom)¹</i>			119,395		246,169		276,035		259,211
United			189,309	11.1	236,952	13.3	237,646	12.1	220,006
<i>United</i>			96,531		101,412		83,333		48,923
<i>Skywest¹</i>			84,990		83,416		114,050		171,083
<i>Mesa</i>			-		52,124		40,263		-
<i>Air Wisconsin</i>			7,788		-		-		-
Delta			186,177	10.9	178,988	10.0	196,925	10.0	185,382
<i>Delta¹</i>			105,045		83,125		103,434		107,007
<i>Skywest¹</i>			73,841		87,679		90,525		73,471
<i>ASA¹</i>			7,291		8,184		2,966		4,904
Continental			82,374	4.8	88,262	4.9	110,348	5.6	119,380
<i>Continental¹</i>			62,946		48,795		68,927		79,197
<i>Continental Expr¹</i>			19,428		39,467		41,421		40,183
Alaska			99,217	5.8	75,704	4.2	44,381	2.3	50,179
<i>Alaska</i>			56,979		47,335		44,381		50,179
<i>Horizon Air</i>			42,238		28,369		-		-
Northwest			51,824	3.0	55,690	3.1	56,615	2.9	47,027
<i>Northwest</i>			51,824		55,690		53,206		47,027
<i>Pinnacle</i>			-		-		3,409		-
Frontier			31,950	1.9	27,868	1.6	38,245	1.9	43,702
<i>Frontier¹</i>			23,068		362		455		424
<i>Horizon Air¹</i>			-		27,506		37,790		43,278
<i>Mesa¹</i>			8,882		-		-		-
US Airways			-	-	-	-	-	-	41,014
<i>US Airways</i>			-		-		-		4,089
<i>Mesa</i>			-		-		-		36,925
JetBlue			-	-	-	-	-	-	260
INTERNATIONAL			12,728	0.7%	13,454	0.8%	15,233	0.8%	7,401
Aero California			8,551	0.5	9,047	0.5	9,134	0.5	-
Aerolitoral			4,177	0.2	4,407	0.2	6,099	0.3	7,401

Source: Tucson Airport Authority.

Notes: 1. Data for this operator may have been estimated using DOT, Schedule T-100 data.
n.a.=not available; Percentages may not sum to totals due to rounding.

Figure III.5
Scheduled Domestic Departing Seats by Carrier Type
Tucson International Airport
(for the 12 months ended September 30)



Source: *Official Airline Guide*.

C. PASSENGER AIR SERVICE TRENDS

Because changes in the level of air service, air fares, and the routes on which service is offered affect the number of passengers carried, we examine air service trends as part of the traffic analysis and forecasting process. For comparative purposes, we use published flight schedules for July of 1995, 2000, 2005, and 2006.

There were substantially more domestic scheduled departing flights at TUS in 2006, but slightly fewer seats, than in 1995. Over the eleven-year period, increases in the number of regional jet flights more than offset declines in mainline jet and turboprop flights. By July 2006, nearly half (45 percent) of all departing seats were on regional jets with the remaining 55 percent on mainline jet aircraft.

Between 1995 and 2000 at TUS, the number of flights, seats, and cities served nonstop declined and turboprop flights ended (see Table III.7). Between 2000 and 2005, the number of flights and cities served nonstop increased, but seats declined as mainline jet operations were replaced by regional jets with fewer seats. In 2006, relative to 2005, the Airport experienced an increase in the number of flights, seats, and cities served nonstop.

Table III.7
Daily Scheduled Domestic Passenger Service
Tucson International Airport
(for the third week in July)

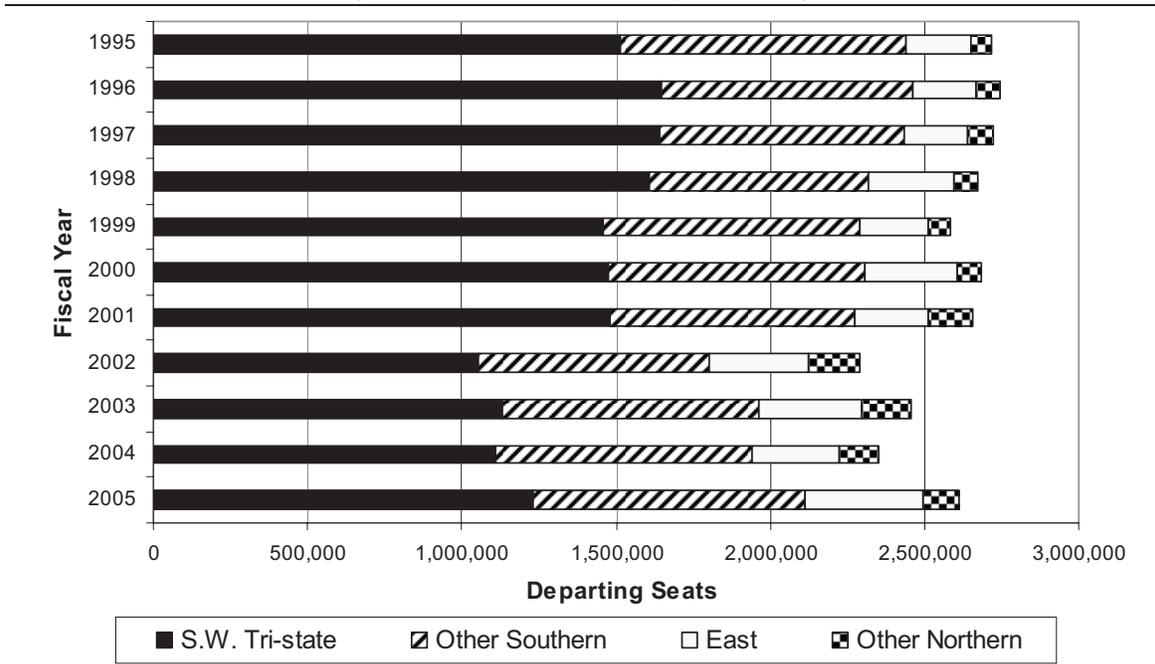
	1995	2000	2005	2006	Change		
					1995-2000	2000-2005	2005-2006
NUMBER OF CITIES SERVED NONSTOP¹	14	12	13	14	-2	1	+1
By Aircraft Type:							
Total Jet	11	12	13	14	+1	1	+1
<i>Mainline Jet</i>	11	12	12	11	+1	0	-1
<i>Regional Jet</i>	1	1	6	7	0	+5	+1
Turboprop	4	0	0	0	-4	0	0
By Stage Length:							
Medium-long haul (1200-1800 mi.)	3	3	4	4	0	+1	0
Medium-short haul (600-1200 mi.)	4	4	4	5	0	0	+1
Short-haul (<600 mi.)	7	5	5	5	-2	0	0
AVERAGE DAILY DEPARTING FLIGHTS	65	53	68	70	-12	+15	+2
By Aircraft Type:							
Total Jet	54	53	68	70	-1	+15	+2
<i>Mainline Jet</i>	53	51	35	36	-2	-16	+1
<i>Regional Jet</i>	1	2	33	34	+1	+31	+1
Turboprop	11	0	0	0	-11	0	0
By Stage Length:							
Medium-long haul (1200-1800 mi.)	4	6	9	9	+2	+3	0
Medium-short haul (600-1200 mi.)	19	14	24	25	-5	+10	+1
Short-haul (<600 mi.)	42	33	35	36	-9	+2	+1
AVERAGE DAILY SCHEDULED SEATS	7,150	7,085	6,857	7,005	-65	-228	+148
By Aircraft Type:							
Total Jet	6,738	7,085	6,857	7,005	+346	-228	+148
<i>Mainline Jet</i>	6,688	6,999	4,670	3,849	+311	-2,329	-821
<i>Regional Jet</i>	50	86	2,187	3,156	+36	+2102	+969
Turboprop	412	0	0	0	-412	0	0
By Stage Length:							
Medium-long haul (1200-1800 mi.)	520	839	1,214	1,198	+319	+375	-17
Medium-short haul (600-1200 mi.)	2,407	2,037	2,112	2,066	-370	+75	-46
Short-haul (<600 mi.)	4,223	4,209	3,531	3,741	-14	-678	+211

Source: Official Airline Guide.

Note: 1. Since 2005, TUS has had nonstop service to both O'Hare and Midway airports in Chicago.

In addition to capacity changes brought about by changes in aircraft types, the past eleven years at TUS saw shifts in the geographical areas where that capacity was deployed (see Figure III.6 and refer to the map of areas in Figure III.2). Whereas 60 percent of seats departing from TUS in the mid-1990s were destined for airports in California/Nevada/Arizona, only 47 percent of seats in FY2005 served that area. The proportion of seats serving airports in the East and Other Northern areas nearly doubled, while the Other Southern area's share remained about the same. The net result has been a diversification of air service at TUS—less reliance on flights operating within the S.W. Tri-state area and nonstop service to more destinations across the nation.

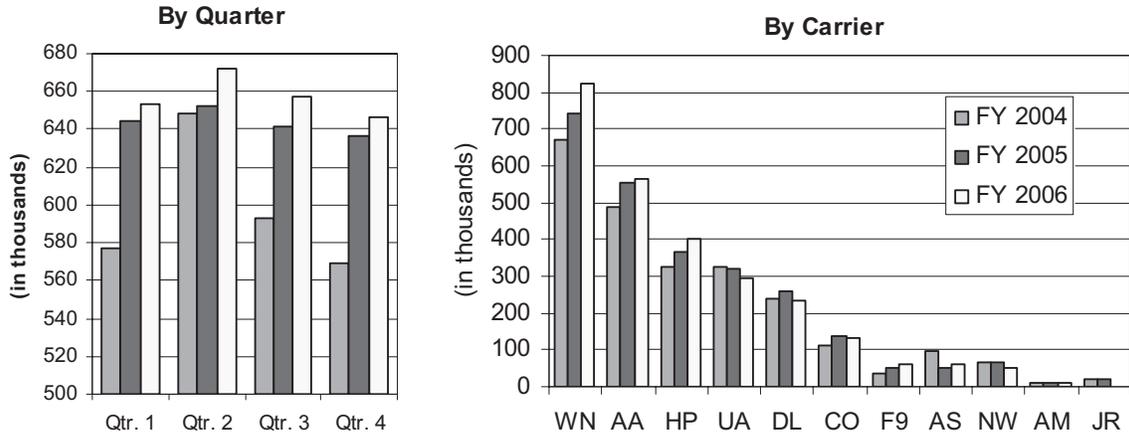
Figure III.6
Domestic Seats by Destination Area
Tucson International Airport
(for the 12 months ended September 30)



Source: DOT, Schedule T-100.

The effect of service changes in the past few years on overall seat capacity at TUS is illustrated in the charts in Figure III.7. In FY2006, overall capacity increased 2.1 percent over the FY2005 level. Several carriers have increased service at TUS in 2006, namely, Frontier upgrading its Denver service from regional jet to mainline aircraft on August 20, JetBlue launching nonstop service to New York-Kennedy effective September 28, and United launching nonstop mainline (A319) service to Washington-Dulles effective October 31. By October 31, 2006, TUS served 18 destinations nonstop, as illustrated in Figure III.8.

Figure III.7
Change in Scheduled Departing Seats, by Quarter and by Carrier
Tucson International Airport
(Fiscal Years 2004 through 2006)



Source: *Official Airline Guide*.

Note: Each airline's seat figures include those operated by its codesharing feeder carriers, if any.

Legend: WN=Southwest; AA=American; HP=America West; UA=United; DL=Delta; CO=Continental; F9=Frontier; AS=Alaska; NW=Northwest; AM=Aeromexico; JR=Aero California.

Figure III.8
Destinations Served by Nonstop Scheduled Flights
Tucson International Airport
(October 31, 2006)



Source: *Official Airline Guide*.

A comparison of jet flights operated in the top 20 domestic O&D city markets at TUS reveals changes in both the level of service and the degree of competition over the last eleven years (see Table III.8). The Airport has seen a gradual concentration of air service in its major markets; whereas 68 percent of all flights served the top 20 O&D cities in 1995, those routes accounted for nearly 83 percent of all flights 11 years later. As of July 2006, TUS had nonstop service in 13 of its top 20 city markets. By November 2006, with new service to New York-Kennedy on JetBlue and to Washington-Dulles on United, there was nonstop service in its top 14 city markets.

There was a relatively low level of competition in the Airport's top 20 city markets in July 2006. Two or more carriers operated competing nonstop jet service in only four of the top 20 markets. A further nine markets had single-carrier nonstop service. Table III.9 details the level of service by carrier in each of the top 20 markets.

In July 2006, the only international destination served nonstop from TUS was Hermosillo, Mexico, with Aeromexico's codesharing carrier, Aerolitoral, providing one daily flight.

Table III.8
Nonstop Jet Service in the Top 20 Domestic O&D City Markets
Tucson International Airport
(for the month of July)

FY2005 Rank	City Market	Nonstop Mileage	Number of Airlines Serving				Average Daily Jet Flight Departures			
			1995	2000	2005	2006	1995	2000	2005	2006
1	Los Angeles ¹	433	4	2	2	2	12	10	10	10
2	Las Vegas	365	3	2	2	2	5	4	8	9
3	Chicago ²	1,439	1	1	2	2	2	3	4	4
4	San Diego	367	1	1	1	1	2	3	3	3
5	San Francisco ³	740	-	-	-	1	-	-	-	1
6	Washington/Baltimore ⁴	1,955	-	-	-	-	-	-	-	-
7	Denver	639	1	1	2	2	3	3	5	6
8	New York ⁵	2,128	-	-	-	-	-	-	-	-
9	Seattle	1,216	-	-	1	1	-	-	1	1
10	Salt Lake City	601	1	1	1	1	2	1	7	5
11	Dallas/Ft. Worth ⁶	819	2	2	1	1	11	9	8	8
12	Albuquerque	321	1	1	1	1	3	1	2	2
13	Minneapolis/St. Paul	1,298	1	1	1	1	1	1	1	1
14	Atlanta	1,541	-	-	1	1	-	-	3	3
15	Portland, OR	1,119	-	-	-	-	-	-	-	-
16	Philadelphia	2,055	-	-	-	-	-	-	-	-
17	Sacramento	752	-	-	-	-	-	-	-	-
18	Boston	2,289	-	-	-	-	-	-	-	-
19	Houston ⁷	941	1	1	1	1	3	2	4	5
20	Orlando	1,783	-	-	-	-	-	-	-	-
	Top 20 Markets		9	7	9	9	44	37	56	58
	All Other						21	16	12	12
	Total—All Markets		9	7	9	9	65	53	68	70

Source: *Official Airline Guide*; DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1.

- Notes:
1. Market includes Los Angeles, Ontario, Burbank, Orange County, and Long Beach airports.
 2. Market includes Midway and O'Hare airports.
 3. Market includes San Francisco, Oakland, and San Jose airports.
 4. Market includes Dulles, Reagan, and Baltimore airports. United started serving Washington Dulles Airport nonstop on October 31, 2006.
 5. Market includes LaGuardia, Kennedy, and Newark airports. JetBlue started serving Kennedy nonstop on Sep. 28, 2006.
 6. Market includes Dallas/Ft. Worth airport and Love Field.
 7. Market includes Hobby and Bush airports.
- All carriers providing service under the same designator code are counted here as one airline.

Table III.9
Average Daily Domestic Jet Flight Departures by Carrier
Tucson International Airport
(July 2006)

FY2005 Rank	City/Market	Total— All Carriers	LOW-COST CARRIERS				NETWORK CARRIERS													
			Total	Mainline WN	Regional HP* F9*		Total	AA	DL	AS	UA	NW	CO	Regional UA* DL* CO*						
1	Los Angeles ¹	10	5	5	-	-	5	-	-	-	-	-	-	-	-	-	-	5	-	-
2	Las Vegas	9	9	6	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Chicago ²	4	1	1	-	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-
4	San Diego	3	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	San Francisco ³	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-
6	Washington/Baltimore ⁴	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Denver	6	3	-	3	-	-	-	-	-	-	-	-	-	-	-	-	3	-	-
8	New York ⁵	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Seattle	1	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-
10	Salt Lake City	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	-
11	Dallas/Ft. Worth ⁶	8	-	-	-	-	8	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Albuquerque	2	2	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Minneapolis/St. Paul	1	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-
14	Atlanta	3	-	-	-	-	-	-	3	-	-	-	-	-	-	-	-	-	-	-
15	Portland, OR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Philadelphia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Sacramento	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Boston	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Houston ⁷	5	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	4
20	Orlando	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Top 20 Markets	58	23	17	3	3	11	3	1	1	1	1	1	1	1	1	1	9	5	4
	Phoenix	12	11	-	11	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-
	Total—All Markets	70	34	17	14	3	36	11	3	1	1	1	1	1	1	1	9	5	4	

Source: *Official Airline Guide*.

Notes: See Table III.8 for footnotes.

Figures may not sum to totals due to rounding.

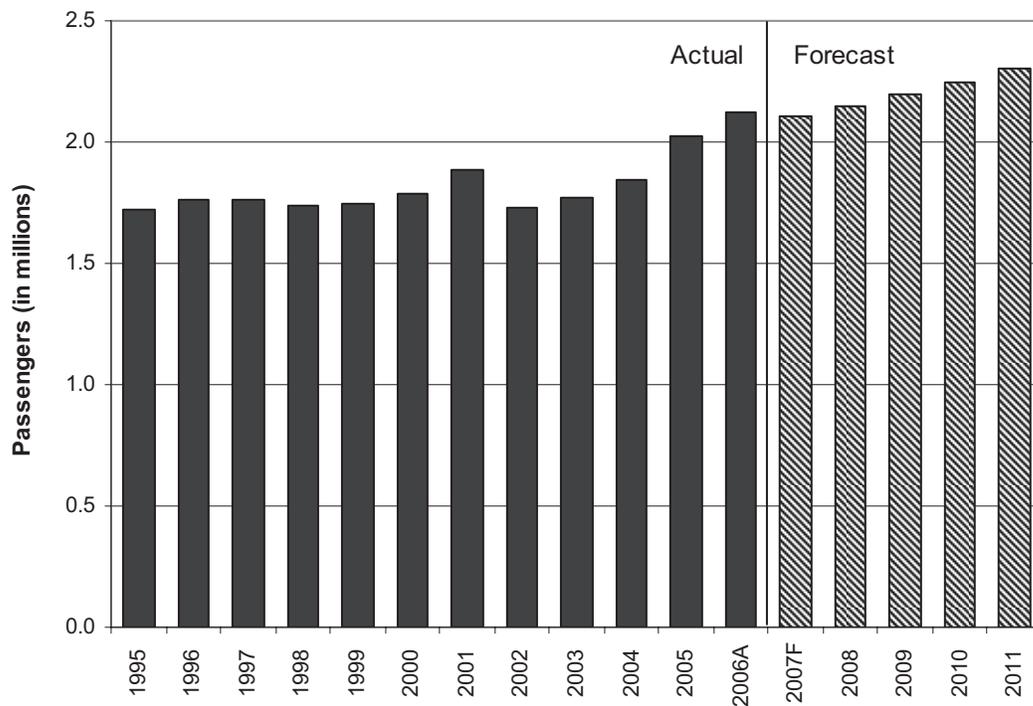
Legend: WN=Southwest; HP*=America West Express (Mesa); F9*=Frontier JetExpress (Horizon); AA=American; DL=Delta; AS=Alaska; UA=United; NW=Northwest; CO=Continental; UA*=United Express (SkyWest); DL*=Delta Connection (SkyWest); CO*=Continental Express (Expressjet).

D. FORECAST OF ENPLANED PASSENGERS

The chart in Figure III.9 illustrates our forecast of enplaned passengers at TUS through FY2011. We forecast that enplanements at TUS will increase from 2.1 million passengers in FY2006 to 2.3 million passengers in FY2011.

The primary basis for the longer-term forecast is ‘natural’ growth in the local market, reflecting increasing population and income as well as a sound and growing economy, and in the visitor market, reflecting ongoing expansion of business activity in the Tucson area and its attraction for personal travel to the area. This accounts for typical growth of about 2.0 to 2.5 percent per year, without taking into account the effect of shifts in the Airport’s share of Southern Arizona O&D passenger traffic, discussed earlier. From FY2001 to FY2006, enplanements at TUS increased roughly 2.4 percent per year, on average.

Figure III.9
Actual and Forecast Enplaned Passengers
Tucson International Airport
(for the 12 months ended September 30)



Sources: Actual—Tucson Airport Authority.
Estimated and Forecast—John F. Brown Company, Inc.

The period of flat traffic that was experienced by TUS from FY1995 through FY2001 can be regarded as a time during which the attraction of service and fares at PHX appears to have offset the natural traffic growth occurring at TUS. By contrast, the rapid growth in traffic at TUS in FY2005 and FY2006 coincided with a gain in Southern Arizona market share by the Airport, partly as a result of an improving air service offering in absolute terms at TUS and, likely, in relative terms vis-à-vis PHX.

The strong traffic growth that occurred at TUS throughout FY2005 continued in the first nine months of FY2006 (up 7.3 percent compared to the same period of the previous year). However, the trajectory of traffic growth changed abruptly in the last quarter of FY2006, with enplanements down 2.0 percent from the previous year and down 4.8 percent in September alone. There are indications that the industry is facing a period of softening demand, due in part to the numerous fare increases over the past year. For example, the Air Transport Association, whose airline members account for more than 90 percent of all domestic passenger traffic, reported a year-over-year nationwide traffic decline of 2.6 percent during the July-September 2006 period.

In FY2007, advance schedules published in *Official Airline Guide* (and still subject to change) indicate no net increase in capacity (departing seats) at TUS and suggest, in fact, that a minor capacity reduction may occur. For purposes of this forecast, we assume that capacity will decline 0.8 percent at TUS in FY2007. With average load factors at TUS already at an all-time high of 80 percent in FY2006, we assume only a minimal increase in load factor in FY2007. The net result is that, in FY2007, we anticipate a 0.5 percent decline in enplaned passengers at TUS. We regard FY2007 as the end of a period of post-9/11 traffic recovery and adjustment at TUS.

In FY2008, we forecast a year of transition toward a longer-term pace of growth, with a 1.6 percent enplanement increase leading to an annual growth of about 2.4 percent in subsequent years. In the years FY2009 through FY2011, we assume that service will increase only enough to accommodate traffic growth, that airfares will keep pace with inflation, and that the market share split between TUS and PHX will remain constant, meaning that increases in traffic will derive primarily from natural market growth.

Other Assumptions Underlying Forecast

Demographic and Economic Factors. These factors are described in Section II. In general, we assume that resident and visitor demand in the Tucson MSA will continue to support growth in air service, and that the stable area economy will keep pace with national economic growth.

Resident vs. Visitor Travel. Over the past ten years, visitor travel to TUS has accounted for a declining share of total enplanements, while travel by residents has accounted for an increasing share. We assume this trend will continue during the forecast period. We view this gradual lessening of dependence on visitor traffic as a positive factor for traffic at the Airport.

Rate of Traffic Growth. At least some of the strong traffic growth since FY2003 at TUS, and at many other airports nationwide, has been driven by the network carriers mounting an aggressive competitive response to the proliferation of LCCs by lowering their fares and expanding their capacity. More recently, airlines have shown more capacity discipline, fares have increased, and passenger growth has moderated.

Low-Cost Carriers. We assume that growth of LCC activity will continue at TUS, led by steady service expansion by Southwest Airlines and augmented by America West, Frontier, JetBlue, and possibly other carriers.

Connecting Traffic. Connections represented less than one percent of total enplaned passengers in FY2006. We forecast that connections will not represent a materially larger percentage of enplanements over the FY2007-2011 period.

Fuel Costs. The rise in oil prices over the past three years has significantly raised fuel cost as a proportion of total airline operating costs, and we assume that oil prices will remain at higher-than-historical levels for the foreseeable future. Fuel costs fluctuate in response to external market forces, and their volatile and unpredictable nature poses a particular challenge to the airline industry. Airlines recently have had the pricing power to raise fares to an extent, but intense industry competition has often kept these increases from being sufficient to cover the increased jet fuel costs. Consumer demand for air travel has been affected negatively by the rise in energy prices in two ways. First, higher energy costs reduce the income available for discretionary spending on air travel. Secondly, higher airfares have a dampening effect on leisure air travel and, to a somewhat lesser degree, on business air travel.

Airline Bankruptcies. The forecast is founded not on whether specific airlines will or will not emerge from Chapter 11 bankruptcy protection but, rather, on the assumption that TUS, as an airport serving mostly O&D traffic, will continue to be well served regardless of the outcomes for various carriers that are currently struggling financially.

International Service. We assume that existing international service will continue at TUS and will expand over time at a modest rate. Other than seasonal and charter service, however, the forecast is not premised on new international scheduled service.

Extraordinary Events. Air passenger traffic is subject to the effect of extraordinary events whose negative effects on the demand for, or the supply of, air transportation services may be transitory, persistent, or permanent (structural). Extraordinary events might include, for example, war, acts of terrorism, epidemics of contagious diseases, natural disasters such as hurricanes, economic depression, price deflation, currency devaluation, labor strikes, or an extended contraction in the supply of aviation fuel. The probability of such an event, although it cannot be predicted, is generally regarded as low, but the negative effects of such an event could be substantial. The forecast of enplanements at TUS assumes that normal conditions will prevail, and it does not attempt to reflect the potential effects of any extraordinary event.

Airfield and Terminal Capacity. The forecast assumes that, during the forecast period, no capacity enhancements or additions, other than the Concourse Renovation Project, will be required to accommodate traffic growth at the Airport.

FORECAST TRENDS

Our forecast of 2.3 million enplanements at TUS in FY2011, compared with 2.1 million in FY2006, implies an annual rate of growth averaging 1.6 percent. However, this average incorporates a 0.5 percent decline in FY2007, and an average annual growth rate of 2.2 percent per year thereafter. The forecast is laid out in segment detail in Table III.10.

Comparison to Other Forecasts

The Airport's most recent Master Plan forecast, prepared in 2004, projected enplanement growth averaging 2.5 percent per year from FY2006 to FY2011. As noted earlier, enplanements actually increased 4.2 percent in FY2004, 9.9 percent in FY2005, and 4.8 percent in FY2006.

The FAA, in its annual Terminal Area Forecast released in February 2006, forecast enplanement growth at TUS averaging 3.0 percent per year from FY2006 to FY2011. Our

enplanement forecast, presented in Table III.10, envisions an increase in passengers averaging 1.6 percent per year over the same period, due largely to the slowdown in traffic forecast for FY2007 and FY2008.

For the nation overall, the FAA forecast domestic enplanement growth averaging 3.2 percent per year from FY2006 to FY2011. That forecast, which predated the recent series of fare increases and the softening in demand, significantly under-forecast the rise in fare yields over the past year and, consequently, failed to forecast the downturn in passenger traffic in the first nine months of 2006. The FAA will revise and reissue its forecast in February 2007.

Table III.10
Enplaned Passenger History and Forecast, by Segment
Tucson International Airport
(for fiscal years ended September 30)

Fiscal Year	Revenue Passengers							Total Enplaned Passengers	% Chg. from Prev. Year
	On U.S. Carriers			U.S. Carrier Total	On Foreign -flag Carriers	Total Revenue Psgrs.	Non-Revenue Psgrs.		
	Domestic O&D ¹	Bound for Intl. ²	All Other ³						
2001	1,663,660	84,640	42,021	1,790,321	19,829	1,810,150	72,128	1,882,278	5.4%
2002	1,543,300	72,730	31,924	1,647,954	15,617	1,663,571	65,765	1,729,336	-8.1
2003	1,575,500	70,060	42,585	1,688,145	12,728	1,700,873	65,986	1,766,859	2.2
2004	1,668,010	83,010	19,905	1,770,925	13,454	1,784,379	57,412	1,841,791	4.2
2005	1,836,790	91,450	23,657	1,951,897	15,233	1,967,130	56,655	2,023,785	9.9
2006A	1,954,060	103,270	2,070	2,059,400	7,401	2,067,319	54,195	2,120,996	4.8
2007F	1,940,000	105,000	2,000	2,047,000	8,000	2,055,000	55,000	2,110,000	-0.5
2008	1,970,000	108,000	2,000	2,080,000	8,000	2,088,000	56,000	2,144,000	1.6
2009	2,015,000	111,000	2,000	2,128,000	8,000	2,136,000	57,000	2,193,000	2.3
2010	2,063,000	114,000	2,000	2,179,000	8,000	2,187,000	58,000	2,245,000	2.4
2011	2,114,000	117,000	2,000	2,233,000	8,000	2,241,000	59,000	2,300,000	2.4
Percent Change from Previous Year:									
2002	-7.2%	-14.1%	-24.0%	-8.0%	-21.2%	-8.1%	-8.8%	-8.1%	
2003	2.1	-3.7	33.4	2.4	-18.5	2.2	0.3	2.2	
2004	5.9	18.5	-53.3	4.9	5.7	4.9	-13.0	4.2	
2005	10.1	10.2	18.8	10.2	13.2	10.2	-1.3	9.9	
2006A	6.4	12.9	-91.2	5.5	-51.4	5.1	-4.3	4.8	
2007F	-0.7	2.0	0.0	-0.6	1.3	-0.6	2.0	-0.5	
2008	1.5	2.5	0.0	1.6	0.0	1.6	2.0	1.6	
2009	2.3	3.0	0.0	2.3	0.0	2.3	2.0	2.3	
2010	2.4	3.0	0.0	2.4	0.0	2.4	2.0	2.4	
2011	2.5	3.0	0.0	2.5	0.0	2.5	2.0	2.4	
Average Annual Compound Growth:									
2001-2006	3.3%	4.1%	-45.2%	2.8%	-17.9%	2.7%	-5.6%	2.4%	
2006-2011	1.6%	2.5%	-0.7%	1.6%	0.2%	1.6%	1.7%	1.6%	
2007-2011	2.2%	2.7%	0.0%	2.2%	0.0%	2.2%	1.8%	2.2%	

Sources: Actuals—Tucson Airport Authority; DOT, Air Passenger Origin-Destination Survey, reconciled to Schedules T-100 and 298C T-1. Estimated and Forecast—John F. Brown Company, Inc.

Notes: 1. Passengers who boarded scheduled domestic flights bound for U.S. destinations. 2006 estimated by John F. Brown Co.
2. Passengers who boarded domestic flights at TUS and traveled to other U.S. gateway airports where they made connections to international destinations. 2006 estimated by John F. Brown Co.
3. Includes connecting passengers, as well as those enplaned on domestic charter flights and international flights operated by U.S. carriers.
A=Actual; F=Forecast.

E. CARGO ACTIVITY

Total air cargo handled at TUS increased 31 percent over the past eleven years, from 33,365 tons in FY1995 to 43,578 tons in FY2006 (see Table III.11). Over this period, the share of cargo handled by all-cargo carriers increased while the share handled by passenger carriers declined. That decline is particularly evident after 2000 when regional jets, with their much smaller cargo capacity, began to proliferate at TUS. In FY2006, 92 percent of cargo tonnage at TUS was handled by all-cargo carriers, up from 66 percent in FY1995.

Table III.11
Trends in Air Cargo by Carrier Type
Tucson International Airport

(for the 12 months ended September 30; freight and mail, in tons)

Fiscal Year	All-Cargo Carriers		Passenger Carriers		Total Cargo	% Change from Previous Year
	Cargo	% of Total	Cargo	% of Total		
1995	22,016	66.0%	11,349	34.0%	33,365	
1996	19,512	61.9	12,023	38.1	31,535	-5.5%
1997	23,641	63.8	13,415	36.2	37,055	17.5
1998	26,680	66.6	13,393	33.4	40,073	8.1
1999	28,886	69.9	12,436	30.1	41,322	3.1
2000	30,868	73.1	11,355	26.9	42,224	2.2
2001	28,176	77.0	8,425	23.0	36,601	-13.3
2002	23,926	82.7	5,003	17.3	28,928	-21.0
2003	28,128	86.1	4,552	13.9	32,680	13.0
2004	29,508	88.1	3,970	11.9	33,478	2.4
2005	36,692	90.2	3,972	9.8	40,664	21.5
2006	40,108	92.0	3,470	8.0	43,578	7.2

Source: Tucson Airport Authority.

Notes: Data reflect sum of enplaned and deplaned air cargo.

Tonnage may not sum to totals due to rounding.

Deplaned cargo has accounted for an increasing share of the total cargo handled at TUS (see Table III.12). Between FY2000 and FY2006, for example, deplaned cargo increased 12 percent at the Airport while enplaned cargo declined by 8 percent. Because Federal Express doubled the amount of cargo it handled between FY2000 and FY2006, and because it deplanes twice as much cargo as it enplanes at TUS due to market demand, the Airport's level of deplaned cargo was affected disproportionately. In FY2006, deplaned cargo accounted for 62 percent of total air cargo at TUS, up from 57 percent in FY2000.

Table III.12
Enplaned and Deplaned Air Cargo Trends
Tucson International Airport

(for the 12 months ended September 30; freight and mail, in tons)

Fiscal Year	Enplaned		Deplaned		Total Cargo	% Change from Previous Year
	Cargo	% of Total	Cargo	% of Total		
1995	15,662	46.9%	17,703	53.1%	33,365	
1996	13,501	42.8	18,034	57.2	31,535	-5.5%
1997	15,569	42.0	21,487	58.0	37,055	17.5
1998	17,082	42.6	22,991	57.4	40,073	8.1
1999	18,459	44.7	22,863	55.3	41,322	3.1
2000	18,190	43.1	24,034	56.9	42,224	2.2
2001	15,022	41.0	21,579	59.0	36,601	-13.3
2002	11,759	40.6	17,169	59.4	28,928	-21.0
2003	11,883	36.4	20,797	63.6	32,680	13.0
2004	12,100	36.1	21,378	63.9	33,478	2.4
2005	13,724	33.7	26,940	66.3	40,664	21.5
2006	16,680	38.3	26,898	61.7	43,578	7.2

Source: Tucson Airport Authority.

Notes: Tonnage may not sum to totals due to rounding.

Federal Express handled 73 percent of total cargo at TUS in FY2006, up from 34 percent in FY2000 (see Table III.13). The other two all-cargo carriers (Emery and Airborne) handled an additional 19 percent of total cargo at TUS in FY2006. The passenger carriers, led by Southwest, accounted for the remaining eight percent. From FY2000 to FY2006, cargo handled by the all-cargo carriers increased 30 percent, while cargo handled by the passenger carriers fell by more than two-thirds (69 percent).

Two recent all-cargo carrier acquisitions are reflected in Table III.13. UPS acquired Menlo Worldwide Forwarding, formerly known as Emery Worldwide, in December 2004. In addition, DHL acquired Airborne in October 2005. ABX Air, formerly the cargo airline unit of Airborne, now operates for DHL under a contract agreement.

Table III.13
Carrier Shares of Total Air Cargo
Tucson International Airport
(freight and mail, in tons)

Carrier	(12 months ended September 30)							
	1995	2000	2001	2002	2003	2004	2005	2006
TOTAL—All Carriers	33,364	42,224	36,601	28,922	32,679	33,478	40,665	43,578
All-Cargo Carriers:	22,016	30,868	28,176	23,926	28,129	29,508	36,692	40,108
Federal Express	12,451	14,267	14,191	15,443	19,582	21,583	28,968	31,965
Emery (now UPS) ¹	7,233	13,210	10,873	5,270	5,207	4,697	4,682	5,251
ABX Air (DHL) ²	2,332	3,392	3,113	3,213	3,339	3,227	3,043	2,893
Passenger Carriers:	11,348	11,355	8,424	4,996	4,551	3,970	3,972	3,470
Southwest	723	1,706	1,363	994	1,076	1,442	1,583	1476
American	2,584	2,122	1,888	741	725	663	768	790
United	1,263	1,779	1,160	537	466	446	479	191
Delta	2,172	2,583	1,665	1,047	788	583	498	263
America West	3,250	1,922	1,389	949	780	447	339	350
Continental	762	832	609	345	304	268	231	236
Northwest	382	412	268	256	163	45	35	55
US Airways	0	0	0	0	0	0	0	55
Alaska	0	0	82	123	94	41	36	35
All Other Passenger Carriers	213	0	0	3	155	35	4	19
TOTAL—All Carriers	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
All-Cargo Carriers:	66.0%	73.1%	77.0%	82.7%	86.1%	88.1%	90.2%	92.0%
Federal Express	37.3	33.8	38.8	53.4	59.9	64.5	71.2	73.4
Emery (now UPS)	21.7	31.3	29.7	18.2	15.9	14.0	11.5	12.0
ABX Air (DHL)	7.0	8.0	8.5	11.1	10.2	9.6	7.5	6.6
Passenger Carriers:	34.0%	26.9%	23.0%	17.3%	13.9%	11.9%	9.8%	8.0%
Southwest	2.2	4.0	3.7	3.4	3.3	4.3	3.9	3.4
American	7.7	5.0	5.2	2.6	2.2	2.0	1.9	1.8
United	3.8	4.2	3.2	1.9	1.4	1.3	1.2	0.4
Delta	6.5	6.1	4.6	3.6	2.4	1.7	1.2	0.6
America West	9.7	4.6	3.8	3.3	2.4	1.3	0.8	0.8
Continental	2.3	2.0	1.7	1.2	0.9	0.8	0.6	0.5
Northwest	1.1	1.0	0.7	0.9	0.5	0.1	0.1	0.1
Alaska	0.0	0.0	0.2	0.4	0.3	0.1	0.1	0.1
All Other Passenger Carriers	0.6	0.0	0.0	0.0	0.5	0.1	0.0	0.0

Source: Tucson Airport Authority.

Notes: 1. UPS acquired Emery in December 2004.

2. DHL acquired Airborne on Oct. 1, 2005, and ABX Air currently operates these flights on behalf of DHL.

Data reflect sum of enplaned and deplaned air cargo.

Tonnage and percentages may not sum to totals due to rounding.

F. AIRCRAFT LANDED WEIGHT TRENDS AND FORECASTS

In FY2006, nearly 2.7 billion pounds of aircraft landed weight were reported by airlines operating at TUS. Passenger carriers accounted for 90 percent (about 2.4 billion pounds) of the Airport total, with all-cargo carriers accounting for the remainder (see Table III.14).

From FY1995 to FY2000, landed weight at TUS declined slightly (three percent). The increasing size of both passenger and all-cargo aircraft was more than offset by a decline in the number of flights. Landed weight declined nearly an additional six percent from FY2000 to FY2006. The cause was just the opposite of that in the previous five years: the increasing number of flights was more than offset by a decline in the size of aircraft operated at TUS.

We estimate a 1.6 percent decline in total aircraft landed weight in FY2007, driven entirely by a 2.1 percent decline in passenger airlines' landed weight. Over the next four years, assuming a 9-to-10 percent increase in the number of both passenger and all-cargo flights, and only minor shifts in the average aircraft size operated at the Airport, we forecast that total landed weight at TUS will increase at an average of 2.6 percent per year. By FY2011, we forecast about 2.9 billion pounds of total landed weight. This represents an average annual increase of 1.7 percent from FY2006, compared to an average annual increase over the same period of 1.6 percent for enplaned passengers.

Table III.14
Aircraft Landed Weight Trends and Forecast
Tucson International Airport

(for the 12 months ended September 30; millions of pounds)

Fiscal Year	Passenger Carriers		All-Cargo Carriers		Total Landed Wt.
	Landed Wt.	% of Total	Landed Wt.	% of Total	
1995	2,666.8	92.3%	222.9	7.7%	2,889.7
2000	2,556.8	90.0%	283.8	10.0%	2,840.7
2001	2,562.9	90.7	263.7	9.3	2,826.6
2002	2,381.3	93.2	173.3	6.8	2,554.6
2003	2,290.4	93.7	152.7	6.3	2,443.2
2004	2,169.9	92.4	178.0	7.6	2,347.9
2005	2,377.5	92.2	199.8	7.8	2,577.3
2006A	2,424.9	90.4	258.4	9.6	2,683.3
2007F	2,374.0	89.9	266.0	10.1	2,640.0
2008	2,437.0	89.9	273.0	10.1	2,710.0
2009	2,505.0	89.9	280.0	10.1	2,785.0
2010	2,568.0	89.9	287.0	10.1	2,855.0
2011	2,632.0	90.0	293.0	10.0	2,925.0

Percent Change from Previous Year:

2001	0.2%	-7.1%	-0.5%
2002	-7.1	-34.3	-9.6
2003	-3.8	-11.9	-4.4
2004	-5.3	16.5	-3.9
2005	9.6	12.2	9.8
2006A	2.0	29.3	4.1
2007F	-2.1	2.9	-1.6
2008	2.7	2.6	2.7
2009	2.8	2.6	2.8
2010	2.5	2.5	2.5
2011	2.5	2.1	2.5

Average Annual Compound Growth:

2001-2006	-1.1%	-0.4%	-1.0%
2006-2011	1.7%	2.5%	1.7%
2007-2011	2.6%	2.4%	2.6%

Sources: Actual: Tucson Airport Authority.

Forecast: John F. Brown Company, Inc.

Notes: A=Actual; F=Forecast.

Landed weights and percentages may not sum to totals due to rounding.

IV. FINANCIAL FRAMEWORK

References in this Report to the Senior Lien Airport Revenue Bond Resolution (the Senior Lien Resolution) and the Subordinate Lien Airport Revenue Bond Resolution (the Subordinate Lien Resolution) (collectively, the Resolutions), the Airport Use Agreements (the Use Agreements), and various other leases and agreements entered into by the Authority do not purport to be comprehensive or definitive, and all such references are qualified in their entirety by reference thereto. Capitalized terms have the same meaning as defined in the Resolutions, the Use Agreements, and the Preliminary Official Statement to which this report is attached, except as otherwise defined herein. The Authority's Fiscal Year ends September 30.

A. BOND RESOLUTIONS AND OUTSTANDING BONDS

SENIOR LIEN RESOLUTION AND OUTSTANDING BONDS

The Authority currently has four series of Senior Lien Bonds outstanding - the Series 2001A-C Refunding Bonds and the Series 2003 Bonds - with an aggregate principal amount outstanding as of December 1, 2006 of \$40.7 million.

Bonds issued under the Senior Lien Resolution are payable from and secured by a pledge of and lien on the Net Revenues of the Authority (Revenues less Operation and Maintenance Expenses). Senior Lien Bonds and Subordinate Lien Bonds (discussed below) are limited obligations of the Authority. They do not constitute and are not an obligation or indebtedness of the City of Tucson, Pima County, the State of Arizona, or any municipality, instrument, or political subdivision thereof other than the Authority. The Authority has no taxing power.

Senior Lien Bonds issued under the Senior Lien Resolution have a pledge and lien on Net Revenues senior to Subordinate Lien Bonds and Junior Subordinate Lien Obligations.

SUBORDINATE LIEN RESOLUTION AND OUTSTANDING BONDS

On July 11, 2001, the Authority adopted the Subordinate Lien Resolution and issued the first series of Subordinate Lien Bonds. The Subordinate Lien Bonds are secured by a lien and pledge on the Net Revenues junior and inferior to the Senior Lien Bonds. Under the Subordinate Lien Bond Resolution, as amended and supplemented as of November 28, 2006, the Authority may also grant as additional security a pledge of and lien on the PFC Revenues to all or a portion of a particular Series of Subordinate Lien Bonds.

Under the First Supplemental Subordinate Lien Resolution, the Authority pledged, as additional security to the 2001 Subordinate Lien Bonds, a portion of PFC Revenues equal to Debt Service on the bonds. In the event PFC Revenues are not sufficient to pay Debt Service or a deficiency exists in any fund or account required under the 2001 Subordinate Lien Bonds, Net Revenues remaining after payment of Debt Service on Senior Lien Bonds will be credited to make up the deficiency.

The Authority currently has one series of Subordinate Lien Bonds outstanding - the Series 2001 Subordinate Lien Bonds - with an aggregate principal amount outstanding as of December 1, 2006 of \$39.3 million.

Under the Second Supplemental Subordinate Lien Resolution, the Authority intends to pledge PFC Revenues equal to approximately 79 percent of the annual debt service on the 2006 Subordinate Lien Bonds, which is the estimated PFC eligibility for the Concourse Renovation Project.

APPLICATION OF REVENUES

The Senior Lien Resolution provides that all Revenues of the Authority are deposited in the Revenue Fund, except as specifically provided otherwise. Under Section 4.01 of the Senior Lien Resolution, monies in the Revenue Fund are applied for various purposes and to fund accounts as shown in Figure IV.1.

The Maintenance Reserve Fund, which will be established after October 1, 2008, may be used to pay for (a) renewals, reconstruction and replacement of any facilities of the Authority, (b) acquiring and installing or replacing equipment, (c) major maintenance or repairs, (d) repairs or replacements for which other funds are inadequate, and (e) transfers to Senior Lien Bond Funds or the Bond Reserve Fund or to debt service reserve funds or accounts established for Subordinate Lien Obligations when such funds or accounts are inadequate to pay principal and interest.

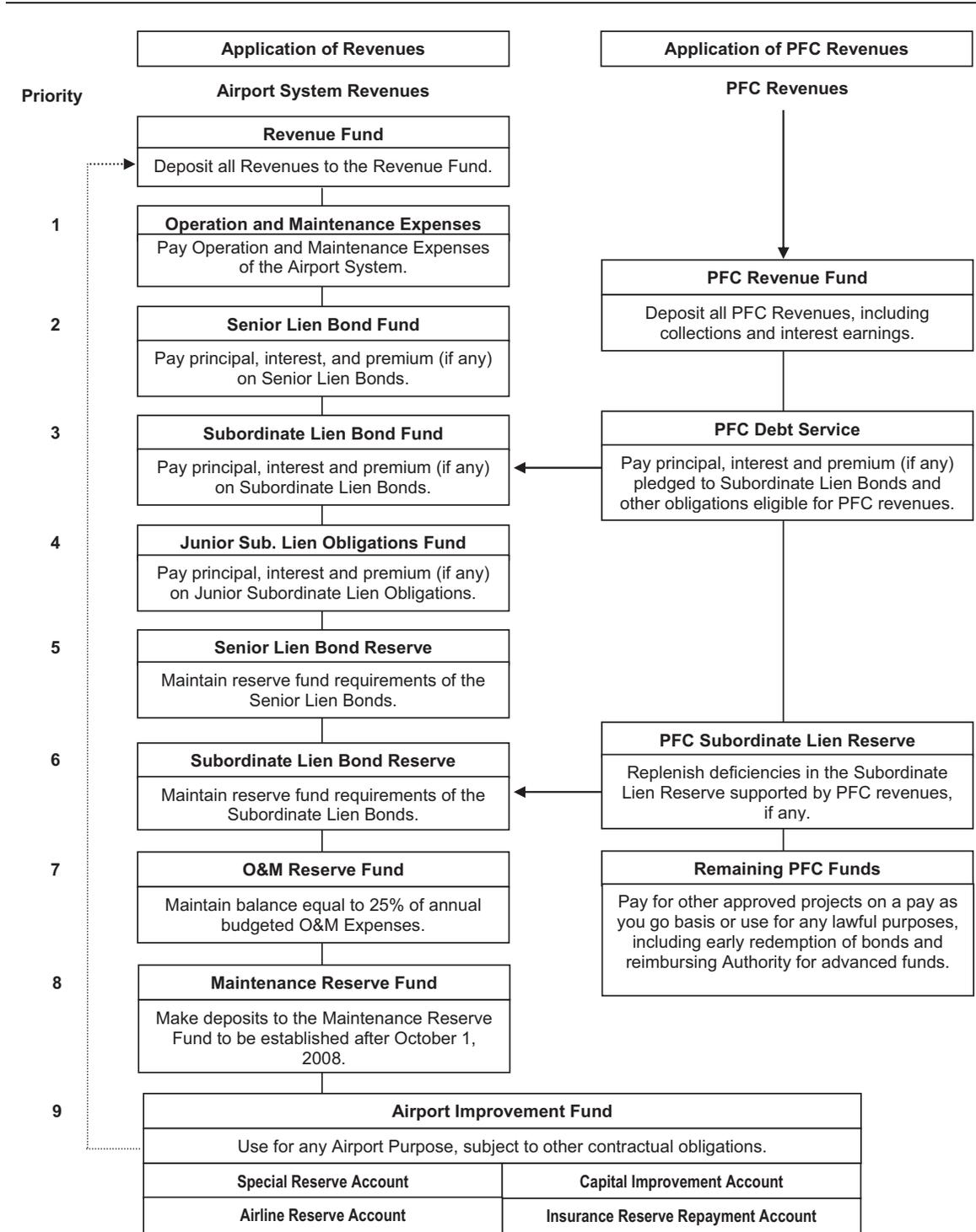
In addition, the current Use Agreements provide for certain deposits within the Airport Improvement Fund, including:

1. Deposits to the Special Reserve Account equal to 52 percent of net income from industrial areas of the Airport, repayment of advances from the Special Reserve Account for Capital Projects (principal and interest), and interest earnings on the account.
2. Payments to the Capital Improvement Account, consisting of the fixed annual payment of \$300,000 per year escalated at 5 percent per year (beginning in FY1990) and deposits to fund the Authority's share of capital projects net of AIP and State grants and costs of other Capital Projects approved by an MII of the Signatory Airlines.
3. Deposits to the Insurance Reserve Repayment Account to repay advances from the Insurance Reserve Fund equal to the principal and interest requirements.
4. All remaining monies at the end of each Fiscal Year are deposited in the Airline Reserve Account that may be used for any Airport Purpose of the Authority after Majority-in-Interest approval, including reduction of landing fees for the ensuing fiscal year, which is effected through the Required Transfer Amount. The airlines and the Authority have elected in the past to apply such revenues to the reduction of landing fees in the subsequent year.

APPLICATION OF PFC REVENUES

PFC Revenues are deposited into a PFC Revenue Fund. The Authority intends to apply PFC Revenues in the following order of priority: (1) to pay Aggregate Annual Debt Service on PFC-eligible Subordinate Lien Bonds, (2) to replenish the Subordinate Lien Bond Reserve Fund up to the PFC eligibility limits, (3) to fund PFC-approved project costs on a pay as you go basis, and (4) to be used for any lawful purposes, including early redemption of bonds and reimbursing the Authority for advanced funds at the discretion of the Authority subject to FAA approval.

**Figure IV.1
Application of Revenues
Under the Senior Lien and Subordinate Lien Resolutions**



Source: Senior Lien Resolution, Subordinate Lien Resolution, and Authority's intended use of PFC Revenues.
 Note: Certain accounts shown under the Airport Improvement fund are as currently defined in the Use Agreements.

KEY DEFINITIONS

In the Senior Lien Resolution, Net Revenues are defined as Revenues less the Operation and Maintenance Expenses. Revenues are generally defined as all income and revenue from all sources collected or received by the Authority in connection with the Airport System, including all rates, charges, rentals, fees, investment income (except as excluded), plus the Required Transfer Amount.¹² Revenues include receipts from rental car customer facility charges (CFCs), but specifically exclude (1) bond and loan proceeds, (2) proceeds from condemnation or insurance awards or settlements and associated interest earnings, except insurance proceeds from rental or business interruption insurance, (3) revenues derived from any Special Facility, (4) grants from public agencies, (5) PFC Revenues, (6) other gifts or grants, (7) investment income from the Construction Fund and escrow funds, (8) arbitrage earnings, (9) proceeds of any Support Facility in connection with Variable Rate Bonds, and (10) Released Revenues¹³.

Operation and Maintenance Expenses are defined as the reasonable and necessary expenses of the Authority to administer operate, maintain, and repair the Airport System. Under the Bond Resolutions, Operation and Maintenance Expenses exclude depreciation and expenses associated with Special Facilities.

Debt Service is defined under the Senior Lien and Subordinate Lien Resolutions as the aggregate amount required to be deposited during each period or year in the applicable bond fund to (1) provide for the payment of interest, except to the extent interest is to be paid from capitalized interest, amounts credited to any Interest Account for series, or any other amounts available for the payment of interest, (2) provide for the payment of at maturity of any Bonds issued in serial form, and (3) provide for the retirement of any Bonds issued in term form. Under the Subordinate Lien Bond Resolution, federal or state grants or other monies that have been irrevocably committed or are held by the Authority or by a fiduciary and are to be set aside exclusively to be used to pay the principal of and/or interest on all or a portion of any Series of Bonds are excluded from the calculation of Subordinate Lien Aggregate Annual Debt Service.

RATE COVENANT

In Section 5.02 of the Senior Lien Resolution (referred to as the Rate Covenant), the Authority covenants to fulfill the following requirements:

The Authority shall impose and prescribe such schedule of rates, rentals, fees and charges for the use and services of and the facilities and commodities furnished by the Airport System, and shall revise the same from time to time whenever necessary, and collect the income, receipts and other moneys derived therefrom, so that the Airport System shall be and always remain financially self-sufficient and self-sustaining.

The rates, rentals, fees and charges imposed, prescribed and collected shall be such as will produce Revenues for each Fiscal Year at least sufficient

- (i) to pay as and when the same become due all Operation and Maintenance Expenses;

12. Required Transfer Amount is defined as monies available in the Airline Reserve Account of the Airport Improvement Fund at the end of each Fiscal Year that are transferred by the Authority to the Revenue Fund under contractual obligations with the airlines.

13. Released Revenues are defined as revenues that can be excluded from Revenues upon certain approvals and opinions from the Authority, its Accountant, its Airport Consultant, the Rating Agencies and Bond Counsel.

- (ii) to pay the principal of and interest and premium on the Senior Lien Bonds as and when the same become due at maturity or upon required redemption prior to maturity or otherwise;
- (iii) to pay as when the same become due any Subordinate Lien Bonds, Junior Subordinate Lien Obligations and all other claims, charges or obligations payable from Revenues subject and subordinate, and secured by a lien and pledge on the Net Revenues junior and inferior, to the lien and pledge on the Net Revenues created herein for the payment and security of the Senior Lien Bonds, as and when same become due (whether at maturity or upon required redemption prior to maturity or otherwise); and
- (iv) to carry out all provisions and covenants of this (Senior Lien) Resolution.

...[and] at all times and in any and all events such rates, rentals, fees and charges shall be imposed, prescribed, adjusted, enforced and collected for each Fiscal Year which will yield for such Fiscal Year Net Revenues, together with the Coverage Transfer Amount,¹⁴ which will equal at least one hundred twenty-five percent (125%) of Senior Lien Aggregate Annual Debt Service during such Fiscal Year on all Senior Lien Bonds Outstanding.

In Section 5.03 of the Subordinate Lien Resolution, the Authority further covenants to fulfill the following requirements:

The Authority shall impose and prescribe such schedule of rates, rentals, fees and charges for the use and services of and the facilities and commodities furnished by the Airport System, and shall revise the same from time to time whenever necessary, and collect the income, receipts and other moneys derived therefrom, so that the Airport System shall be and always remain financially self-sufficient and self-sustaining.

The rates, rentals, fees and charges imposed, prescribed and collected shall be such as will produce Revenues at least sufficient

- (i) to pay as and when the same become due all Operation and Maintenance Expenses,
- (ii) to pay the principal of and interest and premium on the Senior Lien Bonds, Subordinate Lien Bonds, and any Junior Subordinate Lien Obligations outstanding issued pursuant to Section 2.05 hereof, as and when the same become due (whether at maturity or upon required redemption prior to maturity or otherwise), and
- (iii) to carry out all provisions and covenants of this (Subordinate Lien) Resolution.

...[and] at all times and in any and all events such rates, rentals, fees and charges shall be imposed, prescribed, adjusted, enforced and collected for each Fiscal Year which will yield for such Fiscal Year, Net Revenues, after deducting Senior Lien Bond Aggregate Annual Debt Service, which together with the Coverage Transfer Amount and the total amount of PFC Revenues and federal or state grants or other monies pledged as additional security for payment of Subordinate Lien Bonds applied in such Fiscal Year to the payment of Debt Service on Subordinate Lien Bonds Outstanding, but not in excess of the amount of PFC Revenues and such federal or state grants or other monies pledged

14. Coverage Transfer Amount is defined as monies available in the Airport Improvement Fund at the end of the preceding Fiscal Year, other than those constituting Required Transfer Amounts, which may be added to Net Revenues for purposes of calculating both the Rate Covenant and the Additional Bonds Test. Under the Senior Lien Bond Resolution, the Coverage Transfer Amount may not exceed twenty-five percent (25%) of the Senior Lien Aggregate Annual Debt Service and under the Subordinate Lien Bond Resolution, the Coverage Transfer Amount may not exceed ten percent (10%) of Subordinate Lien Aggregate Annual Debt Service.

as additional security on Subordinate Lien Bonds, will equal at least one hundred ten percent (110%) of Subordinate Lien Aggregate Annual Debt Service during such Fiscal Year on all Subordinate Lien Bonds Outstanding.

ADDITIONAL BONDS TEST

Under Section 2.02 of the Senior Lien Resolution, the Authority may issue additional Senior Lien Bonds after complying with the following conditions:

(1) The Designated Financial Officer shall have found and determined that no Event of Default...exists...

(2) Either

(i) the Designated Financial Officer shall have certified that, based on audited financial statements of the Authority or, to the extent audited financial statements are not available, on information derived from the books and records of the Authority for the most recent Fiscal Year, the Net Revenues for such Fiscal Year, together with the Coverage Transfer Amount, will equal at least one hundred twenty-five percent (125%) of Senior Lien Maximum Aggregate Annual Debt Service on all Senior Lien Bonds Outstanding and the Senior Lien Bonds of the Series then proposed to be issued; or

(ii) an Airport Consultant shall have certified that estimated Net Revenues, together with the Coverage Transfer Amount, to be derived in each of the three full Fiscal Years following the Fiscal Year in which (a) the Authority estimates that the properties included or to be included in the Airport System which are to be financed by the issuance of such Additional Senior Lien Bonds, will be placed in continuous service or in commercial operation or amounts credited to a Construction Interest Account in the Construction Fund are expended, whichever is earlier, or (b) Senior Lien Refunding Bonds are issued, will equal at least one hundred twenty-five percent (125%) of Senior Lien Aggregate Annual Debt Service on all Senior Lien Bonds Outstanding and the Senior Lien Bonds of the Series then proposed to be issued.

For purposes of this subsection (2), the Coverage Transfer Amount taken into account shall not exceed (i) for purposes of clause 2(i) above, twenty-five percent (25%) of Senior Lien Maximum Aggregate Annual Debt Service on Senior Lien Bonds Outstanding and the Senior Lien Bonds of the Series then proposed to be issued, and (ii) for purposes of clause 2(ii) above, for each Fiscal Year being compared, twenty-five percent (25%) of Senior Lien Aggregate Annual Debt Service for such Fiscal Year on Senior Lien Bonds Outstanding and the Senior Lien Bonds of the Series then proposed to be issued.

Under Section 2.02 of the Subordinate Lien Resolution, the Authority may issue additional Subordinate Lien Bonds after complying with the following conditions:

(1) The Designated Financial Officer shall have found and determined that no Event of Default...exists hereunder and no Event of Default...exists under the Senior Lien Resolution.

(2) Either

(i) the Designated Financial Officer shall have certified that, based on audited financial statements of the Authority, or, to the extent audited figures are not available, on figures derived from the books and records of the Authority, for the most recent Fiscal Year, the Net Revenues for such Fiscal Year, after

deducting Senior Lien Aggregate Annual Debt Service, together with the Coverage Transfer Amount and the total amount of PFC Revenues and federal or state grants or other monies pledged as additional security for payment of Subordinate Lien Bonds applied in such Fiscal Year to the payment of Debt Service on Subordinate Lien Bonds Outstanding, but not in excess of the amount of PFC Revenues and such federal or state grants or other monies so pledged as additional security on Subordinate Lien Bonds, will equal at least one hundred ten percent (110%) of Subordinate Lien Maximum Aggregate Annual Debt Service on all Subordinate Lien Bonds Outstanding and the Subordinate Lien Bonds of the Series then proposed to be issued; or

(ii) an Airport Consultant shall have certified that estimated Net Revenues, after deducting Senior Lien Aggregate Annual Debt Service, to be derived in each of the three full Fiscal Years following the Fiscal Year in which the Authority estimates the properties included or to be included in the Airport System which are to be financed by the issuance of such Additional Subordinate Lien Bonds will be placed in continuous service or in commercial operation, or amounts credited to a Construction Interest Account in the Construction Fund are expended, whichever is earlier, or Subordinate Lien Refunding Bonds are issued, together with the Coverage Transfer Amount and the total amount of PFC Revenues and federal or state grants or other monies pledged as additional security for payment of Subordinate Lien Bonds to be applied in such Fiscal Years to the payment of Debt Service on Subordinate Lien Bonds Outstanding, but not in excess of the amount of PFC Revenues and such federal or state grants or other monies pledged as additional security on Subordinate Lien Bonds, will equal at least one hundred ten percent (110%) of Subordinate Lien Aggregate Annual Debt Service for the comparable Fiscal Years on all Subordinate Lien Bonds Outstanding and the Subordinate Lien Bonds of the Series then proposed to be issued.

For purposes of this subsection (2), the Coverage Transfer Amount taken into account shall not exceed (i) for purposes of clause 2(i) above, ten percent (10%) of Subordinate Lien Maximum Aggregate Annual Debt Service on Subordinate Lien Bonds Outstanding and the Subordinate Lien Bonds of the Series then proposed to be issued, and (ii) for purposes of clause 2(ii) above, for each Fiscal Year being compared, ten percent (10%) of Subordinate Lien Aggregate Annual Debt Service for such Fiscal Year on Subordinate Lien Bonds Outstanding and the Subordinate Lien Bonds of the Series then proposed to be issued.

B. AIRLINE USE AGREEMENTS

The Authority has entered into separate but substantially similar Airport Use Agreements with various airlines (the Signatory Airlines). The initial 30-year Use Agreement was executed in 1976 and was extended for two one-year terms to expire on September 30, 2008. The Signatory Airlines currently consist of:

Alaska	America West/US Airways
American	Continental
Delta	JetBlue (signature pending)
Northwest	Southwest
United	Frontier (signature pending)

These airlines and their affiliates accounted for approximately 99 percent of the enplaned passenger activity at the Airport in FY2006.

Under the Use Agreements, the Signatory Airlines agree to pay landing fees, terminal building rentals, cargo building rentals, and other fees and charges. The Use Agreements established the initial terminal rental rates, which are escalated every two years on the basis of the percentage change in the implicit price deflator index published by the U.S. Department of Commerce, but not exceeding 10 percent in any adjustment. The Use Agreements specify an Airport System residual cost formula for calculating annual adjustments to the landing fee rate to ensure that total Signatory Airline revenues, together with certain other Airport System revenues, will be sufficient to meet the annual net Airport System Income Requirement.

Under the Use Agreements, a Majority-In-Interest (MII) of the Signatory Airlines must approve certain capital improvements in order to include their costs in the Airport System Income Requirement.¹⁵ As noted earlier, the Authority has received MII approval for the Concourse Renovation Project, which is being financed by the 2006 Bonds, as well as all of the other improvements in FY2007 and FY2008 of the FY2007-FY2011 CIP.

On May 2, 2006, the Board approved an extension and associated amendments to the Use Agreement and a majority of the Signatory Airlines have executed amendments extending the term through September 30, 2008. The Authority expects that prior to the expiration of the Airline Agreements, it will (1) negotiate new agreements; (2) enter into month-to-month agreements; or (3) set rates and charges by resolution.

For financial planning purposes, it was assumed that the existing residual ratemaking methodology would remain in place throughout the forecast period even though the airline agreements expire on September 30, 2008. The Authority believes that a new agreement for the period beyond FY2008 will result in Revenues from airline rates and charges equal to or greater than those provided for under the terms of the existing Use Agreements.

15. MII is defined as a numerical majority of the Signatory Airlines that represent more than 50 percent of the total landed weight at the Airport.

Table IV.2
Signatory Airline Rates and Charges
Tucson Airport Authority, Inc.
FY2007

Landing Fee (per thousand pound unit)	\$ 1.40
Terminal Rental Rate (per sq. ft. per year)	
Exclusive Use Space	
Ticket Counter, Kiosk	\$ 67.44
Airline Ticket Office	67.44
Baggage Makeup	40.46
Baggage Storage	67.44
Operation Area	57.30
Common Use Space	
Holdroom (each preferentially assigned)	\$ 98,335
Baggage Claim	63.95
Other Rates	
Aircraft Parking Position/RON (per year)	\$ 7,055
Ramp Scrubber (per position per year)	1,980
Hydrant System Capital (per gate per year)	7,794
Air System Capital (per gate per year)	9,791
Power System Capital (per gate per year)	2,170

Source: Tucson Airport Authority, Inc.

TERMINAL RATES AND CHARGES

Airlines lease ticket counters, offices, operation space, baggage storage and makeup areas on an exclusive use basis. Holdrooms and aircraft parking positions are leased on a preferential use basis, and airlines pay a fixed amount per preferentially assigned gate based on the total amount of holdroom space multiplied times the holdroom rental rate plus an allowance for custodial cost divided by the number of total gates. Baggage claim space is leased on a common use basis in accordance with a 20/80 formula.¹⁶ As noted earlier, terminal rental rates for each category of space are set by resolution and adjusted biannually on the basis of changes in the implicit price deflator index. Airlines also lease space in the ticket lobby for free-standing ticket kiosks and phone banks that are not part of their leased premises.

Airlines also pay the Authority various other terminal fees and charges, including:

- Aircraft parking fee per preferentially assigned gate position.
- Ramp scrubber per preferentially assigned gate position.
- Hydrant system capital cost per preferentially assigned gate position.
- Air system capital cost per preferentially assigned gate position.
- Power system capital cost per preferentially assigned gate position.
- Power system utilities/maintenance per preferentially assigned gate position.
- Gate use fee for non-preferentially assigned and common use gates.

¹⁶. Twenty percent of the total monthly charge is divided equally among all the scheduled air carriers having the right to use the area and eighty percent of the total monthly charge is apportioned among all scheduled air transportation companies so that each pays the proportion for which the number of its passengers enplaning at the Airport bears to the total number of enplaning passengers of all said air transportation companies.

- Ramp equipment storage rentals per square foot.
- Security fees per enplaned passenger.

Effective October 1, 2006, the Authority started charging a premium for nonsignatory terminal rentals and fees based on the amount of space such airlines lease. The premium ranges from 110 percent to 125 percent, and certain airlines must pay a terminal use fee. For the purposes of this Report, it is assumed that all existing Signatory Airlines would retain signatory status.

LANDING FEE RATE CALCULATION

The Use Agreements set forth an Airport System residual ratemaking methodology for calculating landing fee rates. The Airport System Income Requirement is reduced by the Revenues (excluding Signatory Airline landing fees) to yield a residual amount which is met through Signatory Airline landing fees. The net Airport System Income Requirement is divided by the Total Landed Weight of the Signatory Airlines to produce the landing fee rate.

The Authority's Airport System Income Requirement includes in each Fiscal Year: (i) Operation and Maintenance Expenses; (ii) 1.25 times Debt Service for the Senior Lien Bonds and 1.10 times Debt Service for Subordinate Lien Bonds to the extent that such Debt Service will not be paid from the PFC Revenues; (iii) aggregate of deficiencies in any of the Funds in Section VII of the Airline Agreements (including the Operation and Maintenance Reserve Fund, Bond Funds, Bond Reserve Funds, Capital Improvement Fund, and Special Reserve Account; (iv) 52 percent of the Authority's net income from the industrial areas of the Airport, which is an estimate of the sum to be deposited in the Special Reserve Account; and (v) investment income from moneys and securities in the Special Reserve Fund.

In addition to the requirements above, the Authority from time to time advances money from the Special Reserve Account and the Insurance Reserve Fund to pay for capital costs approved by an MII and is permitted to include the principal and interest of such advances in Airport System Income Requirement. The Authority's FY2007 budget reflected \$1.8 million repayment to the Special Reserve Account and \$1.5 million repayment to the Insurance Reserve Account.

The Authority is entitled to adjust the landing fee rate no later than 120 days after the start of each Fiscal Year, subject to MII approval. The Use Agreements further grant the Authority the right to adjust the landing fee rate when the balance in the Operation and Maintenance Reserve Account falls below one-twelfth of the amount budgeted for Operation and Maintenance Expenses or to authorize an appropriation from the Airline Reserve Fund so as to remedy any such deficiency by the end of the current Fiscal Year as determined in consultation with the Signatory Airlines.

C. PASSENGER FACILITY CHARGES PROGRAM

PFCs are fees imposed on enplaned passengers by airport sponsors to generate revenues for airport projects that increase capacity, enhance competition among and between air carriers, enhance safety or security, or mitigate noise impacts. PFCs were established by Title 49 U.S.C. §40117, and authorized airport sponsors to collect PFCs in the amount of \$1.00 to \$3.00 per eligible enplaning originating and connecting passenger. The Aviation Investment and Reform

Act (AIR-21) increased the maximum PFC airport sponsors could collect to \$4.50 per enplaning passenger. In return for the right to assess PFCs in the amount of \$1.00 to \$3.00, large and medium hub airports must forego up to 50 percent of their AIP entitlement funds. Large and medium-hub airports (such as TUS) that collect a PFC of \$4.00 or \$4.50 must forego 75 percent of their AIP entitlement funds.

Beginning February 1, 1998, the Authority imposed a PFC of \$3.00 per eligible enplaning passenger at the Airport under the terms of its initial PFC application and the Record of Decision (97-01-C-01-TUS) issued by the FAA. In March 2006, the Authority submitted to the FAA (1) an amendment to its existing PFC program to increase the current PFC level from \$3.00 to \$4.50 per eligible enplaned passenger and (2) a new application to impose and use PFCs at the \$4.50 level for the Concourse Renovation Project. On June 6, 2006, the Authority received approval for the new application (06-02-C-00-TUS) and on April 7, 2006, the Authority received approval for the amendment. The increase in the PFC level from \$3.00 per enplaning passenger to \$4.50 started October 1, 2006. The Authority currently has approval from the FAA to collect \$100.5 million under PFC application 97-01-C-01-TUS and \$44.2 million under PFC application 06-02-C-00-TUS extending through April 1, 2013. As of September 30, 2006, the Authority had collected \$41.5 million in PFCs, plus associated interest.

The Airport has pledged PFC Revenues as additional security for the Series 2001 Subordinate Lien Bonds with annual debt service of \$2.9 million and will pledge additional PFC Revenues for a portion of the Debt Service of the proposed 2006 Subordinate Lien Bonds (estimated to be \$2.4 million per year). With an estimated 89 percent of enplaning passengers eligible to pay PFCs, the Airport is projected to collect \$8.4 million PFC Revenues in FY2007, with amounts increasing thereafter based on enplanement growth.

D. RECONCILIATION OF HISTORICAL FINANCIAL RESULTS

The Authority reports its financial operations on an accrual basis in accordance with generally accepted accounting principles for governmental entities. Table IV.1 presents a summary and reconciliation of the historical operating results of the Authority, as obtained from the Authority's audited financial statements for Fiscal Years 2004 and 2005, to the calculation of Net Revenues pursuant to the Senior Lien Resolution and the Subordinate Lien Resolution.

Table IV.3
Reconciliation of Historical Financial Results
Tucson Airport Authority, Inc.
(fiscal year ended September 30)

	2004	2005
Net Income (per financial statements)		
Operating Revenues	\$ 41,476,407	\$ 44,528,563
Operating Expenses	<u>(27,524,366)</u>	<u>(28,886,758)</u>
Operating Income before Depreciation	\$ 13,952,041	\$ 15,641,805
Depreciation and Amortization	<u>(9,235,438)</u>	<u>(10,761,153)</u>
Operating Income	\$ 4,716,603	\$ 4,880,652
Nonoperating Revenues	6,089,745	6,645,722
Nonoperating Expenses	(3,414,988)	(4,548,723)
Capital Contributions	<u>7,059,210</u>	<u>10,201,190</u>
Net Income (Increase in Net Assets)	\$ 14,450,570	\$ 17,178,841
Net Revenues (per Resolution)		
Revenues	\$ 43,740,897	\$ 47,171,345
Operation and Maintenance Expenses	<u>(27,524,366)</u>	<u>(28,886,758)</u>
Net Revenues	\$ 16,216,531	\$ 18,284,587
RECONCILIATION		
Net Income	\$ 14,450,570	\$ 17,178,841
Add back (deduct)		
Depreciation	9,235,438	10,761,153
Capital Contribution	(7,059,210)	(10,201,190)
Transfer from Airline Reserve Fund	1,850,886	1,850,387
Nonoperating Revenues (Expenses)		
Net Increase (decrease) in Fair Value of Investment	86,004	(18,394)
Passenger Facility Charges	(5,039,403)	(5,351,062)
Interest Expenses	2,862,005	4,548,723
Gain (loss) on Disposition of Capital Assets	(15,482)	180,187
Environmental Remediation Expenses	552,983	-
Other Nonoperating Revenues	(42,072)	(84)
Excluded Interest Income per Resolution		
Land Acquisition Fund	(18,230)	(30,757)
Insurance Reserve Fund	(321,645)	(292,504)
PFC Fund	(17,470)	(13,691)
Amortization of Series 2003 Bonds Premium	<u>(307,843)</u>	<u>(327,022)</u>
Net Revenues	\$ 16,216,531	\$ 18,284,587

Sources: Tucson Airport Authority, Inc.

Note: Totals may not add due to rounding.

E. COMMERCIAL AGREEMENTS

The Authority has entered into various commercial agreements with non-airline tenants. The expiration date of selected agreements is summarized in table IV.4.

**Table IV.4
Major Non-airline Tenants
Tucson International Airport**

Concessions	Lease Expiration
<u>Advertising</u>	
Interspace Airport Advertising	7/30/2007
<u>Food & Beverage</u>	
OTG Management Inc.	7/1/2014
<u>News & Gifts</u>	
Paradies-Desert House	3/31/2013
<u>Rental Car</u>	
Avis	7/31/2007
Alamo	7/31/2007
Budget	7/31/2007
Dollar	7/31/2007
Enterprise	7/31/2007
Hertz	7/31/2007
National	7/31/2007
<u>Parking Management Agreement</u>	
ACE Parking Management	12/1/2008
<u>Other Major Tenants</u>	
FBO	
Atlantic Aviation	4/14/2030
Tucson Jet Center	4/30/2033
Premier Aviation	5/2/2017
Velocity Air Inc	Month-to-month
Air National Guard	6/30/2008
Hamilton Aerospace	Month-to-month
Pima County	8/31/2007
Raytheon	Various through 2046
Bombardier	Various through 2029
Tucson Industrial Center (various tenants)	Month-to-month

Source: Tucson Airport authority, Inc.

F. OTHER ESTABLISHED FUNDS AND ACCOUNTS

In addition to the funds and accounts established under the Senior Lien Resolution and the Subordinate Lien Resolution, the Authority is currently maintaining the following funds and accounts:

FAA LAND ACQUISITION FUND

This fund consists of proceeds from the sale of the Sunnyside School property and proceeds from the sale of the Dyncorp property. With FAA approval, Sunnyside School proceeds may be used for AIP-eligible land related expenses. Dyncorp proceeds may be used for FAA approved noise compatibility purposes. This fund retains all interest it earns.

ENVIRONMENTAL TRUST FUND

This trust fund was created pursuant to the terms of the Consent Decree approved by the United States District Court and made effective in 2000. The trust fund was funded with a portion of the proceeds of certain settlements reached with the United States Air Force and other parties. Under this settlement, the Authority is required to pay 100 percent of the ongoing operation and maintenance expenses associated with a water treatment facility and 80 percent of the costs of the work required under the Soils Consent Decree. The balance is to be paid in equal parts by General Dynamics Corporation and McDonald Douglas Corporation. This fund is dedicated exclusively to the remediation projects. This fund retains all interest it earns.

INSURANCE RESERVE FUND

This account was created with the proceeds of certain settlements with TAA's insurance carriers. The fund is a reserve to be available for future uninsured environmental costs. This fund retains all interest it earns.

In June 2002, the Authority agreed to advance \$18,578,442 from the unrestricted balance of the Insurance Reserve Fund to construct a garage adjacent to the terminal that is used for rental car operations and employee parking. The advance was structured to have interest only payments for the first five years and level annual principal and interest payments for the remaining 15 years using an interest rate of 6.75 percent. The repayment of the advance is covered partly from the receipts of a Customer Facility Charge of \$3.50 per rental car transaction that the Authority has mandated that rental car companies collect from its patrons. The Authority intends to increase the CFC to \$4.50 per transaction starting August 1, 2007 coincident with the first principal payments and beginning of new rental car agreements and to re-amortize the advance in level principal and interest payments over 20 years beginning August 1, 2007. The Authority provided another advance of \$831,085 in 2004 for quick turnaround facility improvements and plans to advance \$2.7 million for rental car improvement projects in FY2007 and FY2008, and expects to recover principal and interest on these advances through CFCs.

V. FINANCIAL ANALYSIS

The purpose of this analysis is to evaluate the ability of the Authority to generate Net Revenues sufficient to satisfy the requirements of the Rate Covenant, which is defined in Section 5.02 of the Senior Lien Resolution and in Section 5.03 of the Subordinate Lien Resolution. The forecast covers the period FY2007 through FY2011. This section describes historical and forecast financial results for the Authority and is followed by Financial Exhibits, which are an integral part of the Report.

A. PROJECT COSTS AND PFC ELIGIBILITY

Exhibit 1.0 presents a summary of estimated costs for the Concourse Renovation Project to be funded with the proceeds of the 2006 Bonds. The Authority provided the estimated project costs and PFC eligibility.

B. ESTIMATED PROJECT FINANCING

CONCOURSE RENOVATION PROJECT

Exhibit 2.0 presents a summary of the estimated sources and uses of bond funds for the Concourse Renovation Project. First Albany Capital Inc., the Authority's financial advisor, provided the sources and uses of funds on the basis of certain data and information provided by the Authority on the cost and timing of the project elements. The 2006 Bonds were assumed to have an all-in cost of 5.75 percent and a term of 20 years.

The Concourse Renovation Project will be funded entirely from the proceeds of the 2006 Bonds, although only a portion of the debt service on the 2006 Bonds will be paid out of PFC Revenues. The estimated uses of funding include paying project costs, funding capitalized interest on the non-PFC portion of the bonds, funding a debt service reserve, and paying the bond insurance premium, underwriter's discount, and other issuance expenses.

RUNWAY 11R/29L

The only other project in the FY2007-FY2011 CIP expected to require debt financing is the near parallel carrier Runway 11R/29L project (\$75.7 million), which is currently projected to begin design in FY2009 and construction during FY2010. It was assumed that it would take approximately 18-24 months to construct the runway and that it would be operational in FY2012.

For purposes of this report, it was assumed that the Authority would receive an LOI from the FAA for 80 percent AIP funding provided over a 10-year period. Although the specific terms of the financing for the runway project are not known at this time, for purposes of this report, it was assumed that the Authority would issue Subordinate Lien Bonds for both the TAA share (20 percent) and the LOI share (80 percent) of costs for this project. However, the Authority may decide to issue these bonds as other forms of debt, including Senior Lien Bonds or Junior Subordinate Lien Obligations. Further, it was assumed that (1) the LOI share of the Subordinate Lien Bonds would be issued in a variable rate mode with an all-in interest cost of 5.0 percent, (2) principal would be paid back over the 10-year LOI period from LOI receipts, and (3) the interest on the LOI-supported bonds would be paid from PFC Revenues expected to be authorized under a future PFC application. Regarding the TAA share of costs for this project, it was assumed that

fixed rate Subordinate Lien Bonds would be issued at an interest rate of 6.5 percent with a term of 20 years and that the associated debt service would be paid with PFC Revenues.

C. DEBT SERVICE

Exhibit 3.0 presents historical and forecast Debt Service requirements for the 2006 Bonds, Planned 2009 (runway) Subordinate Lien Bonds, Outstanding Senior Lien Bonds, Outstanding Subordinate Lien Bonds, and Junior Subordinate Lien Obligations. Debt Service requirements for the 2006 Bonds were provided by First Albany Capital Inc., the Authority's financial advisor. The Authority intends to defease its line of credit with the Bank of America during FY2007.

Interest on the non-PFC portion of the 2006 Bonds has been capitalized through December 1, 2007, the estimated completion date of the Concourse Renovation Project. Exhibit 3.0 shows the annual Debt Service net of capitalized interest.

As shown on Exhibit 3.0, TAA has pledged a portion of its PFC Revenues as additional security for the Series 2001 Subordinate Lien Bonds with annual debt service of approximately \$2.9 million and will pledge additional PFC Revenues for a portion of the Debt Service on the 2006 Bonds (estimated to be \$2.4 million per year). As estimated in the Authority's approved PFC application for the Concourse Renovation Project, approximately 79 percent of the project costs are PFC-eligible and this amount of debt would be paid from PFC Revenues. In the event PFC Revenues are insufficient to pay for all the eligible debt service on the 2001 and 2006 Bonds, they would be applied on a pro rata basis to each series and Net Revenues remaining after paying Senior Lien Bond Aggregate Annual Debt Service would be applied to cover the shortfall.

In addition, for purposes of this Report, it was assumed that the Authority would issue Subordinate Lien Bonds in 2009 for both the TAA share (20 percent) and the LOI share (80 percent) of costs for the Runway 11R/29L project. It was assumed that (1) the LOI share of the 2009 Subordinate Lien Bonds would be issued in a variable rate mode with an all-in cost of 5.0 percent, (2) principal would be paid back over the 10-year LOI period from LOI receipts, and (3) the interest on the LOI-supported bonds would be paid from PFC Revenues expected to be authorized under a future PFC application. Regarding the TAA share of costs for this project, it was assumed that the 2009 Subordinate Lien Bonds would be issued at a fixed interest rate of 6.5 percent with a term of 20 years and that the associated debt service would be paid with PFC Revenues authorized under a future application.

D. PFC REVENUES

Exhibit 4.0 presents historical and forecast PFC collections, interest earnings, and the application of PFCs to pay debt service and pay-as-you-go project costs. As noted earlier, the PFC level per passenger increased from \$3.00 per eligible passenger to \$4.50 per passenger on October 1, 2006. The number of passengers eligible to pay PFCs is forecast to be 89 percent for the forecast period. In FY2005, approximately 89.9 percent of the enplaning passengers paid a \$3.00 PFC. The Airport is projected to collect approximately \$8.4 million of PFC Revenues in FY2007, the first year under the increased PFC level, with amounts increasing thereafter with growth in enplanements.

E. OPERATION AND MAINTENANCE EXPENSES

Exhibit 5.0 presents historical, budgeted, and forecast Operation and Maintenance Expenses of the Authority (Operation and Maintenance Expenses or O&M Expenses) by type of expense and by cost center for FY2004 through FY2011. Historical O&M Expenses were obtained from the financial records of the Authority, which were reconciled to the Authority's audited financial statements. FY2007 O&M Expenses were obtained from the Authority's FY2007 operating budget and were used as the base year in the forecast.

Forecast O&M Expenses are based on -- actual data for FY2004 and FY2005; the FY2006, 2007, and FY2008 budgets; assumptions about Authority staffing levels; assumed increases in the unit costs of labor, services, utilities, and supplies as a result of price inflation; and additional costs associated with the operation of the future capital projects. In particular, it was assumed that:

- Personnel expenses would increase at 5 percent per year to reflect the rate of inflation and associated benefits, and all other expenses at 3 percent per year from the FY2007 budget.
- There would be incremental additional annual O&M Expenses for certain CIP projects totaling approximately \$204,000 beginning in FY2008
- There would be one staff position added during the forecast period.
- There would be no other incremental O&M Expenses associated with future Airport System capital improvements.

F. REVENUES

Exhibit 6.0 presents historical and forecast Revenues by type of revenue and by cost center for FY2004 through FY2011. Historical Revenues were obtained from the Authority's records and reconciled to the audited financial statements. FY2006 revenues are based on the Authority's budget with certain adjustments based upon partial year to date experience. FY2007 revenues are based on the Authority's budget. Revenues for historical FY2005 and forecast FY2011, respectively, are summarized on Table V.1.

Table V.1
Revenues
Tucson Airport Authority, Inc.
(for the 12 months ending September 30)

	FY2005		FY2011	
	Total	Percent of Total	Total	Percent of Total
Passenger Airline Rates & Charges	\$ 12,336,933	26.2%	\$ 15,726,759	26.7%
Enplaned Passengers	2,023,785		2,300,000	
Airline Cost per Enplaned Passenger	\$ 6.10		\$ 6.84	
 Nonairline Revenues				
Concession Revenues	13,751,539	29.2%	18,298,196	31.0%
Customer Facility Charges	1,009,145	2.1%	1,714,061	2.9%
Other System Revenues	<u>17,430,946</u>	<u>37.0%</u>	<u>19,496,225</u>	<u>33.1%</u>
Subtotal Nonairline Revenues	\$ 32,191,630	68.2%	\$ 39,508,482	67.0%
 Operating Revenues	\$ 44,528,563	94.4%	\$ 55,235,240	93.7%
Interest Earnings	792,395	1.7%	2,156,743	3.7%
Airline Reserve Account Transfer	<u>1,850,387</u>	<u>3.9%</u>	<u>1,577,425</u>	<u>2.7%</u>
Revenues	\$ 47,171,345	100.0%	\$ 58,969,408	100.0%

Source: John F. Brown Company, Inc.

AIRLINE REVENUES

Airline revenues consist of landing fees, terminal rentals, and miscellaneous terminal fees as shown in Exhibit 6.3. Airline revenues accounted for approximately 26 percent of Revenues in FY2005 and are forecast to account for 27 percent in FY2011. For financial planning purposes, it was assumed that the existing residual ratemaking methodology would remain in place throughout the forecast period even though the Use Agreements expire on September 30, 2008. The Authority believes that a new agreement for the period beyond FY2008 will result in airline rates and charges equal to or greater than those provided for under the terms of the existing Use Agreements.

Terminal Rentals

As noted earlier, under the Use Agreements terminal rental rates are established by classification and adjusted for inflation biannually. The last rate adjustment (a 5.6 percent increase) took effect October 1, 2006 for FY2007 and FY2008.

At the end of the original term of the Use Agreements (September 30, 2006), the Authority allowed the Signatory Airlines to “right-size” their leased premises. Several airlines elected to give back space. The Use Agreement extension also changed the manner for charging for holdroom space from exclusive use space leased on a per square foot basis to common use holdroom space leased on a preferential use basis. The cost to preferentially lease a gate is the same for every gate regardless of the location. The reconfiguration of the holdroom areas under the Concourse Renovation Project provided the ability to migrate to this new pricing and leasing methodology.

As noted earlier, the Concourse Renovation Project is expected to be completed in November 2007. It was assumed that all of the new space would be operational during FY2008. It was further assumed all of the current Signatory Airlines would remain in their current leased premises and lease the same number of preferential gates throughout the forecast period even though the Use Agreements expire on September 30, 2008.

Landing Fees

The Use Agreements set forth an Airport System residual ratemaking methodology for calculating landing fee rates. Exhibit 6.1 shows the calculation of the Signatory Airline landing fees for FY2007 through FY2011. The annual Airport System Income Requirement includes:

1. 1.25 times the annual Debt Service on Senior Lien Bonds.
2. 1.10 times the annual Debt Service on Subordinate Lien Bonds to the extent not paid from the PFC Revenues.
3. Airport System Operation and Maintenance Expenses (excluding depreciation).
4. The O&M Reserve Fund deposit requirement.
5. Payments to the Capital Improvement Fund, including the fixed annual payment equal to \$300,000 per year escalated at 5 percent per year (beginning in FY1990) and deposits to fund the Authority's share of capital projects net of AIP and State grants through FY2008 after which such project costs will be paid from the Maintenance Reserve Fund.
6. Costs of other Capital Projects approved by an MII of the Signatory Airlines.
7. Repayment of advances from the Special Reserve Account and the Insurance Reserve Fund.
8. 52 percent of the Authority's net income from the industrial areas of the Airport, which is deposited into the Special Reserve Account.
9. Investment income from moneys and securities in the Special Reserve Account.

As a result, the airlines do not receive credit for 52 percent of the net income from the industrial areas of Airport or investment earnings in this fund. These amounts can be used at the Authority's discretion for any lawful Airport System purpose.

Beginning in FY2009, the Airport System Income Requirement also includes the Maintenance Reserve Fund deposit requirement equal to no less than \$1 million per year and no more than two percent of the gross depreciable capital assets of the Authority. For purposes of this Report, the Authority's estimates of capital project costs to be funded from this source in the CIP are shown for FY2009 through FY2011.

Amounts deposited to the Airline Reserve Fund at the end of each year (which is equal to debt service coverage and the shortfall/excess of budgeted versus actual revenues and expenses in the year) may be used for any Airport Purpose of the Authority after MII approval, including reduction of landing fees for the ensuing fiscal year. The airlines and the Authority have elected in the past to apply such revenues to the reduction of landing fees in the subsequent year. In developing the financial forecasts, it was assumed that the Airline Reserve Fund deposits would continue to be transferred to the Revenue Fund in the succeeding year to reduce the airline landing fee requirement.

The landing fee rate was \$1.20 per 1,000 lbs in FY2003 through FY2006 and is budgeted to be \$1.40 in FY2007. The increase in the landing fee rate in FY2007 reflects the loss in Signatory Airline terminal rentals from the give back in airline leased premises described above. The landing fee rate is expected to increase in FY2008 to \$1.71 reflecting the start of debt service on the 2006 Bonds, increases in O&M Expenses, increases in CIP funded projects, and amortization for Special Reserve funded projects, as offset somewhat by increases in nonairline revenues primarily from an assumed increase in the hourly parking rate and the opening of the rental car garage second level to public parking plus an increase in the CFC level from \$3.50 to \$4.50 per transaction. The landing fee rate is forecast to increase moderately during FY2009 and FY2010 reflecting increases in operating and capital expenses, then decrease in FY2011 primarily due to the biannual terminal rental rate increase and an assumed across-the-board increase in parking rates.

Other Airline Revenues

As shown in Exhibit 6.2, in addition to terminal rentals and landing fees, the Authority also collects other fees from the airlines for aircraft parking, ramp scrubbers, hydrant system capital costs, air system capital costs, power system capital costs, power system utilities and maintenance reimbursements, and gate use fees. In the 2004 amendment to the Use Agreements, the Signatory Airlines and the Authority agreed to revise the security fee calculation to include fully allocated security checkpoint costs, which costs will be recovered through fees paid by all commercial carriers using the terminal, on the basis of enplaned passengers.

Airline Cost per Enplaned Passenger

Exhibit 6.2 shows historical and forecast airline cost per enplaned passenger for the Airport from FY2004 through FY2011. As shown, the cost per enplaned passenger is forecast to increase from an estimated \$5.98 in FY2006 to \$6.84 in FY2011.

CONCESSION REVENUES

The major sources of concession revenue are terminal, public parking, rental car, and ground transportation, which, in FY2005 accounted for 29 percent of Revenues. Table V.2 shows the major sources of concession revenues and the revenue per enplaned passenger by type of concession. Forecasts of concession revenues in Exhibit 6.0 are based on the provisions of existing agreements, historical trends in revenue per enplaned passenger, forecast increases in enplaned passengers, and other factors.

Table V.2
Concession Revenues
Tucson International Airport
(for the 12 months ending September 30, 2005)

	Concession Revenues		Per enplaned passenger
	Total	Percentage	
Parking Lots	\$6,603,080	48.0%	\$2.95
Rental Cars	5,227,812	38.0	2.33
News & Gift	830,464	6.0	0.37
Food & Beverage	582,156	4.2	0.26
Other	<u>508,027</u>	<u>3.7</u>	<u>0.23</u>
Concession Revenues	\$13,751,539	100.0%	\$6.14

Source: John F. Brown Company, Inc.

Terminal Concessions

Terminal concessions consist of food and beverage, news/gift, advertising, and miscellaneous. In FY2005, the Airport generated \$0.86 per enplaned passenger from terminal concessions.

Food and Beverage

On July 1, 2006, the Authority entered into an eight-year food and beverage concession agreement with OTG Management Inc. (OTG) with two one-year extension options. OTG is planning to introduce multi-concept branded concessions in both concourses, the ticketing area and baggage claim area, including sit-down full service restaurants, food courts, and grab 'n go gourmet food and delis. Build out of all new concession areas is expected to be completed in early calendar year 2007. Under the agreement, OTG is required to invest no less than \$2.75 million in capital in its 11,723 square feet of leased premises.

Food and beverage revenues to the Authority increased from \$502,000 in FY2004 to \$582,000 in FY2005 primarily due to the 9.9 percent increase in enplaned passengers. OTG will pay the Authority a fee of 13.5 percent to 15 percent for sales of food and non-alcoholic beverages and 16 percent to 17 percent on alcoholic beverages. The minimum annual guarantee (MAG) is \$875,000 in the first year and will be the greater of \$875,000 or 80 percent of the prior year's payment in the following years. It was assumed that food and beverage revenues to the Authority would equal the MAG in the initial partial year (FY2007) of the new agreement as well as the first full year (FY2008) and then increase at the rate of growth of enplaned passengers in the forecast period.

General Merchandise

The Authority recently extended by one year its non-exclusive merchandise agreement with the Paradies Dessert House, LLC (Paradies) to March 31, 2013, and has two one-year extension options, which can be exercised at the Authority's discretion. Merchandise revenues increased from \$799,000 in FY2004 to \$830,000 in FY2005. The Authority believes that the merchandise revenues will remain at current levels during the Concourse Renovation Project construction period due to reduction of merchandise concession space and construction

disruption. Thereafter, it was assumed that merchandise revenues would increase with enplaned passengers.

Other Terminal Concessions

The Authority also receives concession revenues for baggage carts, advertising, telephones, vending machines, and others. The revenues derived from other terminal concessions are expected to increase with passengers.

Public Parking

The Authority recently renewed the parking management agreement with ACE Parking Management that expires December 2008 with two one-year extension options. The Authority has a surface parking lot adjacent to the terminal building with 469 Hourly parking spaces and 908 Daily parking spaces. The maximum daily rates are \$12.00 and \$9.00, respectively. The rate for Daily parking increased on October 1, 2006 from \$8.00 to \$9.00 per day. The Authority also operates a Park ‘N Save parking lot that is located southeast of the terminal building that has 5,645 spaces. In June 2006, the Authority converted 301 of the Park ‘N Save spaces to covered parking and increased the daily maximum rate for these spaces from \$4.00 to \$6.00 in winter months and \$8.00 in summer months. The Authority is planning to convert the second floor of the rental car garage that is located adjacent to the terminal to 607 public parking spaces in FY2008, as discussed below.

Parking revenues increased 22.2 percent from \$5.0 million in FY2003 to \$6.1 million in FY2004, primarily due to a parking rate increase implemented in November 2003. In FY2005, parking revenues increased to \$6.6 million (7.4 percent) with total exits increasing to approximately 864,000 as shown in Table V.3. The significant revenue increase was driven by a strong year-over-year growth in passengers of 9.9 percent, which dramatically increased the exits from all lots.

**Table V.3
Parking Revenues
Tucson International Airport
(for the 12 months ending September 30, 2005)**

	<u>Exits</u>	<u>Max Daily Rate</u>	<u>Revenues</u>	<u>Percentage</u>
Daily	113,566	8.00	\$2,635,258	40.4%
Hourly	624,731	12.00	1,725,785	26.4
Park ‘N Save	<u>125,530</u>	4.00	<u>2,165,967</u>	<u>33.2</u>
Total	863,827		\$6,527,010	100.0%

Source: Tucson Airport Authority, Inc.

Note: The Daily lot rate increased from \$8.00 to \$9.00 per date effective October 1, 2006.

Totals do not match Table V.2 due to auditing adjustments.

Parking revenues are forecast to increase in proportion with increases in O&D passengers and expected rate increases. The Authority is also expecting parking revenues to increase in FY2008 due to the conversion of the second floor rental car garage to public parking. The Authority expects to implement the following rate schedule during the forecast period:

	Fiscal Years				
	2007	2008	2009	2010	2011
Daily Parking	9.00	9.00	10.00	10.00	10.00
Hourly Parking	12.00	12.00	12.00	13.00	13.00
Park N Save	4.00	4.00	4.25	4.25	4.50
Park N Save – Covered	7.00	7.00	7.00	8.00	8.00
RAC Garage	-	12.00	12.00	14.00	14.00

Rental Cars

Currently, seven rental car companies are located on, and operate from, Airport property – Alamo, Avis, Budget, Dollar, Enterprise, Hertz, and National. Under the terms of the agreements between the Authority and the on-Airport rental car companies, the Authority receives a privilege fee equal to the greater of (1) 10 percent of gross receipts, or (2) a minimum annual privilege fee, which varies by company. Rental car companies operating off-Airport (at this time Adobe and Thrifty) pay the Authority a 7.5 percent privilege fee for Airport-related activity only. These agreements expire on July 31, 2007.

In mid-2002, the Authority completed a consolidated rental car facility, including a three-story garage with 2,005 spaces and a customer service building that is attached to the terminal with a weather-controlled corridor. The first and second floors of the garage are leased to on-Airport rental car companies and the third floor is used as employee parking. The construction cost of the garage was financed from the Insurance Reserve Fund. In order to repay the allocable interest to the Insurance Reserve Fund, the rental car companies collect on behalf of the Authority a \$3.50 Customer Facility Charge (CFC) per transaction from rental car customers. In addition, the Authority collects space rentals from the rental car companies for the portion of the garage related to the rental car operations. Under the Insurance Reserve Fund advance, interest only is charged for the initial five years, FY2002 through FY2007 (the term of the rental car agreements). Beginning in FY2008, principal on this advance will be amortized over a 20-year period. The Authority also collects rent for space leased to on-Airport rental car companies for their use of counter space in the customer service building, administrative space, ready and return stalls, storage stalls, and service facility (QTA) space.

The Authority is currently preparing for new business agreements and leases with the rental car companies. As noted earlier, the Authority intends to convert the second floor of the garage to public parking. The Authority also intends to increase the CFC to \$4.50 per transaction starting August 1, 2007 to recover allocable principal and interest advanced from the Insurance Reserve Fund for the existing rental car facilities and future rental car capital projects, and to fund a maintenance reserve. The new agreements are expected to continue to provide for the collection of rent for the leased facilities as well as allocable operating expenses, which the Authority believes will result in incremental space rental revenues beginning in FY2008.

OTHER SYSTEM REVENUES

In FY2005, other system revenues included space rentals (\$2.9 million), land rentals (\$2.4 million), Tucson Industrial Center rent (\$1.2 million), into-plane fueling (\$1.2 million), fuel flowage fee (\$1.3 million), terminal non-passenger airline payments (\$1.4 million), management sales (\$4.6 million) and other revenues (\$2.4 million). These amounts include revenues from Ryan Field.

The Authority operates two industrial areas on Airport property that generate building and space rentals. The Tucson Industrial Center (TIC) is an old WWII era hangar located on the northwest side of the Airport that is approaching the end of its useful life. The Authority plans to demolish the TIC and certain other facilities in the same area to make room for relocated Runway 11R/29L. Therefore, revenues from the TIC are forecast to gradually decline to no rents through FY2011. Most building rentals are on a month-to-month basis and most land rentals are under long-term agreements. The Authority will attempt to accommodate some of the displaced tenants in other areas of the Airport to the extent economically feasible. The largest lessees of land are Bombardier Aerospace and Raytheon Missile Systems.

Unlike most airports in the U.S., the Authority operates the fuel storage and distribution system at the Airport and provides into-plane services for all scheduled passenger and cargo carriers. The Authority generates significant revenues from the sales of fuel through its Flightline department, but also incurs costs of goods sold for the fuel.

The Authority expects to see stable or slow increase in most categories of other system revenues, except for rents from the TIC and west ramp which are planned to be demolished as noted above.

NON-OPERATING REVENUES

Non-operating revenues included in Revenues include interest income from the O&M Fund, O&M Reserve Fund, Special Reserve Fund, Bond Fund, Debt Service Reserve Fund, and the transfer from the Airline Reserve Fund for the prior Fiscal Year.

G. APPLICATION OF REVENUES

Exhibit 7.0 presents the forecast application of Revenues as required under the Section 4.01 (b) of the Senior Lien Bond Resolution for FY2007 through FY2011. Exhibit 7.0 indicates compliance with the first part of the Rate Covenant, namely the ability to meet all fund deposit requirements.

H. RATE COVENANT COMPLIANCE

Exhibit 8.0 presents forecasts of Net Revenues, Debt Service, pledged PFC Revenues, anticipated LOI grants, Annual Debt Service, and debt service coverage for FY2007 through FY2011. As shown, Net Revenues, together with pledged PFC Revenues, are forecast to be at least 110 percent of Debt Service on the Subordinate Lien Bonds in each year of the forecast period. Therefore, the second part (coverage requirement) of the Rate Covenant provision of the Subordinate Lien Resolution is also forecast to be met in each year of the forecast period.

I. UNDERLYING ASSUMPTIONS

The assumptions presented in this Report, including the letter and the exhibits, which are integral parts of the Report, were reviewed with representatives of the Authority. To the best of our knowledge and belief as of the date of this report, the forecast appropriately presents the financial results of the Authority for the forecast period. The forecast is based on assumptions reflecting conditions we expect to exist and the course of action that management expects to take during the forecast period. We have relied upon Authority staff for representations about its plans and expectations and for disclosure of significant information that might affect the realization of forecast results. Representatives of the Authority have reviewed our assumptions and concur that they provide a reasonable basis for the forecast. However, any forecast is subject to uncertainties. There will usually be differences between actual and forecast results because events and circumstances do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of the report.

Exhibit 1.0
Estimated Project Costs and PFC Eligibility
Concourse Renovation Project
Tucson Airport Authority, Inc.

	PFC Eligible	Non-PFC	Total
Concourse Renovation Project			
West Concourse	\$ 5,324,976	\$ 1,011,670	\$ 6,336,646
East Concourse/Customs Border Patrol	7,979,740	1,688,187	9,667,927
Terminal	1,643,984	980,730	2,624,714
Terminal-wide Upgrades	1,179,574	327,746	1,507,320
Loading Bridges, Furniture and Other	2,368,870	1,268,802	3,637,672
Design	3,316,170	684,726	4,000,897
Contingency	1,826,132	285,326	2,111,458
Administration	773,594	227,056	1,000,650
Total Concourse Renovation Project	\$ 24,413,040	\$ 6,474,243	\$ 30,887,284

Source: Tucson Airport Authority, Inc.

Note: Totals may not add due to rounding.

Exhibit 2.0
Sources and Uses of Bond Funds
Tucson Airport Authority, Inc.

	PFC Eligible	Non-PFC	Total
Sources of Funds			
Par Amount of Bonds	\$ 27,305,000	\$ 7,680,000	\$ 34,985,000
Interest Earnings	255,702	76,033	331,735
Total Sources	\$ 27,560,702	\$ 7,756,033	\$ 35,316,735
Uses of Funds			
Total Underwriter's Discount (0.500%)	\$ 136,525	\$ 38,400	\$ 174,925
Costs of Issuance	390,239	109,761	500,000
Gross Bond Insurance Premium	338,686	96,246	434,932
Debt Service Reserve Fund (DSRF)	2,280,544	641,442	2,921,986
Capitalized Interest (CIF) Fund	-	391,795	391,795
Project Construction Fund	24,413,040	6,474,243	30,887,284
Rounding Amount	1,670	4,145	5,815
Total Uses	\$ 27,560,704	\$ 7,756,033	\$ 35,316,737

Source: First Albany Capital Inc.

Note: Totals may not add due to rounding.

Exhibit 3.0
Debt Service
Tucson Airport Authority, Inc.
(for the 12 months ending September 30)

	Forecast							
	2004	2005	2006	2007	2008	2009	2010	2011
Senior Lien Bonds								
Series 2001A-C Refunding Bonds	\$ 1,307,602	\$ 1,309,979	\$ 1,307,616	\$ 1,305,645	\$ 1,305,677	\$ 1,307,268	\$ 1,309,877	\$ 1,307,078
Series 2003 Bonds	4,733,829	4,723,008	4,735,763	4,735,496	4,738,029	4,739,196	4,737,575	4,736,833
Total Senior Lien Bonds	\$ 6,041,431	\$ 6,032,987	\$ 6,043,378	\$ 6,041,141	\$ 6,043,706	\$ 6,046,464	\$ 6,047,452	\$ 6,043,912
Subordinate Lien Bonds Payable from Net Revenues								
Existing debt service								
Series 2001 Bonds	\$ 2,863,363	\$ 2,865,450	\$ 2,864,437	\$ 2,865,395	\$ 2,864,848	\$ 2,864,257	\$ 2,864,665	\$ 2,863,990
PFC Revenues Pledged	(2,863,363)	(2,865,450)	(2,864,437)	(2,865,395)	(2,864,848)	(2,864,257)	(2,864,665)	(2,863,990)
Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New debt service								
Proposed Series 2006 Bonds		\$ 1,777,751	\$ 2,802,006	\$ 2,915,654	\$ 2,918,530	\$ 2,918,530	\$ 2,918,530	\$ 2,919,672
PFC Revenues Pledged		(1,777,751)	(2,258,326)	(2,261,478)	(2,262,914)	(2,262,914)	(2,262,914)	(2,263,420)
Planned Series 2009 Bonds /1		-	6,030,341	9,828,821	9,828,821	9,828,821	9,828,821	9,552,485
LOI Grants to Be Pledged		-	(5,840,350)	(5,840,350)	(5,873,175)	(5,856,275)	(5,873,175)	(5,873,175)
PFC Revenues to Be Pledged		-	(189,991)	(189,991)	(3,972,546)	(3,972,546)	(3,972,546)	(3,679,310)
Subtotal		\$ -	\$ 543,680	\$ 654,176	\$ 655,617	\$ 654,176	\$ 655,617	\$ 656,252
Total Subordinate Lien Bonds	\$ -	\$ -	\$ 543,680	\$ 543,680	\$ 543,680	\$ 654,176	\$ 655,617	\$ 656,252
Junior Subordinate Lien Obligations								
Existing debt service								
Bank of America Interest Expense	\$ 237,300	\$ 237,300	\$ 313,906	\$ 406,800	\$ -	\$ -	\$ -	\$ -
Lucent / Phone Switch Interest & Principal	49,912	49,912	49,912	49,912	49,912	45,752	-	-
Total Other	\$ 287,212	\$ 287,212	\$ 363,818	\$ 456,712	\$ 49,912	\$ 45,752	\$ -	\$ -
Total Debt Service	\$ 6,328,643	\$ 6,320,199	\$ 6,407,196	\$ 6,497,853	\$ 6,637,298	\$ 6,746,392	\$ 6,703,069	\$ 6,700,164

Sources: Historical -- Tucson Airport Authority, Inc; Series 2006 - First Albany Capital Inc.; Forecast -- John F. Brown Company, Inc.

Note: 1. Assumes debt service on 80% LOI-supported debt at 5.0% all-in variable interest rate and on 20% PFC-supported local share at 6.5% fixed interest rate.

Exhibit 4.0
Application of PFC Revenues
Tucson Airport Authority, Inc.
(for the 12 months ending September 30)

	Historical			Forecast			2010	2011
	2004	2005	2006	2007	2008	2009		
PFC Collections								
Enplaned Passengers	1,841,791	2,023,785	2,120,996	2,110,000	2,144,000	2,193,000	2,245,000	2,300,000
Percent of PFC Eligible Passengers	94.1%	89.9%	89.0%	89.0%	89.0%	89.0%	89.0%	89.0%
PFC Eligible Enplaned Passengers	1,732,522	1,818,488	1,887,686	1,877,900	1,908,160	1,951,770	1,998,050	2,047,000
PFC Rate per Enplaned Passenger	\$3.00	\$3.00	\$3.00	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50
Less: PFC Airline Collection Fee /1	(0.095)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)
Net PFC Collection Rate	\$ 2.905	\$ 2.89	\$ 2.89	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39
PFC Collections (not including int. earnings)	\$ 5,032,975	\$ 5,255,431	\$ 5,455,414	\$ 8,243,981	\$ 8,376,822	\$ 8,568,270	\$ 8,771,439	\$ 8,986,330
PFC Cashflow								
PFC Fund Beginning Balance	\$ 16,429,722	\$ 4,434,225	\$ (294,152)	\$ 2,342,762	\$ 6,062,468	\$ 9,502,439	\$ 11,296,482	\$ 11,187,152
Deposits:								
PFC Collections	\$ 5,032,975	\$ 5,255,431	\$ 5,455,414	\$ 8,243,981	\$ 8,376,822	\$ 8,568,270	\$ 8,771,439	\$ 8,986,330
Interest Earnings	184,658	165,324	45,937	118,872	186,322	221,500	219,356	227,335
Total Annual PFC Revenues	\$ 5,217,633	\$ 5,420,756	\$ 5,501,350	\$ 8,362,853	\$ 8,563,144	\$ 8,789,770	\$ 8,990,795	\$ 9,213,665
Annual Use of PFC Revenues								
Pay-as-you-go Expenditures								
Application #1	(14,349,768)	(7,283,682)	-	-	-	-	-	-
Future Applications	-	-	-	-	-	(1,680,000)	-	-
Eligible Debt Service								
Series 2001 Bonds	(2,863,363)	(2,865,450)	(2,864,437)	(2,865,395)	(2,864,848)	(2,864,257)	(2,864,665)	(2,863,990)
Proposed Series 2006 Bonds	-	-	-	(1,777,751)	(2,258,326)	(2,261,478)	(2,262,914)	(2,263,420)
Future Bonds	-	-	-	-	-	-	(1,381,980)	(1,381,980)
Future LOI Interest Costs /2	-	-	-	-	-	(189,991)	(2,590,566)	(2,297,330)
PFC Fund Ending Balance	\$ 4,434,225	\$ (294,152)	\$ 2,342,762	\$ 6,062,468	\$ 9,502,439	\$ 11,296,482	\$ 11,187,152	\$ 11,594,097

Sources: Historical --Tucson Airport Authority, Inc; Forecast -- John F. Brown Company, Inc.

Notes: 1. The PFC airline collection fee increased from 8 cents to 11 cents effective May 2004.

2. Indicating interest expenses for future letter-of-credit debt to be paid from PFC Revenues.

Exhibit 5.0
Operation and Maintenance Expenses
Tucson Airport Authority, Inc.
(for the 12 months ending September 30)

	Forecast							
	Historical 2004	2005	2006	2007	2008	2009	2010	2011
Base Operation and Maintenance Expenses By Account								
Personnel Expenses	\$ 15,574,112	\$ 16,414,949	\$ 18,218,134	\$ 19,652,368	\$ 20,631,742	\$ 21,663,329	\$ 22,746,496	\$ 23,883,820
Contractual Services	6,104,801	5,885,644	6,888,798	7,321,302	7,540,941	7,767,169	8,000,184	8,240,190
Materials and Supplies	1,245,899	1,432,318	1,411,114	1,683,191	1,733,687	1,785,698	1,839,269	1,894,447
Cost of Product Sales	2,966,217	3,099,020	3,635,853	3,618,295	3,690,661	3,801,381	3,915,422	4,032,885
Other Operating Expenses	1,633,336	2,054,827	1,705,188	1,763,361	1,816,262	1,870,750	1,926,872	1,984,679
	\$ 27,524,366	\$ 28,886,758	\$ 31,859,087	\$ 34,038,517	\$ 35,413,293	\$ 36,888,327	\$ 38,428,243	\$ 40,036,020
Incremental O&M Expenses for CIP Projects	-	-	-	-	204,089	265,111	273,709	282,598
Total Operation and Maintenance Expenses	\$ 27,524,366	\$ 28,886,758	\$ 31,859,087	\$ 34,038,517	\$ 35,617,382	\$ 37,153,438	\$ 38,701,952	\$ 40,318,618
Percent Change	8.0%	4.9%	10.3%	6.8%	4.6%	4.3%	4.2%	4.2%

Sources: Historical -- Tucson Airport Authority, Inc; Forecast -- John F. Brown Company, Inc.

Exhibit 6.0
Revenues
Tucson Airport Authority, Inc.
(for the 12 months ending September 30)

	Forecast							
	Historical 2004	2005	2006	2007	2008	2009	2010	2011
Passenger Airline Rates and Charges								
Landing Fees	\$ 2,708,774	\$ 2,938,477	\$ 2,861,339	\$ 3,378,786	\$ 4,178,713	\$ 4,626,295	\$ 4,931,742	\$ 4,940,170
Terminal Rentals	6,491,412	7,504,797	8,124,034	7,891,777	8,081,908	8,650,572	8,650,572	9,259,739
Security Fees	1,336,818	1,300,663	1,048,764	869,004	912,454	950,283	989,769	1,030,985
Custodial, Equipment and Parking	1,020,558	592,996	648,654	469,754	475,836	484,207	486,492	495,865
Subtotal	\$ 11,557,562	\$ 12,336,933	\$ 12,682,791	\$ 12,609,321	\$ 13,648,911	\$ 14,711,357	\$ 15,058,575	\$ 15,726,759
Concession Revenues								
Parking Lots	\$ 6,111,597	\$ 6,603,080	\$ 7,141,953	\$ 7,240,754	\$ 7,634,714	\$ 8,221,751	\$ 8,922,566	\$ 9,336,117
Rental Cars	4,755,957	5,227,812	6,162,321	6,042,371	6,129,790	6,255,776	6,389,475	6,530,888
News & Gift	799,003	830,464	844,252	875,321	875,321	895,326	916,556	939,010
Food & Beverage	501,566	582,156	609,445	805,070	875,000	894,998	916,220	938,666
Other	451,146	508,027	429,010	482,742	491,854	507,156	529,704	553,514
Subtotal	\$ 12,619,269	\$ 13,751,539	\$ 15,186,981	\$ 15,446,258	\$ 16,006,679	\$ 16,775,006	\$ 17,674,520	\$ 18,298,195
Customer Facility Charges	\$ 927,213	\$ 1,009,145	\$ 1,229,702	\$ 1,247,388	\$ 1,597,803	\$ 1,634,320	\$ 1,673,073	\$ 1,714,061
Other System Revenue								
Space Rentals	\$ 2,428,110	\$ 2,871,889	\$ 3,112,869	\$ 3,152,251	\$ 3,568,896	\$ 3,640,274	\$ 3,713,079	\$ 3,787,341
Land Rent	2,401,758	2,414,853	2,369,453	2,423,316	2,471,781	2,521,217	2,571,641	2,623,074
Tucson Industrial Center	1,193,690	1,241,763	1,241,271	1,240,620	1,240,620	827,080	413,540	-
Into Plane	952,651	1,206,286	1,471,808	1,480,152	1,509,755	1,551,538	1,590,535	1,629,533
Fuel Flowage	867,945	1,318,277	1,161,826	1,153,394	1,176,461	1,209,020	1,239,408	1,269,796
Tenant Finishes	661,297	351,192	382,689	390,177	392,359	111,289	111,289	111,289
Cargo Airlines Landing Fees	234,145	297,807	304,914	374,954	468,112	517,111	551,172	549,951
Airline Cargo Rentals	293,424	480,797	492,106	588,373	649,097	690,574	690,635	735,066
TSA Reimbursements	305,002	307,495	322,784	482,464	492,438	492,438	492,438	492,438
Management Sales	4,486,127	4,587,686	5,123,494	5,123,490	5,225,960	5,384,642	5,548,151	5,716,634
Other	2,548,213	2,352,901	2,646,410	2,515,920	2,502,992	2,528,139	2,554,165	2,581,103
Subtotal	\$ 16,372,363	\$ 17,430,946	\$ 18,629,624	\$ 18,925,111	\$ 19,698,471	\$ 19,473,321	\$ 19,476,054	\$ 19,496,225
Total Operating Revenues	\$ 41,476,407	\$ 44,528,563	\$ 47,729,098	\$ 48,228,078	\$ 50,951,863	\$ 52,594,004	\$ 53,882,222	\$ 55,235,240
Interest Income								
Revenue Fund/O&M Reserve Fund	36,244	305,207	778,914	701,498	733,826	552,413	573,960	591,156
Special Reserve Account	377,360	487,188	1,038,824	1,258,904	942,759	916,230	1,105,896	1,304,907
Bond Fund	-	-	60,434	67,963	74,108	67,006	67,003	67,002
Subordinate Bond Reserve Fund	-	-	-	131,489	131,489	131,489	131,489	193,678
Transfer from Airline Reserve Account	1,850,886	1,850,387	1,832,748	1,810,845	1,517,782	1,572,794	1,577,034	1,577,425
Revenues	\$ 43,740,897	\$ 47,171,345	\$ 51,440,018	\$ 52,198,777	\$ 54,351,827	\$ 55,833,937	\$ 57,399,821	\$ 58,969,408
Operating Revenues (Excl. Landing Fees)	\$ 38,533,487	\$ 41,292,279	\$ 44,562,845	\$ 44,474,338	\$ 46,305,038	\$ 47,450,599	\$ 48,399,307	\$ 49,745,119

Sources: Historical -- Tucson Airport Authority, Inc.; Forecast -- John F. Brown Company, Inc.

Exhibit 6.1
Landing Fee Rate
Tucson Airport Authority, Inc.
(for the 12 months ending September 30)

	Forecast				
	2007	2008	2009	2010	2011
Airport System Income Requirement					
Existing Debt Service					
Senior Bond Debt Service	\$ 6,041,141	\$ 6,043,706	\$ 6,046,464	\$ 6,047,452	\$ 6,043,912
Senior Bond Coverage	1,510,285	1,510,926	1,511,616	1,511,863	1,510,978
Subordinate Bond Debt Service Payable from Net Revenue:					
Junior Subordinate Lien Obligations	-	-	-	-	-
New Debt Service	456,712	49,912	45,752	-	-
Subordinate Bond Debt Service Payable from Net Revenue:					
Subordinate Bond Coverage	-	543,680	654,176	655,617	656,252
Operation & Maintenance Expenses	-	54,368	65,418	65,562	65,625
Fund Replenishments	34,038,517	35,617,382	37,153,438	38,701,952	40,318,618
Operation and Maintenance Reserve Fund	821,976	325,603	384,014	387,129	404,166
Maintenance Reserve Fund	-	-	1,857,637	1,563,000	1,410,620
Capital Improvement Fund	687,606	721,986	758,086	795,990	835,790
Repayment to Insurance Reserve Repayment Account	1,489,637	1,880,955	2,069,914	2,069,914	2,069,914
Principal Repayment to Special Reserve Account	1,019,978	943,395	687,904	599,780	634,224
Interest Repayment to Special Reserve Account	740,121	445,895	394,085	357,932	323,486
Repayment to Special Reserve Account for Future CIP	-	456,238	955,892	1,338,706	1,388,363
Other System Expenses					
Capital Outlays - Other	1,150,239	1,000,000	-	-	-
Other CIP Projects	58,852	848,873	-	-	-
Other	419,195	428,863	-	-	-
Discretionary Cash Transferred to Special Reserve Account					
52% of Industrial Area Net Income	2,366,628	2,398,297	2,201,823	2,005,349	1,808,875
Interest Earning on O&M Advance	740,121	445,895	394,085	357,932	323,486
Interest Earnings on Fund	1,390,393	1,074,248	1,047,719	1,299,575	1,498,585
Amount of Projects Financed from SRA (Wings at Ryan)	7,500	7,500	-	-	-
Airport System Income Requirement	<u>\$ 52,938,901</u>	<u>\$ 54,797,723</u>	<u>\$ 56,228,022</u>	<u>\$ 57,757,753</u>	<u>\$ 59,292,894</u>
Less:					
Operating Revenues (Excl. Landing Fees)	\$ 44,474,338	\$ 46,305,038	\$ 47,450,599	\$ 48,399,307	\$ 49,745,119
Interest Income	2,899,975	2,328,077	2,061,223	2,298,498	2,480,229
Airline Reserve Account Available from Prior Year	1,810,845	1,517,782	1,572,794	1,577,034	1,577,425
Total Deductions	\$ 49,185,158	\$ 50,150,897	\$ 51,084,616	\$ 52,274,838	\$ 53,802,773
Net Airport System Income Requirement	\$ 3,753,743	\$ 4,646,825	\$ 5,143,406	\$ 5,482,915	\$ 5,490,121
Landed Weight (per 1,000 lb)	2,675,165	2,710,000	2,785,000	2,855,000	2,925,000
Signatory Landing Fee Rate (per 1,000 lb)	\$ 1.40	\$ 1.71	\$ 1.85	\$ 1.92	\$ 1.88

Source: John F. Brown Company, Inc.

Exhibit 6.2
Passenger Airline Rentals, Fees, and Charges
Tucson Airport Authority, Inc.
(for the 12 months ending September 30)

	Forecast							
	Historical 2004	2005	2006	2007	2008	2009	2010	2011
Space Rentals	\$ 6,491,412	\$ 7,504,797	\$ 8,124,034	\$ 7,891,777	\$ 8,081,908	\$ 8,650,572	\$ 8,650,572	\$ 9,259,739
Landing Fees	\$ 2,708,774	\$ 2,938,477	\$ 2,861,339	\$ 3,378,786	\$ 4,178,713	\$ 4,626,295	\$ 4,931,742	\$ 4,940,170
Apron & RON Parking Fees	\$ 153,820	\$ 157,892	\$ 153,701	\$ 157,948	\$ 161,950	\$ 161,360	\$ 161,360	\$ 168,358
Other Charges								
Security Fees	\$ 1,336,818	\$ 1,300,663	\$ 1,048,764	\$ 869,004	\$ 912,454	\$ 950,283	\$ 989,769	\$ 1,030,985
Custodial /1	73,757	75,486	104,771	-	-	-	-	-
Power System Utilities	41,790	48,169	90,077	50,000	51,000	52,785	54,632	56,545
Terminal Use Fee	440,727	-	-	-	-	-	-	-
Ramp Scrubber	21,480	22,726	27,456	29,172	29,755	29,755	29,755	29,755
Triturator	8,378	9,594	8,590	7,125	7,268	7,268	7,268	7,268
Hydrant Fuel Pit Charges - Capital	124,051	124,700	124,700	101,310	101,310	108,073	108,073	108,073
Power System - Capital	34,540	34,721	34,722	28,186	28,186	28,186	28,186	28,186
Air System - Capital	87,302	88,118	88,119	78,327	78,327	78,327	78,327	78,327
Total Other Charges	\$ 2,168,843	\$ 1,704,177	\$ 1,527,199	\$ 1,163,124	\$ 1,208,300	\$ 1,254,678	\$ 1,296,010	\$ 1,339,139
International Gate Usage	\$ 34,713	\$ 31,590	\$ 16,518	\$ 17,686	\$ 18,040	\$ 18,452	\$ 18,890	\$ 19,353
Total Fees & Charges	\$ 11,557,562	\$ 12,336,933	\$ 12,682,791	\$ 12,609,321	\$ 13,648,911	\$ 14,711,357	\$ 15,058,575	\$ 15,726,759
Enplanements	1,841,791	2,023,785	2,120,996	2,110,000	2,144,000	2,193,000	2,245,000	2,300,000
Cost per Enplanement	6.28	6.10	5.98	5.98	6.37	6.71	6.71	6.84

Sources: Historical -- Tucson Airport Authority, Inc; Forecast -- John F. Brown Company, Inc.
Note: 1. Included in holdroom rentals starting in FY2007.

Exhibit 7.0
Application of Revenues
Tucson Airport Authority, Inc.
(for the 12 months ending September 30)

		Forecast				
		2007	2008	2009	2010	2011
Application of Revenues						
<u>Priority</u>	Revenues	\$ 52,198,777	\$ 54,351,827	\$ 55,833,937	\$ 57,399,821	\$ 58,969,408
	Less:					
1	Operation and Maintenance Expenses	34,038,517	35,617,382	37,153,438	38,701,952	40,318,618
2	Senior Bond Debt Service	6,041,141	6,043,706	6,046,464	6,047,452	6,043,912
3	Subordinate Bond Debt Service	-	543,680	654,176	655,617	656,252
4	Junior Subordinate Lien Obligations	456,712	49,912	45,752	-	-
5	Senior Bond Reserve Fund	0	-	-	-	-
6	Subordinate Bond Reserve Fund	-	-	-	-	-
7	Operation and Maintenance Reserve Fund	821,976	325,603	384,014	387,129	404,166
8	Maintenance Reserve Fund/1			1,857,637	1,563,000	1,410,620
9	Airport Improvement Fund					
	Special Reserve Account					
	Repayment on Special Reserve Account Advance	1,760,099	1,845,529	2,037,881	2,296,418	2,346,073
	Annual Deposit Requirements	3,757,021	3,472,545	3,249,542	3,304,924	3,307,460
	Capital Improvement Fund per Airline Agreement	687,606	721,986	758,086	795,990	835,790
	Additional Expenses to Capital Improvement Fund	1,628,286	2,277,736	-	-	-
	Insurance Reserve Repayment Account	1,489,637	1,880,955	2,069,914	2,069,914	2,069,914
10	Airline Reserve Account available for subsequent year /2	\$ 1,517,782	\$ 1,572,794	\$ 1,577,034	\$ 1,577,425	\$ 1,576,603

Source: John F. Brown Company, Inc.

Notes: 1. As established by the amended and restated Senior Lien Airport Revenue Bond Resolution.

2. Expires when no longer necessary under airline agreements.

Exhibit 8.0
Net Revenues and Debt Service Coverage
Tucson Airport Authority, Inc.
(for the 12 months ending September 30)

	Forecast 2007	2008	2009	2010	2011
Debt Service Coverage					
Senior Bond Debt Service Coverage Calculation					
Revenues	\$ 52,198,777	\$ 54,351,827	\$ 55,833,937	\$ 57,399,821	\$ 58,969,408
Operation and Maintenance Expenses	(34,038,517)	(35,617,382)	(37,153,438)	(38,701,952)	(40,318,618)
Net Revenues	\$ 18,160,260	\$ 18,734,446	\$ 18,680,499	\$ 18,697,868	\$ 18,650,790
Senior Bonds					
Existing	\$ 6,041,141	\$ 6,043,706	\$ 6,046,464	\$ 6,047,452	\$ 6,043,912
Planned	-	-	-	-	-
Senior Bond Aggregate Annual Debt Service	\$ 6,041,141	\$ 6,043,706	\$ 6,046,464	\$ 6,047,452	\$ 6,043,912
Senior Bond Debt Service Coverage	3.01	3.10	3.09	3.09	3.09
Required Minimum	1.25	1.25	1.25	1.25	1.25
Subordinate Bond Debt Service Coverage Calculation					
Revenues	\$ 52,198,777	\$ 54,351,827	\$ 55,833,937	\$ 57,399,821	\$ 58,969,408
Plus:					
PFC Revenues Transferred for Subordinate Debt Service	4,643,146	5,123,174	5,315,726	9,100,125	8,806,720
	\$ 56,841,923	\$ 59,475,001	\$ 61,149,663	\$ 66,499,946	\$ 67,776,128
Less:					
Operation and Maintenance Expenses	(34,038,517)	(35,617,382)	(37,153,438)	(38,701,952)	(40,318,618)
Senior Bond Debt Service	(6,041,141)	(6,043,706)	(6,046,464)	(6,047,452)	(6,043,912)
	\$ 16,762,266	\$ 17,813,914	\$ 17,949,761	\$ 21,750,541	\$ 21,413,599
Subordinate Bonds					
Existing	\$ 2,865,395	\$ 2,864,848	\$ 2,864,257	\$ 2,864,665	\$ 2,863,990
Proposed Series 2006 Bonds	1,777,751	2,802,006	2,915,654	2,918,530	2,919,672
Planned Series 2009 Bonds	-	-	6,030,341	9,828,821	9,552,485
Offset by LOI Grants	-	-	(5,840,350)	(5,856,275)	(5,873,175)
Subordinate Bond Aggregate Annual Debt Service	\$ 4,643,146	\$ 5,666,854	\$ 5,969,902	\$ 9,755,742	\$ 9,462,972
Subordinate Bond Debt Service Coverage	3.61	3.14	3.01	2.23	2.26
Required Minimum	1.10	1.10	1.10	1.10	1.10
Total Debt Service Coverage					
Revenues	\$ 52,198,777	\$ 54,351,827	\$ 55,833,937	\$ 57,399,821	\$ 58,969,408
Less: Operation and Maintenance Expenses	(34,038,517)	(35,617,382)	(37,153,438)	(38,701,952)	(40,318,618)
Net Revenues	\$ 18,160,260	\$ 18,734,446	\$ 18,680,499	\$ 18,697,868	\$ 18,650,790
Plus:					
PFC Revenues Transferred for Subordinate Debt Service	4,643,146	5,123,174	5,315,726	9,100,125	8,806,720
	\$ 22,803,406	\$ 23,857,620	\$ 23,996,225	\$ 27,797,993	\$ 27,457,510
Senior Bond Debt Service	\$ 6,041,141	\$ 6,043,706	\$ 6,046,464	\$ 6,047,452	\$ 6,043,912
Subordinate Bond Debt Service	4,643,146	5,666,854	5,969,902	9,755,742	9,462,972
Junior Subordinate Lien Obligations	456,712	49,912	45,752	-	-
Total Revenue Bond Debt Service	\$ 11,140,999	\$ 11,760,472	\$ 12,062,119	\$ 15,803,194	\$ 15,506,884
Total Revenue Bond Debt Service Coverage	2.05	2.03	1.99	1.76	1.77
Required Minimum	1.00	1.00	1.00	1.00	1.00

Source: John F. Brown Company, Inc.

APPENDIX B

AUDITED FINANCIAL STATEMENTS, FISCAL YEAR ENDED SEPTEMBER 30, 2005

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TUCSON AIRPORT AUTHORITY, INC.

AUDITED FINANCIAL STATEMENTS
Years ended September 30, 2005 and 2004

TUCSON AIRPORT AUTHORITY, INC.
AUDITED FINANCIAL STATEMENTS
Years ended September 30, 2005 and 2004

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AUDITED FINANCIAL STATEMENTS

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DEVRIES CPAS
OF ARIZONA, P.C. 
CERTIFIED PUBLIC ACCOUNTANTS
INDEPENDENT AUDITORS' REPORT

Board of Directors
Tucson Airport Authority, Inc.
Tucson, Arizona

We have audited the accompanying basic financial statements of Tucson Airport Authority, Inc. (the Authority) as of and for the years ended September 30, 2005 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority as of September 30, 2004 were audited by other auditors whose report dated November 23, 2004, expressed an unqualified opinion on those statements.

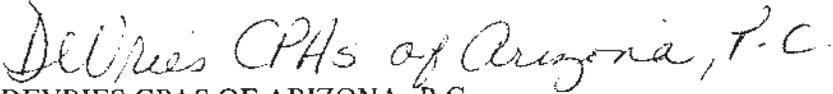
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of Tucson Airport Authority, Inc. as of September 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, Tucson Airport Authority, Inc. adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, effective October 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2005 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 14 is not a required part of the basic financial statements but is supplementary information required by generally accepted accounting principles. We have applied certain limited procedures to the 2005 information, which consisted 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.


DEVRIES CPAS OF ARIZONA, P.C.

December 1, 2005

Integrity is the highest form of service.

MARIANNE E. DEVRIES, CPA

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TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2005

The following discussion and analysis of the financial performance and activity of the Tucson Airport Authority (the Authority) provides an introduction to the financial statements of the Authority for the fiscal year ended September 30, 2005. Information for the two preceding fiscal years ended September 30, 2004 and 2003 has been included to provide a better insight into the overall financial position of the Authority.

The Authority is a business-type activity and as such the Basic Financial Statements and Required Supplementary Information (RSI) consists of Management's Discussion and Analysis (MD&A), the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows, and the Notes to Financial Statements. This MD&A has been prepared by management and should be read and considered in conjunction with the Authority's basic financial statements.

AIRPORT ACTIVITIES & HIGHLIGHTS

Tucson International Airport (TIA) experienced a record number of total passengers in fiscal year 2005, exceeding four million for the first time ever. The total of 4,041,309 was an increase of 10% over the prior year and represents a total increase of 14.6% over the last two years. Passenger traffic nationally continued its recovery from 2001 on the strength of a growing economy and continued historically low airfares. TIA benefited from even greater growth in passenger traffic than seen nationally, which set the stage for strong revenue growth. TIA's passenger and revenue increases in fiscal year 2005 came despite the fact that the commercial airline industry continued to struggle financially. United Airlines continued to operate for a third consecutive year in bankruptcy, while in September 2005, both Delta Air Lines and Northwest Airlines filed for bankruptcy court protection. All three of these carriers serve TIA.

Total aircraft operations increased 11.5% in fiscal year 2005 after declines in each of the two previous years. The air carrier (scheduled passenger and cargo) component of operations numbered 43,319 in fiscal year 2005, compared to 37,991 and 37,405 in 2004 and 2003, respectively. Military, air taxi, and general aviation comprise the balance of operations at the Authority. The majority of operations are in the general aviation area, which includes Ryan Airfield, a reliever airport for TIA.

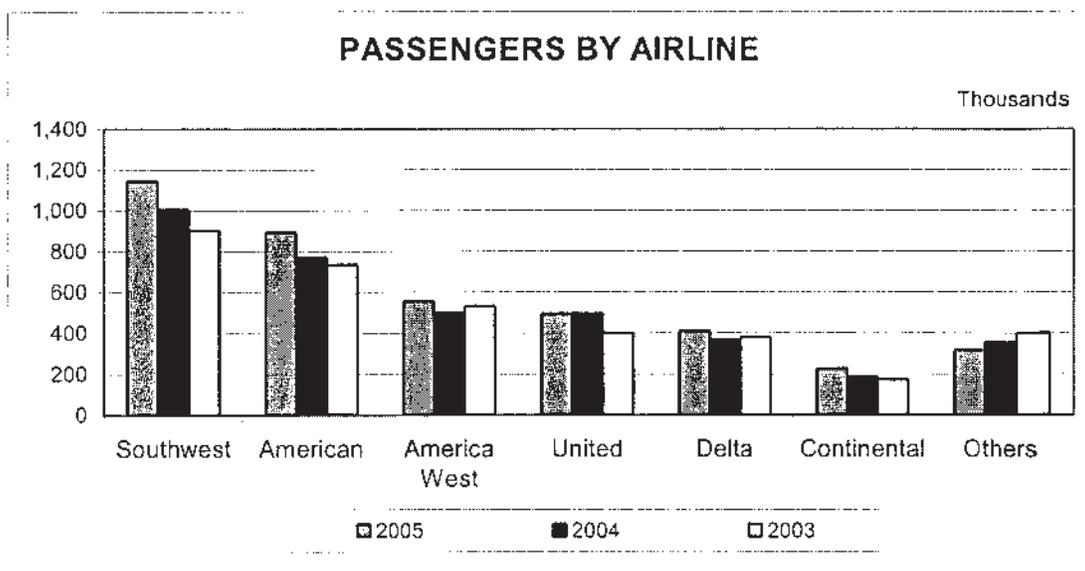
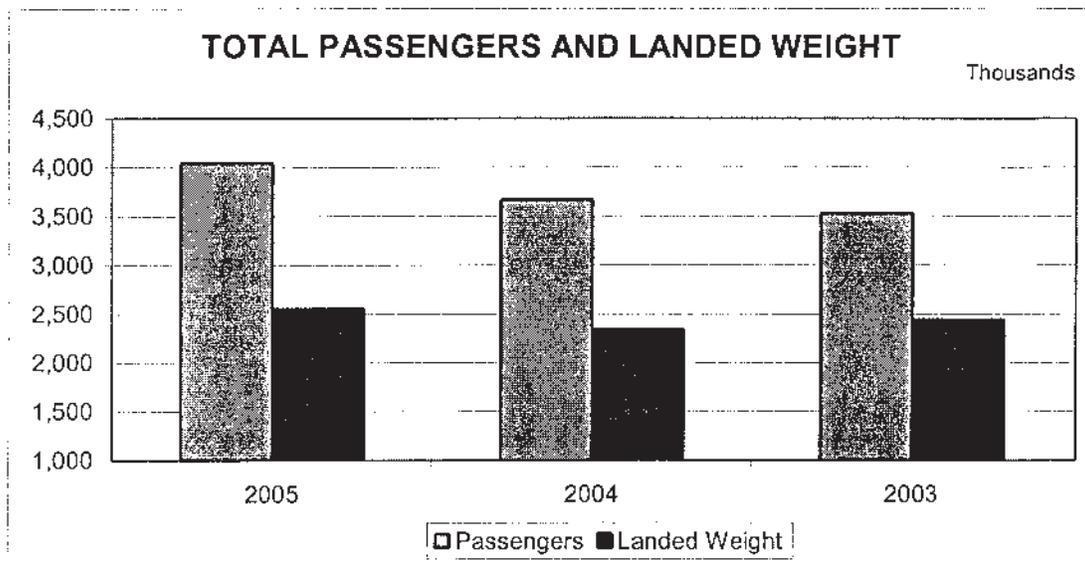
Landed weight increased in fiscal year 2005 from 2004 to 2,555,493 one thousand pound units, exceeding the previous year by 8.8% after declining in the previous two years. These declines were caused primarily by passenger carriers replacing many larger mainline jets with smaller regional jets in an effort to right size aircraft for their Tucson routes and increase load factors. In fiscal year 2005 as passenger traffic accelerated, some carriers began to increase the size of the regional jets serving Tucson as well as increase the number of flights, resulting in higher landed weights.

As of September 30, 2005, TIA was served by nine major domestic passenger carriers and one international carrier, with 70 nonstop daily flights to fourteen domestic and one international destination. Compared to September 30, 2004, this represented an increase of five daily flights. Over the three reporting periods, Southwest Airlines and American Airlines have dominated in both passenger activity and landed weight. These two carriers accounted for 48.3% of passenger traffic in fiscal year 2004, increasing to 50.4% in fiscal year 2005.

TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – continued
 September 30, 2005

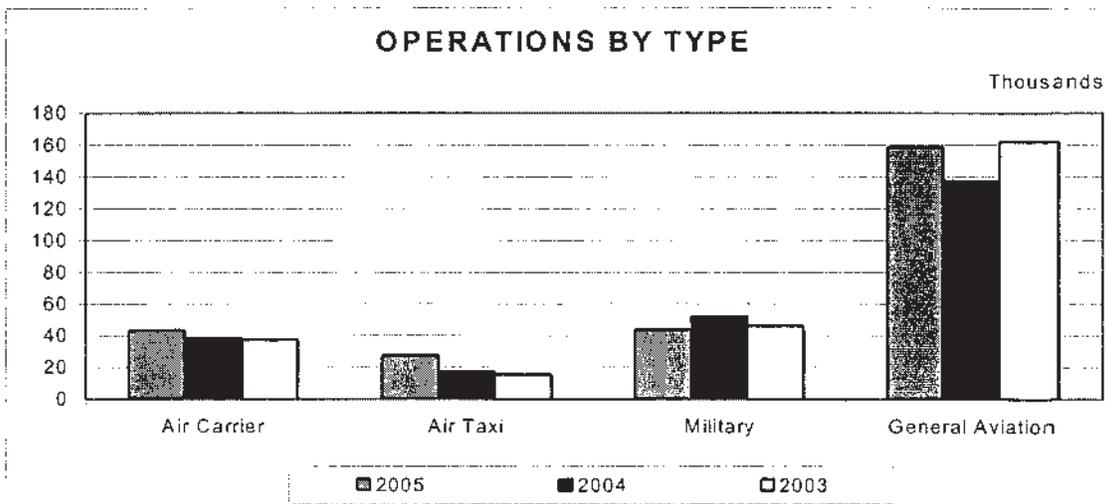
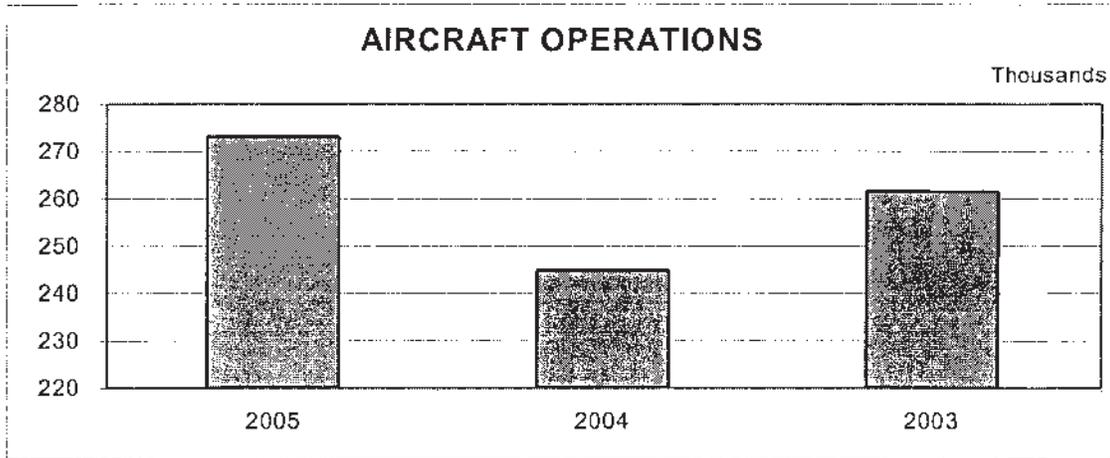
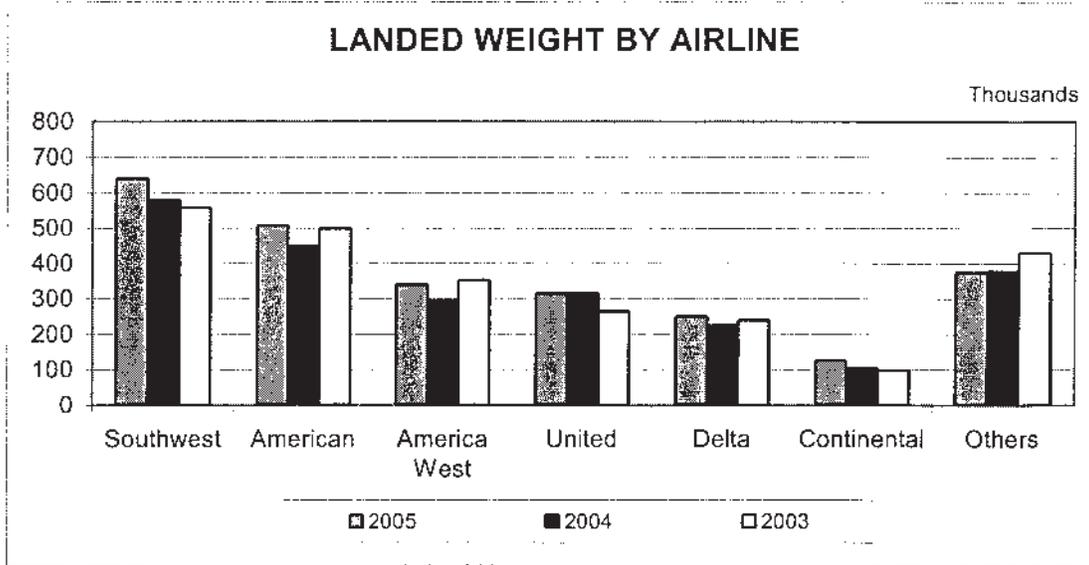
AIRPORT ACTIVITIES & HIGHLIGHTS - continued

Activities & Highlights	2005	2004	2003
Total Passengers	4,041,309	3,674,830	3,525,072
% increase/decrease (-)	10.0%	4.2%	2.5%
Aircraft Operations	273,099	244,882	261,440
% increase/decrease (-)	11.5%	-6.3%	-1.6%
Landed Weight (1,000 lb. units)	2,555,493	2,347,898	2,443,172
% increase/decrease (-)	8.8%	-3.9%	-4.5%
Mail & Express Cargo (pounds)	81,328,468	66,955,571	65,359,792
% increase/decrease (-)	21.5%	2.4%	13.0%



TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
 September 30, 2005

AIRPORT ACTIVITIES & HIGHLIGHTS - continued



TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
September 30, 2005

FINANCIAL HIGHLIGHTS

The Authority's assets exceeded liabilities for fiscal year 2005 by \$202.7 million compared to \$185.5 million and \$171.0 million in fiscal years 2004 and 2003, respectively. Unrestricted net assets for fiscal years 2005, 2004 and 2003 were \$55.8 million, \$48.1 million and \$42.2 million, respectively. The Authority may use these funds for any lawful purpose.

The overall financial position of the Authority has strengthened as indicated by consecutive annual increases in total net assets. The improving trend for fiscal years 2003 through 2005 is due to increases in operating earnings and federal and state grant reimbursements for approved Authority projects and programs.

The Authority's total long term debt decrease of \$4.6 million in fiscal year 2005 is a result of normal bond debt service. No new debt was incurred in fiscal years 2004 or 2005.

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

Summary of Operations and Changes in Net Assets	2005	2004	2003
Operating Revenues	\$ 44,528,566	\$ 41,476,407	\$ 37,889,530
Operating Expenses	28,886,758	27,524,366	25,487,441
Operating Income Before Depreciation & Amortization	15,641,808	13,952,041	12,402,089
Depreciation & Amortization	10,761,153	9,235,438	9,319,630
Operating Income	4,880,655	4,716,603	3,082,459
Non-operating Revenues	2,096,999	2,674,757	2,055,835
Income Before Capital Contributions	6,977,654	7,391,360	5,138,294
Capital Contributions	10,201,190	7,059,210	6,167,149
Increase in Net Assets	\$ 17,178,844	\$ 14,450,570	\$ 11,305,443

Total operating revenues increased \$3.1 million (7.4%) in fiscal year 2005, in addition to an increase of \$3.6 million (9.5%) in fiscal year 2004 over 2003. This trend reflects higher concession revenues and landing fees driven by increased passenger traffic, as well as greater space rentals due to expanded space resulting from the opening of expanded ticketing and baggage claim areas in TIA's main terminal in early fiscal year 2005.

Fiscal year 2005 operating expenses increased 4.9% over 2004. Fiscal year 2004 exceeded 2003 by 8%. Despite rising employee benefit and pension costs, the Authority was successful in keeping spending increases to a minimum in 2005.

Net non-operating revenues in fiscal year 2005 decreased 21.6% compared to 2004 due mainly to commencement of interest expense associated with bonds issued on TIA's terminal expansion project, which was completed early in the fiscal year. Fiscal year 2004 net non-operating revenues were 30.1% greater than 2003 due primarily to the refunding of higher interest rate Series 1993 bonds with lower rate Series 2003 bonds.

Capital contributions in fiscal year 2005 increased by 44.5% over 2004. Fiscal year 2004 capital contributions increased by 14.5% from 2003. Year-to-year variances in capital contributions are determined by factors such as grant availability and project timing.

TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – continued
September 30, 2005

FINANCIAL POSITION

<u>Summary of Net Assets</u>	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease) From 2004</u>	<u>% Increase Decrease (-) From 2004</u>
<u>Assets</u>				
Current (Unrestricted)	\$ 60,025,669	\$ 54,369,911	\$ 5,655,758	10.4%
Current (Restricted)	9,843,969	16,999,915	(7,155,946)	-42.1%
Net Capital Assets	229,891,412	220,154,298	9,737,114	4.4%
Other Noncurrent Assets	20,608,055	19,066,519	1,541,536	8.1%
Total Assets	<u>320,369,105</u>	<u>310,590,643</u>	<u>9,778,462</u>	<u>3.1%</u>
<u>Liabilities</u>				
Current (payable from unrestricted assets)	12,775,953	10,802,117	1,973,836	18.3%
Current (payable from restricted assets)	5,047,264	4,841,429	205,835	4.3%
Noncurrent	99,887,487	109,467,540	(9,580,053)	8.8%
Total Liabilities	<u>117,710,704</u>	<u>125,111,086</u>	<u>(7,400,382)</u>	<u>-5.9%</u>
<u>Net Assets</u>				
Invested in capital assets, net of debt	138,869,887	124,599,573	14,270,314	11.5%
Restricted	7,981,267	12,744,246	(4,762,979)	-37.4%
Unrestricted	55,807,247	48,135,738	7,671,509	15.9%
Total Net Assets	<u>\$ 202,658,401</u>	<u>\$ 185,479,557</u>	<u>\$ 17,178,844</u>	<u>9.3%</u>
<u>Summary of Net Assets</u>	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease) From 2003</u>	<u>% Increase Decrease (-) From 2003</u>
<u>Assets</u>				
Current (Unrestricted)	\$ 54,369,911	\$ 47,436,042	\$ 6,933,869	14.6%
Current (Restricted)	16,999,915	30,308,838	(13,308,923)	-43.9%
Net Capital Assets	220,154,298	199,460,226	20,694,072	10.4%
Other Noncurrent Assets	19,066,519	24,676,577	(5,610,058)	-22.7%
Total Assets	<u>310,590,643</u>	<u>301,881,683</u>	<u>8,708,960</u>	<u>2.9%</u>
<u>Liabilities</u>				
Current (payable from unrestricted assets)	10,802,117	9,795,067	1,007,050	10.3%
Current (payable from restricted assets)	4,841,429	5,719,977	(878,548)	-15.4%
Noncurrent	109,467,540	115,337,652	(5,870,112)	-5.1%
Total Liabilities	<u>125,111,086</u>	<u>130,852,696</u>	<u>(5,741,610)</u>	<u>-4.4%</u>
<u>Net Assets</u>				
Invested in capital assets, net of debt	124,599,573	101,035,740	23,563,833	23.3%
Restricted	12,744,246	27,816,918	(15,072,672)	-54.2%
Unrestricted	48,135,738	42,176,329	5,959,409	14.1%
Total Net Assets	<u>\$ 185,479,557</u>	<u>\$ 171,028,987</u>	<u>\$ 14,450,570</u>	<u>8.4%</u>

TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
September 30, 2005

FINANCIAL POSITION - continued

Current unrestricted assets increased in fiscal year 2005 over fiscal year 2004 by \$5.7 million and in fiscal year 2004 over fiscal 2003 by \$6.9 million due mainly to higher cash and investment balances from strong operating income. Current restricted assets decreased by \$7.2 million in 2005 compared to fiscal year 2004 and by \$13.3 million in fiscal year 2004 compared to fiscal year 2003 due largely to payments from the Passenger Facility Charge Fund for the terminal expansion project that was completed in early 2005. Net capital assets increased \$9.7 million (4.4%) in fiscal year 2005 over fiscal year 2004 and \$20.7 million (10.4%) in fiscal year 2004 over fiscal year 2003 due mainly to spending on the terminal expansion project.

Current liabilities payable from unrestricted assets increased by \$2 million in fiscal year 2005 compared to fiscal year 2004 due to bonds payable of \$3.6 million with a maturity date in 2006 that were previously classified as long term. This increase was partially offset by lower accounts and construction contracts payable. A smaller increase of \$1 million in current liabilities payable from unrestricted assets in 2004 compared to fiscal year 2003 was due mainly to higher construction contracts payable. Total noncurrent liabilities decreased by \$9.6 million in fiscal year 2005 primarily as a result of \$3.6 million of previously long term bonds payable becoming current, as well as scheduled retirement of bond debt. The decrease of \$5.9 million in noncurrent liabilities in 2004 was due mainly to regularly scheduled debt payments.

The largest portion of the Authority's net assets (68.5% for fiscal year 2005, and 67.2% for 2004) represents its investment in capital assets (e.g. land, buildings, machinery and equipment), less outstanding debt used to acquire those assets. The Authority uses these assets to provide services to its passengers, visitors and tenants that provide future revenue streams. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from operations, since the capital assets themselves cannot be used to retire these liabilities.

An additional portion of the Authority's net assets (3.9% for FY2005 and 6.9% for FY2004) represents resources that are subject to restrictions from contributors, bond resolutions and State and Federal regulators on how they may be used. The steady decrease in restricted assets over the three year period is attributable to passenger facility charge funds that have been used to pay for the terminal expansion project. The remaining balance of unrestricted net assets, \$55.8 million for FY2005 and \$48.1 million for FY2004, may be used for any lawful purpose of the Authority.

At the end of fiscal years 2005, 2004 and 2003, the Authority reported positive balances in all three categories of net assets.

AIRLINES RATES AND CHARGES

The Tucson Airport Authority has a long-term residual cost use agreement with the major passenger airlines. This agreement provides a method for securing the financial stability of the Authority through a schedule of rates and charges. Following are some of the key rates and charges included in the agreement.

Signatory Airline Rates and Charges		2005	2004	2003
Ticketing	per sq. ft.	\$ 63.87	\$ 61.88	\$ 61.88
Hold Room	per sq. ft.	54.27	52.58	52.58
Baggage Storage	per sq. ft.	63.87	61.88	61.88
Baggage Makeup	per sq. ft.	38.32	37.12	37.12
Into Plane Hydrant Flowage	per gallon	0.049	0.042	0.042
Landing Fee	per 1,000 lbs.	1.20	1.20	1.20

The existing use agreement expires on September 30, 2006. Management anticipates that this agreement will be extended under substantially the same terms for a period of one to two additional years.

TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – continued
September 30, 2005

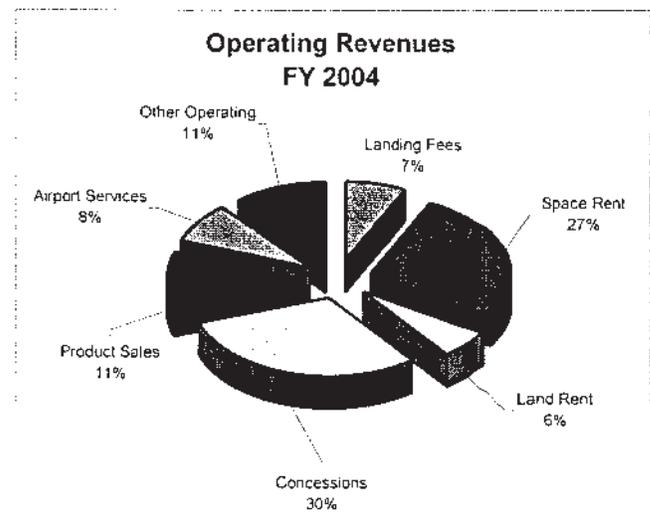
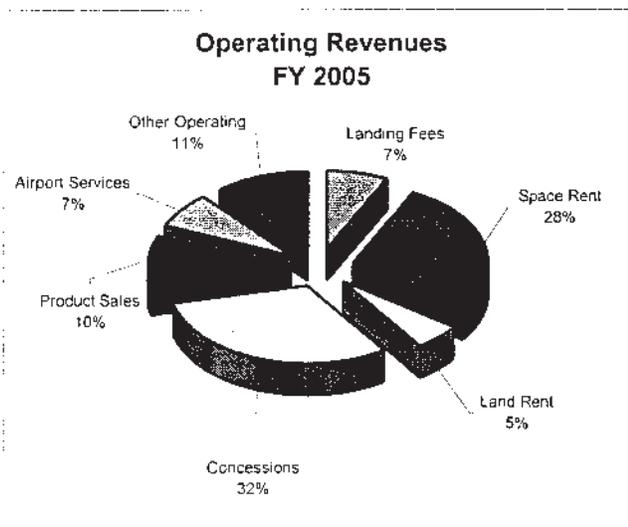
REVENUES

In fiscal year 2005, total revenues of \$61.6 million exceeded the prior fiscal year by 12.7%, whereas fiscal year 2004 revenues of \$54.6 million exceeded fiscal year 2003 by 9.0%.

Operating revenues increased in fiscal year 2005 over 2004 by \$3.1 million (7.4%). Landing fees were \$0.3 million greater than prior year due mainly to increased aircraft operations. Space rent was \$1.4 million higher due mainly to increased baggage claim area rentals that began upon completion of the terminal expansion project in early fiscal year 2005. Concession revenues exceeded fiscal year 2004 by \$1.1 million (9%) due primarily to increased parking lot and rental car revenues resulting from increased passenger counts. Other operating revenues were higher than the prior year by \$0.3 million (6.8%) due to increased fuel flowage revenues caused by a combination of greater volume and rate increases.

Revenues by Major Source	2005	2004	Variance	% Increase Decrease (-)
Landing Fees	\$ 3,236,284	\$ 2,942,919	\$ 293,365	10.0%
Space Rent	12,357,922	10,992,258	1,365,664	12.4%
Land Rent	2,414,854	2,400,905	13,949	0.6%
Concessions	13,751,539	12,619,269	1,132,270	9.0%
Product Sales	4,511,370	4,479,776	31,594	0.7%
Airport Services	3,306,136	3,404,943	(98,807)	-2.9%
Other Operating	4,950,461	4,636,337	314,124	6.8%
Total Operating Revenues	<u>44,528,566</u>	<u>41,476,407</u>	<u>3,052,159</u>	<u>7.4%</u>
Interest	1,456,369	1,078,792	377,577	35.0%
Increase (Decrease) in FMV of Investments	18,394	(86,004)	104,398	-121.4%
Passenger Facility Charges	5,351,062	5,039,403	311,659	6.2%
Other Non-operating	84	57,554	(57,470)	-99.9%
Capital Contributions	10,201,190	7,059,210	3,141,980	44.5%
Total Non-operating Revenues	<u>17,027,099</u>	<u>13,148,955</u>	<u>3,878,144</u>	<u>29.5%</u>
Total Revenues	<u>\$ 61,555,665</u>	<u>\$ 54,625,362</u>	<u>\$ 6,930,303</u>	<u>12.7%</u>

The following charts show the major sources and the percentage of operating revenues for fiscal years 2005 and 2004.



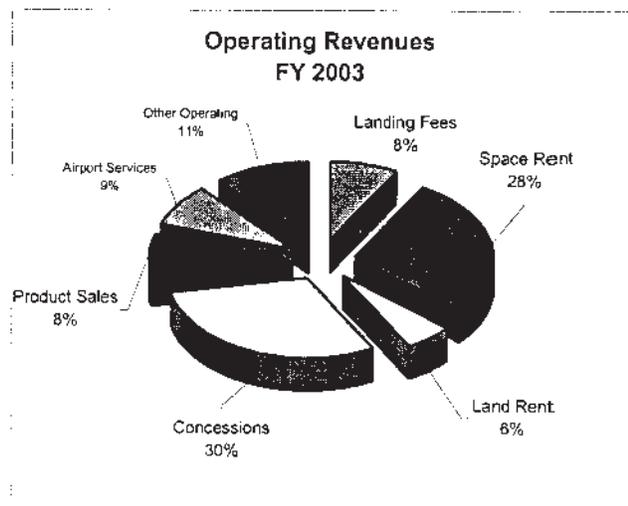
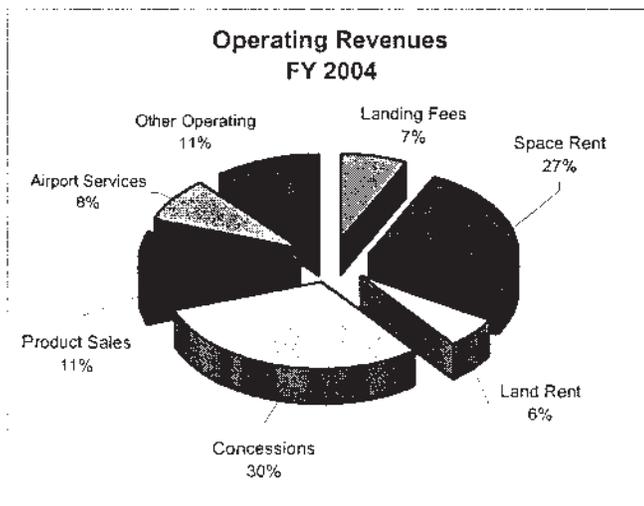
TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
September 30, 2005

REVENUES - continued

Operating revenues were up in fiscal year 2004 over 2003 in every category except landing fees and interest income. Despite the lower landing fee revenue, fiscal year 2004 airline related revenues were higher than fiscal year 2003 as a result of increased baggage claim area rentals and mandated security costs passed through to the airlines. Land rent was higher due mainly to greater revenue from the Authority's lease with the Air National Guard. Concession revenues exceeded fiscal year 2003 by \$1.3 million (11.3%) due primarily to increased parking lot revenues of \$1.1 million (21.7%) resulting largely from rate increases implemented in November 2003. In addition, higher passenger counts led to a greater number of parking lot transactions, as well as increased rental car, food and beverage, and news and gifts revenues. Product sales were up \$1.4 million (44.9%) primarily as a result of higher jet fuel costs, which are passed through to the Authority's customers in the form of higher selling prices.

Revenues by Major Source	2004	2003	Variance	% Increase Decrease (-)
Landing Fees	\$ 2,942,919	\$ 3,005,040	\$ (62,121)	-2.1%
Space Rent	10,992,258	10,740,247	252,011	2.3%
Land Rent	2,400,905	2,166,000	234,905	10.8%
Concessions	12,619,269	11,340,754	1,278,515	11.3%
Product Sales	4,479,776	3,092,533	1,387,243	44.9%
Airport Services	3,404,943	3,238,587	166,356	5.1%
Other Operating	4,636,337	4,306,369	329,968	7.7%
Total Operating Revenues	41,476,407	37,889,530	3,586,877	9.5%
Interest	1,078,792	1,566,081	(487,289)	-31.1%
Increase (Decrease) in FMV of Investments	(86,004)	(418,281)	332,277	-79.4%
Passenger Facility Charges	5,039,403	4,907,636	131,767	2.7%
Other Non-operating	57,554	115	57,439	49947.0%
Capital Contributions	7,059,210	6,167,149	892,061	14.5%
Total Non-operating Revenues	13,148,955	12,222,700	926,255	7.6%
Total Revenues	\$ 54,625,362	\$ 50,112,230	\$ 4,513,132	9.0%

The following charts show the major sources and the percentage of operating revenues for fiscal years 2004 and 2003:



TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – continued
September 30, 2005

NON-OPERATING REVENUES

Non-operating revenues consist mainly of interest income on investments, passenger facility charges (PFCs), and capital contributions. Fiscal year 2005 non-operating revenues increased \$3.9 million (29.5%) from 2004 due mainly to higher capital contributions, which are affected by grant availability and timing of projects. In addition, PFC revenues were higher due to greater passenger traffic. Fiscal year 2004 non-operating revenue increased by \$0.9 million (7.6%) from 2003 due primarily to capital contributions (see previous tables).

COST PER ENPLANED PASSENGER

Cost Per Enplaned Passenger (CPEP) is a measure used by airlines to show the average cost the airline incurs to enplane one passenger at a given airport. This figure is derived by dividing the total Passenger Airline Revenues by the number of Enplaned Passengers.

<u>Cost Per Enplaned Passenger</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Passenger Airline Revenues	\$ 12,336,933	\$ 11,557,292	\$ 10,724,300
Enplaned Passengers (EPAX)	2,023,785	1,841,791	1,766,859
Average Cost Per EPAX	<u>\$ 6.10</u>	<u>\$ 6.28</u>	<u>\$ 6.07</u>

Fiscal year 2004 CPEP increased over fiscal 2003 mainly as a result of higher security costs being passed through to the airlines. The decrease in CPEP from fiscal year 2004 to fiscal year 2005 was driven primarily by the increase in enplaned passengers outpacing increases in rental costs due to additional space from the terminal expansion.

EXPENSES

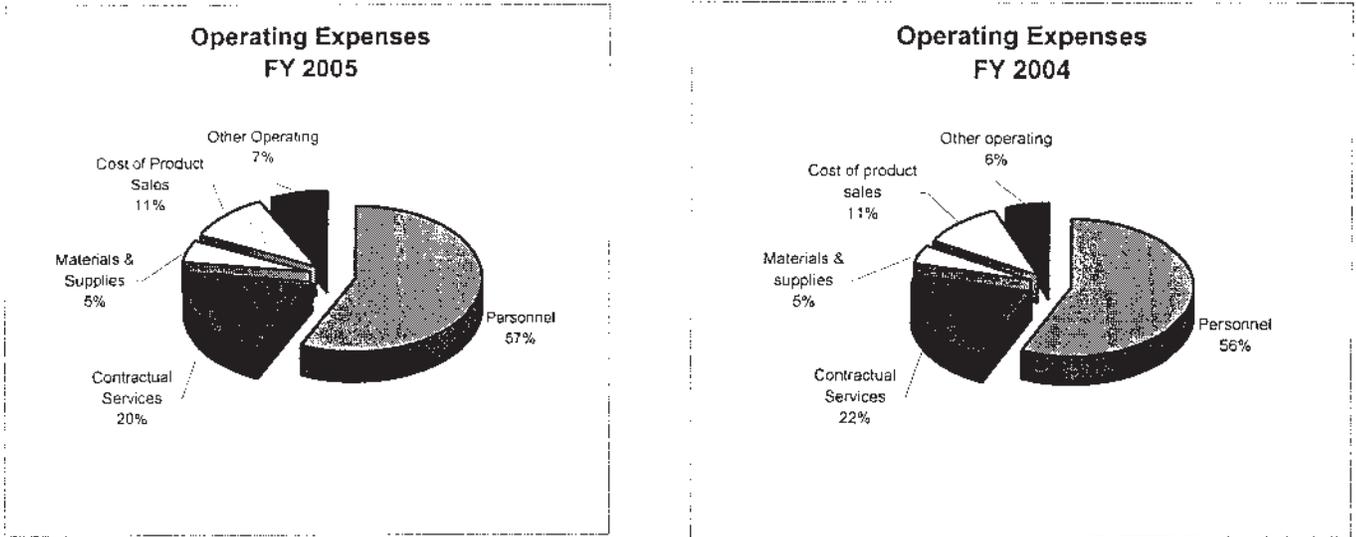
Total expenses for fiscal year 2005 increased 10.5% over 2004. Operating expenses increased 4.9% due primarily to higher personnel costs. Other operating expenses were higher than fiscal year 2004 by \$0.4 million due to an increase in the bad debt provision, reflecting potential write-offs due to airlines that have already filed for bankruptcy, as well as the potential for additional bankruptcy filings. Excluding the impact of the increased bad debt provision and cost of product sales, operating expenses increased by a more modest 3.1% over fiscal year 2004. A 58.9% increase in interest expense was driven by the series 2001 subordinate lien bonds that funded the terminal expansion project. Prior to project completion earlier this year, interest on these bonds had been capitalized. The increase in depreciation and amortization expense is also a result of completion of the terminal expansion project.

<u>Expenses by Major Category</u>	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease) from 2004</u>	<u>% Increase Decrease (-) from 2004</u>
Personnel	\$ 16,414,949	\$ 15,574,112	\$ 840,837	5.4%
Contractual Services	5,885,644	6,104,801	(219,157)	-3.6%
Materials and Supplies	1,432,318	1,245,899	186,419	15.0%
Cost of Product Sales	3,099,020	2,966,217	132,803	4.5%
Other Operating	2,054,827	1,633,337	421,490	25.8%
Total Operating Expenses	<u>28,886,758</u>	<u>27,524,366</u>	<u>1,362,392</u>	<u>4.9%</u>
Depreciation and Amortization	10,761,153	9,235,438	1,525,715	16.5%
Interest	4,548,723	2,862,005	1,686,718	58.9%
Environmental Expenses	0	552,983	(552,983)	-100.0%
Other Non-operating Expenses	180,187	0	180,187	
Total Non-operating Expenses	<u>4,728,910</u>	<u>3,414,988</u>	<u>1,313,922</u>	<u>38.5%</u>
Total Expenses	<u>\$ 44,376,821</u>	<u>\$ 40,174,792</u>	<u>\$ 4,202,029</u>	<u>10.5%</u>

TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – continued
September 30, 2005

EXPENSES - continued

The following charts show the major operating expense categories for the Authority for fiscal years 2005 and 2004:



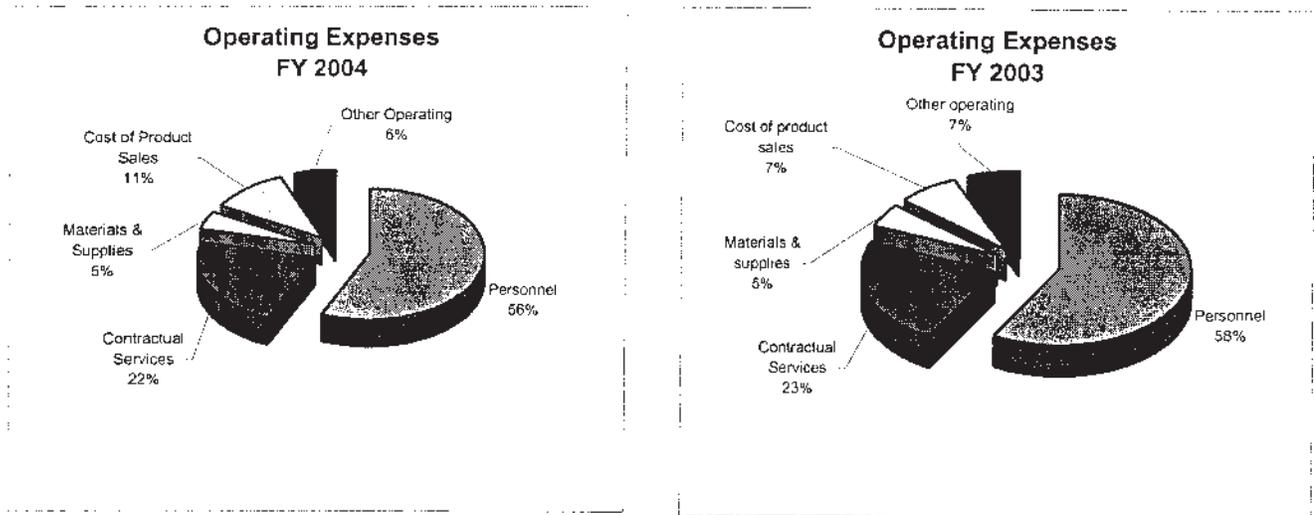
Total expenses for fiscal year 2004 increased 2.2% over 2003. Operating expenses increased 8.0%, which included a 57.6% increase in cost of product sales that was driven by higher jet fuel costs. This increase was offset by corresponding higher prices charged to customers. Excluding the impact of cost of product sales, operating expenses were 4.0% higher than fiscal year 2004. A decrease of 20.8% in interest expense was the result of a 2003 refunding of the Authority's series 1993 senior lien bonds at a more favorable interest rate.

Expenses by Major Category	2004	2003	Increase (Decrease) from 2003	% Increase Decrease (-) from 2003
Personnel	\$ 15,574,112	\$ 14,825,829	\$ 748,283	5.0%
Contractual Services	6,104,801	5,842,420	262,381	4.5%
Materials and Supplies	1,245,899	1,277,074	(31,175)	-2.4%
Cost of Product Sales	2,966,217	1,882,699	1,083,518	57.6%
Other Operating	1,633,337	1,659,419	(26,082)	-1.6%
Total Operating Expenses	<u>27,524,366</u>	<u>25,487,441</u>	<u>2,036,925</u>	<u>8.0%</u>
Depreciation and Amortization	9,235,438	9,319,630	(84,192)	-0.9%
Interest	2,862,005	3,615,382	(753,377)	-20.8%
Environmental Expenses	552,983	491,491	61,492	12.5%
Other Non-operating Expenses	0	384,334	(384,334)	-100.0%
Total Non-operating Expenses	<u>3,414,988</u>	<u>4,491,207</u>	<u>(1,076,219)</u>	<u>-24.0%</u>
Total Expenses	<u>\$ 40,174,792</u>	<u>\$ 39,298,278</u>	<u>\$ 876,514</u>	<u>2.2%</u>

TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – continued
September 30, 2005

EXPENSES – continued

The following charts show the major operating expense categories for the Authority for fiscal years 2004 and 2003:



CAPITAL ASSETS

Net capital assets increased 4.4% in fiscal year 2005 over 2004. The increase resulted primarily from several land acquisitions relating to noise mitigation as well as the future relocation of a runway.

<u>Net Capital Assets</u>	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease) from 2004</u>	<u>% Increase Decrease (-) from 2004</u>
Land	\$ 57,126,870	\$ 46,277,243	\$ 10,849,627	23.4%
Land Improvements	84,642,910	77,765,163	6,877,747	8.8%
Buildings and Improvements	170,499,710	102,300,512	68,199,198	66.7%
Utilities	5,754,762	5,741,318	13,444	0.2%
Furniture, Fixtures, M&E	18,775,608	17,633,937	1,141,671	6.5%
Artwork	223,798	223,798	0	0.0%
Construction in Progress	21,227,695	88,549,239	(67,321,544)	-76.0%
Gross Capital Assets	<u>358,251,353</u>	<u>338,491,210</u>	<u>19,760,143</u>	<u>5.8%</u>
Less Accumulated Depreciation	<u>128,359,941</u>	<u>118,336,912</u>	<u>10,023,029</u>	<u>8.5%</u>
Net Capital Assets	<u>\$ 229,891,412</u>	<u>\$ 220,154,298</u>	<u>\$ 9,737,114</u>	<u>4.4%</u>

TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – continued
September 30, 2005

CAPITAL ASSETS – continued

Net capital assets increased 10.4% in fiscal year 2004 over 2003. The increase resulted mostly from construction related to the terminal expansion project.

Net Capital Assets	2004	2003	Increase (Decrease) from 2003	% Increase Decrease (-) from 2003
Land	\$ 46,277,243	\$ 46,277,243	\$ 0	0.0%
Land Improvements	77,765,163	74,718,142	3,047,021	4.1%
Buildings and Improvements	102,300,512	101,056,402	1,244,110	1.2%
Utilities	5,741,318	5,738,798	2,520	0.0%
Furniture, Fixtures, M&E	17,633,937	17,673,411	(39,474)	-0.2%
Artwork	223,798	223,798	0	0.0%
Construction in Progress	88,549,239	63,866,078	24,683,161	38.6%
Gross Capital Assets	<u>338,491,210</u>	<u>309,553,872</u>	<u>28,937,338</u>	<u>9.3%</u>
Less Accumulated Depreciation	118,336,912	110,093,646	8,243,266	7.5%
Net Capital Assets	<u>\$ 220,154,298</u>	<u>\$ 199,460,226</u>	<u>\$ 20,694,072</u>	<u>10.4%</u>

Additional detailed information regarding capital asset activity may be found in Note 5 to the financial statements.

DEBT ACTIVITY

At the end of fiscal year 2005, the Authority had total debt outstanding of \$91.8 million. This represents primarily airport revenue bonds secured solely by specified revenue sources. The decrease of \$4.6 million (4.8%) from fiscal year 2004 is a result of normal debt service activity.

Outstanding Long Term Debt	2005	2004	Increase (Decrease) from 2004	% Increase Decrease (-) from 2004
Notes	\$ 175,067	\$ 213,927	\$ (38,860)	-18.2%
Authority Revenue Bonds:				
2001 Series A,B,C	13,290,000	13,855,000	(565,000)	-4.1%
2001 Subordinate Lien	40,115,000	40,865,000	(750,000)	-1.8%
2001 Series A Taxable	3,180,000	3,180,000	0	0.0%
2003 Refunding Series	31,390,000	34,665,000	(3,275,000)	-9.4%
2003 Series A Taxable	3,635,000	3,635,000	0	0.0%
Total Long Term Debt	<u>\$ 91,785,067</u>	<u>\$ 96,413,927</u>	<u>\$ (4,628,860)</u>	<u>-4.8%</u>

TUCSON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – continued
September 30, 2005

DEBT ACTIVITY – continued

Total long term debt decreased \$4.5 million in fiscal year 2004 compared to fiscal year 2003 due to normal debt service activity.

<u>Outstanding Long Term Debt</u>	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease) from 2003</u>	<u>% Increase Decrease (-) from 2003</u>
Notes	\$ 213,927	\$ 250,665	\$ (36,738)	-14.7%
Authority Revenue Bonds:				
2001 Series A,B,C	13,855,000	14,390,000	(535,000)	-3.7%
2001 Subordinate Lien	40,865,000	41,580,000	(715,000)	-1.7%
2001 Series A Taxable	3,180,000	3,180,000	0	0.0%
2003 Refunding Series	34,665,000	37,830,000	(3,165,000)	-8.4%
2003 Series A Taxable	3,635,000	3,635,000	0	0.0%
Total Long Term Debt	<u>\$ 96,413,927</u>	<u>\$ 100,865,665</u>	<u>\$ (4,451,738)</u>	<u>-4.4%</u>

Additional detailed information regarding long term debt activity may be found in Note 7 to the financial statements.

DEBT SERVICE COVERAGE

Debt service coverage is a covenant of the Authority's bond resolutions requiring that annual net airport system revenues be maintained in the amount of 1.25 times annual principal and interest on senior lien bond debt and 1.1 times annual principal and interest on subordinate lien bond debt. This coverage serves as an indicator to bond holders that funds are available for timely debt service payments. In fiscal year 2005, net airport system revenues available for senior lien bond debt service were 3.08 times senior lien debt service and net airport system revenues available for subordinate lien bond debt service were 4.38 times subordinate lien debt service.

TUCSON AIRPORT AUTHORITY, INC.
STATEMENTS OF NET ASSETS
September 30, 2005 and 2004

	2005	2004
ASSETS		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents - Note 3	\$ 8,294,804	\$ 9,595,719
Investments - Note 3	47,541,748	38,088,165
Accounts receivable, net of allowance for doubtful accounts of \$550,000 and \$250,000 for 2005 and 2004, respectively	2,122,798	2,576,063
Accrued interest receivable	301,639	271,917
Grants receivable	596,045	2,702,429
Notes receivable	42,902	39,263
Inventories - Note 4	601,264	536,193
Deferred bond issuance costs	59,478	105,605
Prepaid expenses and other assets	464,991	454,557
Total unrestricted current assets	60,025,669	54,369,911
Restricted assets:		
Debt Service Funds - Note 3:		
Airport Senior Lien Revenue Bonds, Series 2001 A, B and C:		
Cash and cash equivalents	32,368	51,931
Investments	403,861	383,671
Deferred bond issuance costs	295,935	330,647
	732,164	766,249
Airport Subordinate Lien Revenue Bonds, Series 2001:		
Cash and cash equivalents	70,835	113,567
Investments	883,815	839,049
Deferred bond issuance costs	999,105	1,062,641
	1,953,755	2,015,257
Airport Revenue Bonds, Refunding Series 2003:		
Cash and cash equivalents	117,169	187,149
Investments	1,461,919	1,382,684
Deferred bond issuance costs	1,347,522	1,677,478
	2,926,610	3,247,311
Passenger Facility Charge Fund - Note 3:		
Cash and cash equivalents	0	538,372
Investments	0	3,977,566
Accrued interest receivable	996	26,578
Accounts receivable	732,480	636,849
	733,476	5,179,365

See Accompanying Notes.

TUCSON AIRPORT AUTHORITY, INC.
STATEMENTS OF NET ASSETS - continued
September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS - continued		
Current assets - continued:		
Restricted assets - continued:		
Land Acquisition Fund - Note 3:		
Cash and cash equivalents	\$ 104,898	\$ 164,049
Investments	1,308,811	1,212,016
Accrued interest receivable	8,258	8,099
	<u>1,421,967</u>	<u>1,384,164</u>
Environmental Remediation Trust - Notes 3 and 15:		
Cash and cash equivalents	1,932,498	4,262,494
Accrued interest receivable	143,499	145,075
	<u>2,075,997</u>	<u>4,407,569</u>
Total restricted current assets	<u>9,843,969</u>	<u>16,999,915</u>
Total current assets	69,869,638	71,369,826
Noncurrent assets:		
Unrestricted assets:		
Notes receivable, net of current portion	150,904	44,689
Capital assets - Notes 5 and 7	229,891,412	220,154,298
Total unrestricted noncurrent assets	<u>230,042,316</u>	<u>220,198,987</u>
Restricted assets -		
Environmental Remediation Trust investments - Notes 3 and 15	<u>20,457,151</u>	<u>19,021,830</u>
Total noncurrent assets	<u>250,499,467</u>	<u>239,220,817</u>
Total assets	<u>\$ 320,369,105</u>	<u>\$ 310,590,643</u>

See Accompanying Notes.

TUCSON AIRPORT AUTHORITY, INC.
STATEMENTS OF NET ASSETS - continued
September 30, 2005 and 2004

	2005	2004
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	\$ 2,046,752	\$ 902,239
Accrued expenses	1,040,152	1,470,422
Deferred revenues - Note 6	654,356	607,004
Construction contracts payable	568,588	3,193,592
Current portion of notes payable	41,105	38,860
Series 2003A bonds - Note 7	3,635,000	0
Current portion of bonds payable:		
Airport Revenue Bonds, Series 2001 A, B and C	590,000	565,000
Airport Subordinate Lien Revenue Bonds, Series 2001	780,000	750,000
Airport Revenue Bonds, Refunding Series 2003	3,420,000	3,275,000
Total payable from unrestricted assets	12,775,953	10,802,117
Payable from restricted assets:		
Accrued interest payable:		
Airport Revenue Bonds, Series 2001 A, B and C	239,564	248,543
Airport Subordinate Lien Revenue Bonds, Series 2001	694,652	703,400
Airport Revenue Bonds, Refunding Series 2003	438,788	482,456
	1,373,004	1,434,399
Current portion of environmental remediation payable	3,674,260	3,407,030
Total payable from restricted assets	5,047,264	4,841,429
Total current liabilities	17,823,217	15,643,546

See Accompanying Notes.

TUCSON AIRPORT AUTHORITY, INC.
STATEMENTS OF NET ASSETS - continued
September 30, 2005 and 2004

	2005	2004
LIABILITIES AND NET ASSETS - continued		
Noncurrent liabilities:		
Payable from unrestricted assets:		
Notes payable, net of current portion - Note 7	\$ 133,962	\$ 175,067
Bonds payable, net of current portion - Note 7:		
Series 2001A Bonds	3,180,000	3,180,000
Series 2003A Bonds	0	3,635,000
Airport Revenue Bonds, Series 2001 A, B and C:	12,700,000	13,290,000
Original issue discount	(117,454)	(131,231)
Deferred loss on bond refunding	(576,256)	(643,848)
Airport Subordinate Lien Revenue Bonds, Series 2001:	39,335,000	40,115,000
Original issue discount	(189,624)	(201,683)
Airport Revenue Bonds, Refunding Series 2003	27,970,000	31,390,000
Original issue premium	1,335,542	1,662,564
Deferred loss on bond refunding	(1,156,272)	(1,439,399)
Total payable from unrestricted assets	82,614,898	91,031,470
Payable from restricted assets -		
Environmental remediation payable, net of current portion - Note 15	17,272,589	18,436,070
Total noncurrent liabilities	99,887,487	109,467,540
Total liabilities	117,710,704	125,111,086
Net assets:		
Invested in capital assets, net of related debt	138,869,887	124,599,573
Restricted for:		
Debt service	4,239,525	4,594,418
Capital projects	733,476	5,179,365
Land acquisition	1,421,967	1,384,164
Environmental remediation	1,586,299	1,586,299
Total restricted net assets	7,981,267	12,744,246
Unrestricted	55,807,247	48,135,738
Total net assets	202,658,401	185,479,557
Total liabilities and net assets	\$ 320,369,105	\$ 310,590,643

See Accompanying Notes.

TUCSON AIRPORT AUTHORITY, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Landing fees	\$ 3,236,284	\$ 2,942,919
Space rentals	12,357,922	10,992,258
Land rent	2,414,854	2,400,905
Concession revenue	13,751,539	12,619,269
Product sales	4,511,370	4,479,776
Airport services	3,306,136	3,404,943
Other operating revenues	4,950,461	4,636,337
Total operating revenues	<u>44,528,566</u>	<u>41,476,407</u>
Operating expenses:		
Personnel expenses	16,414,949	15,574,112
Contractual services	5,885,644	6,104,801
Materials and supplies	1,432,318	1,245,899
Cost of product sales	3,099,020	2,966,217
Provision for doubtful accounts	477,997	1,012
Other operating expenses	1,576,830	1,632,325
Total operating expenses	<u>28,886,758</u>	<u>27,524,366</u>
Depreciation and amortization	<u>10,761,153</u>	<u>9,235,438</u>
Operating income	4,880,655	4,716,603
Nonoperating revenues (expenses):		
Interest income	1,456,369	1,078,792
Net increase (decrease) in fair value of investments	18,394	(86,004)
Passenger facility charges - Note 12	5,351,062	5,039,403
Interest expense and fiscal charges	(4,548,723)	(2,862,005)
Gain (loss) on disposition of capital assets	(180,187)	15,482
Environmental remediation expenses	0	(552,983)
Other nonoperating revenues	84	42,072
	<u>2,096,999</u>	<u>2,674,757</u>
Income before capital contributions	6,977,654	7,391,360
Capital contributions:		
Federal	9,477,466	5,477,979
State	723,724	1,581,231
	<u>10,201,190</u>	<u>7,059,210</u>
Increase in net assets	17,178,844	14,450,570
Total net assets, beginning of year	<u>185,479,557</u>	<u>171,028,987</u>
Total net assets, end of year	<u>\$ 202,658,401</u>	<u>\$ 185,479,557</u>

See Accompanying Notes.

TUCSON AIRPORT AUTHORITY, INC.
STATEMENTS OF CASH FLOWS
Years ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts from airlines and tenants	\$ 44,551,186	\$ 41,106,499
Payments to suppliers	(10,939,287)	(12,097,350)
Payments for personnel services	(16,830,736)	(15,574,112)
Net cash provided by operating activities	<u>16,781,163</u>	<u>13,435,037</u>
Cash flows from capital and related financing activities:		
Federal/state contributed capital, grants in aid	12,307,574	5,731,680
Acquisition of capital assets	(22,846,892)	(28,996,570)
Proceeds from sale of capital assets	12,236	21,920
Principal paid on long-term debt	(4,628,860)	(4,451,738)
Passenger facility charges receipts	5,255,431	5,032,975
Interest paid on long-term debt	(4,228,034)	(2,518,126)
Net cash (used in) capital and related financing activities	<u>(14,128,545)</u>	<u>(25,179,859)</u>
Cash flows from investing activities:		
Interest on investments	817,592	884,428
Maturity and calls of investments	52,250,241	63,921,292
Purchase of investments	(59,075,055)	(45,301,625)
Issuances of notes receivable	(147,569)	0
Adjustment to environmental remediation payable	(896,251)	(2,658,452)
Collections of notes receivable	37,715	38,592
Net cash provided by (used in) investing activities	<u>(7,013,327)</u>	<u>16,884,235</u>
Net increase (decrease) in cash and cash equivalents	(4,360,709)	5,139,413
Cash and cash equivalents, beginning of year	<u>14,913,281</u>	<u>9,773,868</u>
Cash and cash equivalents, end of year	<u>\$ 10,552,572</u>	<u>\$ 14,913,281</u>

See Accompanying Notes.

TUCSON AIRPORT AUTHORITY, INC.
STATEMENTS OF CASH FLOWS - continued
Years ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,880,655	\$ 4,716,603
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	10,761,153	9,235,438
Effects of changes in operating assets and liabilities:		
Receivables	453,265	(864,130)
Inventories	(65,071)	(89,509)
Prepaid expenses and other assets	(10,434)	41,085
Accounts payable	1,144,513	(166,261)
Accrued expenses	(430,270)	66,577
Deferred revenues	<u>47,352</u>	<u>495,234</u>
Net cash provided by operating activities	<u>\$ 16,781,163</u>	<u>\$ 13,435,037</u>
Noncash investing, capital and financing activities -		
Net (appreciation) depreciation in fair value of investments	<u>\$ (18,394)</u>	<u>\$ 86,004</u>

See Accompanying Notes.

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2005 and 2004

NOTE 1 – Organization and reporting entity

Tucson Airport Authority, Inc. (Authority), a private, nonprofit corporation chartered under the laws of the State of Arizona, was established April 12, 1948 for the purpose of developing and promoting transportation and commerce in the State through the operation and maintenance of airports and related facilities adjacent to the City of Tucson in Pima County, Arizona. The Authority's membership consists of electors and taxpayers of Pima County. The membership elects a Board of Directors which governs the Authority. The Authority has no taxing power and presently operates two airports – Tucson International Airport and Ryan Airfield.

The land and improvements comprising the Tucson International Airport (Airport) are owned by the City of Tucson (City) and are leased by the City to the Authority pursuant to a lease dated October 14, 1948, as amended (Airport Lease). Pursuant to the terms of the Airport Lease, which expires October 14, 2048, the Authority has the obligation to operate, maintain and develop the Airport as a public facility for the accommodation of air commerce. In addition, the Airport Lease provides for certain other rights, powers and obligations as specified therein. Under the terms of the Airport Lease, the Authority has been required to make only nominal payments to date. Upon expiration of the Airport Lease, the Airport and improvements thereon, except as provided for in the Airport Lease, return to the custody of the City.

Substantially all of the major passenger airlines utilizing the Airport have entered into Airport Use Agreements with the Authority and are referred to as Signatory Airlines. In general, the Airport Use Agreements provide that fixed rentals are to be paid monthly by each Signatory Airline for use and occupancy of certain terminal space and other facilities. In addition, the Signatory Airlines will collectively pay landing fees which are determined so that the aggregate landing fees paid in each fiscal year by all Signatory Airlines, after taking into consideration other revenues of the Authority, is an amount which provides sufficient operating funds to cover annual debt service of the bonds, pay annual operating expenses, and satisfy other bond resolution requirements. The Airport Use Agreements terminate on September 30, 2006.

The accompanying financial statements include the accounts of the Authority. There are no potential component units, nor has the Authority been determined to be a component unit of any other entity.

NOTE 2 – Summary of significant accounting policies

A summary of significant accounting policies follows:

Basis of presentation

The Authority is accounted for as an enterprise fund. The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental units; i.e., special districts. Such funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Use of estimates in preparing financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make a number of estimates and assumptions, i.e., useful lives of capital assets, that affect the reported amounts of assets and 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. The most significant estimate recorded in the financial statements is the amount associated with the environmental remediation liability (see Note 15).

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 2 – Summary of significant accounting policies – continued

Measurement focus and basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statements of net assets. Net assets are segregated into components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

On proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, (i.e., charges to customers or users who purchase or use the goods or services of that activity). Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. When both restricted and unrestricted resources are available for use, it is the Authority's practice to use restricted resources first, then unrestricted resources as they are needed.

The Government Accounting Standards Board (GASB) is the accepted standard for establishing governmental accounting and financial reporting principles. In accordance with GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected not to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989.

Budgets

The Authority utilizes a budget process for planning purposes with adoption by the Board of Directors. The Authority prepares a biennial budget that is presented to the Mayor and Council of the City for informational purposes. An annual budget is also reviewed by representatives of the Signatory Airlines. The budget is prepared in sufficient detail to enable its use by management in monitoring operations.

Cash and cash equivalents

Investments are categorized as cash equivalents if their original maturity date is 90 days or less when purchased. Those assets having a maturity of more than 90 days are classified as investments for balance sheet presentation. Cash equivalents include cash on hand, checking, savings, money market accounts and cash equivalent mutual funds.

Accounts receivable

The Authority uses the allowance method for recording the provision for doubtful accounts.

Inventories

Inventories are recorded at the lower of cost or market with cost determined on an average cost basis for operating and maintenance supplies and flight line merchandise and on a FIFO basis for fuel.

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 2 – Summary of significant accounting policies

Investments/Change in accounting principle

Investments are stated at fair value. The Authority's policy is to invest in certificates of deposit, federal government securities, cash equivalent mutual funds, repurchase agreements and federal agency securities, and to hold such investments to maturity. In accordance with this policy, investments are purchased so that maturities will occur as projected cash flow needs arise in connection with construction projects and bond debt service requirements.

In the year ended September 30, 2005, the Authority adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. The Statement modifies the custodial credit risk disclosures required by GASB Statement No. 3, *Deposits with Financial Institutions (including Repurchase Agreements), and Reverse Purchase Agreements*, and addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The disclosure changes related to implementing this pronouncement are reflected in Note 3, and are effective as of October 1, 2003.

Bond issuance costs

Costs of issuing general airport revenue bonds are deferred and amortized over the life of the bonds using the effective interest method.

Capital assets

Capital assets are stated at cost or estimated historical cost if original cost is not available. Gifts or contributions of such assets are stated at estimated fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives of the related assets:

Land improvements	10 to 33 years
Buildings and improvements	20 to 50 years
Utilities	20 years
Furniture, fixtures, machinery and equipment	3 to 10 years

Depreciation of assets is recorded as an expense in the statements of revenues, expenses and changes in net assets.

Interest incurred on debt obligations to finance construction projects is capitalized during the construction period. Interest income from funds obtained through Authority bond proceeds that are restricted for construction purposes is netted against interest expense incurred on the bond fund in determining the amount of capitalized interest.

Restricted assets

Certain resources of the Authority are classified as restricted assets on the Statements of Net Assets because their use is limited by applicable bond covenants, the Passenger Facility Charge Application or the Environmental Consent Decree for payment of the respective liabilities.

Compensated absences

The Authority's personnel policy provides full-time employees with vacation and administrative leave (for grandfathered employees) in varying amounts and, at termination, an employee is paid for accumulated (vested) vacation and administrative leave. Accordingly, compensation for vacation and administrative leave is charged to expense as earned by the employee, and accumulated unpaid vacation and administrative leave payable upon an employee's termination is recorded as a current liability.

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 2 - Summary of significant accounting policies - continued

Deferred loss on bond refundings

The Authority accounts for deferred loss on bond refundings in accordance with Governmental Accounting Standards Board Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*. The losses on the 2001 Series A, B and C and the Refunding Series 2003 Airport Revenue Bonds are being amortized as a component of interest expense using the effective interest method over the remaining life of the related bonds.

Net assets

The Authority's policy is to record a reservation of net assets to the extent that assets restricted for bond debt service exceed the applicable debt service liabilities, and these assets are funded from operations rather than bond proceeds. Because these restricted assets do not exceed debt service liabilities at September 30, 2005 and 2004, no reservation of net assets is required.

Environmental remediation costs

The Authority accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

Passenger facility charges

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act (Act), which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the Federal Aviation Administration issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects which meet at least one of the following criteria: preserve or enhance safety, security or capacity of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers.

The Authority was granted permission to begin collection of a \$3 per passenger PFC effective February 1, 1998. The charges, less an (\$0.11) administrative fee charged by the airlines for processing, are collected by the airlines and remitted on a monthly basis to the Authority.

At the present time, GASB has not released authoritative guidance on the accounting treatment of PFCs. The Authority's position is that PFCs should be treated as revenue because: 1) the Authority earns the PFCs due to a passenger's use of the Airport; 2) after receipt, the Authority has clear title to the funds and is not required to refund or return them; 3) the Authority is entitled to assess late charges on any payment not received by the deadlines specified in the Act; and 4) the fee is reserved for specific purposes as defined in the approval letter received from the Federal Aviation Administration's (FAA) administrator.

Since the Authority's applications for PFCs were approved as Impose and Use, it is the position of the Authority that these receipts should be recognized immediately. Due to their restricted use, PFCs are categorized as nonoperating revenues and are accounted for on the accrual basis.

Reclassifications

Certain amounts in the 2004 financial statements have been reclassified for comparative purposes to conform to the 2005 financial statement presentation.

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 3 – Cash and investments

The Authority maintains a cash and investment pool (Pooled Investment Fund) for all funds except environmental remediation trust assets which are maintained in a separate investment pool (Master Environmental Trust Fund). The Authority maintains detailed records sufficient to meet any and all requirements and restrictions on both funds which include Passenger Facility Charges and FAA Land Acquisition Funds. Additionally, the Board, at its discretion, may internally designate certain funds for specific purposes.

Deposits

At September 30, 2005, the carrying amount of the Authority's deposits was \$4,476,841 and the bank balance was \$4,926,308. At September 30, 2004, the carrying amount of the Authority's deposits was \$(623,669) and the bank balance was \$307,350. The difference between the carrying amounts and the bank balances represents outstanding checks, deposits in transit and other reconciling items.

Custodial credit risk - deposits and investments

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority's investment policy requires that all deposits at financial institutions, certificates of deposit, repurchase agreements and money market mutual funds be insured, registered in the Authority's name or collateralized to 102% and held by the Authority's safekeeping agent in the Authority's name. Collateral is restricted to United States treasuries, agencies or instrumentalities.

The Authority invests in obligations of the U.S. Government and its agencies. Some of these obligations are classified as cash equivalents on the accompanying balance sheets as the amounts are in money market fund pools of such securities. The amount shown below includes all U.S. Government securities, regardless of classification. The Authority's mutual fund investments are invested exclusively in short-term, U.S. Government Treasury obligations. The investments are valued at amortized cost which approximates market. These assets are classified as cash equivalents.

Interest rate risk

In accordance with its investment policy, the Authority manages its exposure to interest rate risk by regular (not less than semi-annually) evaluation in conjunction with Authority investment advisors of the Authority's cash position to determine the amount of short and long-term funds available for investment within the context of the entire portfolio and to project the term for such investments. Funds that can be invested for a longer duration are to be invested predominantly in high credit quality U.S. obligations with an individual obligation not to exceed 10 years and a weighted average maturity of all such investments of not greater than 5 years.

Credit risk

With regard to all investments in the Pooled Investment Fund, in the absence of definitive legal requirements, the Authority has elected to conform to Arizona Revised Statutes (Statutes) concerning the investment of public funds. The Statutes permit the following investments:

1. Certificates of deposit in eligible depositories with collateralization requirements and that do not exceed 12 months to maturity from date of issue;
2. Obligations issued or guaranteed by the United States or any of the senior debt of its agencies, corporations, sponsored corporations or instrumentalities;

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 3 – Cash and investments – continued

Credit risk – continued

3. Repurchase agreements with a maximum maturity of 180 days;
4. Guaranteed investment contracts structured in a collateralized repurchase agreement format;
5. SEC registered money market mutual funds holding only federal securities;
6. Bonds, notes or other evidences of indebtedness of:
 - a. The State or of any county, incorporated city or town, or school district;
 - b. Certain county or municipal districts, if no default has occurred within the last 5 years; and
 - c. Special assessment bonds of county or municipal improvement districts;
7. Interest-bearing savings accounts in banks and savings and loan institutions doing business in the State whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) but only if such deposits in excess of insured amounts are collateralized to the same extent as public deposits;
8. State investment pool;
9. Commercial domestic paper of prime quality that is rated “P1” or better by Moody’s or “A1” or better by Standard & Poor’s;
10. Bonds, debentures and notes that are issued by corporations organized in the United States that are rated “A” or better by Moody’s or Standard & Poor’s.

The Master Remediation Trust Fund Agreement permits the following investments in the Master Environmental Trust Fund:

1. “Permitted investments” as outlined in the Authority’s bond resolution:
 - a. Bank savings accounts, time certificates of deposit or open account certificates of deposit;
 - b. Direct obligations of or guaranteed by the United States or issued by the following agencies:
 - 1) Banks or Cooperatives, the Export-Import Bank of the United States, Federal Intermediate Credit Banks, Federal Home Loan Banks, Federal Land Banks, Fannie Mae or Ginnie Mae;
 - 2) Repurchase agreements collateralized solely by federal securities;
 - 3) Guaranteed investment contracts structured in a collateralized repurchase agreement format and involving only federal securities;
 - 4) Money market mutual funds holding only federal securities;
 - 5) Full faith and credit direct and general obligations of the State or political subdivisions which are rated in the two highest rating categories by two nationally recognized bond rating agencies and are legal investments for fiduciaries in the State of Arizona;
 - 6) Bank savings accounts, time certificates of deposit or open certificates of deposit.
2. Such other prudent investments as are consistent with investment policies adopted by the Authority’s Board of Directors:
 - a. Certificates of deposit issued by state and national banks doing business in Arizona that:
 - 1) Are guaranteed by the FDIC or its successor;
 - 2) Are collateralized at 102% by obligations of the United States or its agencies and instrumentalities; and
 - 3) Do not exceed 6 months to maturity from date of issuance;
 - b. Obligations of the United States, its agencies and instrumentalities;
 - c. Fully collateralized repurchase agreements defined by a buy-sell transaction, secured by obligations of the United States or its agencies and instrumentalities, collateralized at 102%, executed through primary government securities dealers and with collateral held by third-party custodians;
 - d. Bankers’ acceptances with a maximum maturity of 270 days, eligible as collateral for borrowing from a Federal Reserve Bank and from a United States bank with short-term ratings not less than A1/P1 or an equivalent;

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 3 – Cash and investments – continued

Credit risk – continued

- e. Fully collateralized guaranteed investment contracts executed with a primary securities dealer as defined by the Federal Reserve;
 - f. Securities and Exchange Commission (SEC) registered money market mutual funds provided the fund conforms to all bond resolutions;
 - g. Bonds or notes issued by any state or municipality, with ratings not less than AA, or an equivalent.
3. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933.

Concentration of credit risk

In order to provide for diversification and reduce market and credit risk exposures, the following diversification parameters have been established in the Authority's investment policies:

	Maximum % of portfolio
Certificates of deposit	20%
U.S. Treasuries, agencies and instrumentalities	100%
Repurchase agreements	50%
Bankers' acceptances	10%
Guaranteed investment contracts	10%
Money market mutual funds	50%
State/municipality bonds or notes	20%

At September 30, 2005 and 2004, the Authority had the following investments:

	Fair value				2005 rating
	2005		2004		
	\$	%	\$	%	
Pooled Investment Fund:					
U.S. Treasuries	\$ 0	0%	\$ 16,964,731	37%	N/A
U.S. Agency securities:					
Federal Home Loan Bank	17,852,775	35%	5,971,200	13%	AAA
Federal Home Loan Mortgage Corp	19,795,101	38%	12,956,926	28%	A-1+/AAA
Federal National Mortgage Association	13,952,278	27%	9,990,294	22%	A-1+/AAA
	51,600,154	100%	45,883,151	100%	
Master Environmental Trust Fund:					
U.S. Treasuries	1,993,240	10%	3,988,357	21%	N/A
U.S. Agency securities:					
Federal Home Loan Bank	11,034,206	54%	8,002,208	42%	AAA
Federal Home Loan Mortgage Corp	3,480,725	17%	4,998,361	26%	A-1+/AAA
Federal National Mortgage Association	3,948,980	19%	2,032,904	11%	AAA
	20,457,151	100%	19,021,830	100%	
	\$ 72,057,305		\$ 64,904,981		

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 3 – Cash and investments - continued

Cash and cash equivalents and investments are classified on the Statements of Net Assets at September 30, 2005 and 2004 as follows:

	Cash and cash equivalents		Investments	
	2005	2004	2005	2004
Unrestricted	\$ 8,294,804	\$ 9,595,719	\$ 47,541,748	\$ 38,088,165
Airport Senior Lien Revenue				
Bonds, Series 2001	32,368	51,931	403,861	383,671
Airport Subordinate Lien Revenue				
Bonds, Series 2001	70,835	113,567	883,815	839,049
Airport Revenue Bonds, Refunding				
Series 2003	117,169	187,149	1,461,919	1,382,684
Passenger Facility Charge Fund	0	538,372	0	3,977,566
Land Acquisition Fund	104,898	164,049	1,308,811	1,212,016
Environmental Remediation Trust	1,932,498	4,262,494	20,457,151	19,021,830
	<u>\$ 10,552,572</u>	<u>\$ 14,913,281</u>	<u>\$ 72,057,305</u>	<u>\$ 64,904,981</u>

Cash and cash equivalents are comprised of the following at September 30, 2005 and 2004:

	2005	2004	2005 credit rating
Deposits at financial institutions	\$ 4,476,841	\$ (623,669)	N/A
JP Morgan Money Market Treasury Fund	6,068,107	15,529,326	AAA
Cash on hand	7,624	7,624	N/A
Total cash and cash equivalents	<u>\$ 10,552,572</u>	<u>\$ 14,913,281</u>	

At September 30, 2005, the Authority's investments are scheduled to mature as follows:

	Fair value	Investment maturities (in months)			
		Less than 5	5-8	9-12	13-16
Pooled investment fund:					
U.S. Agency securities	\$ 51,600,154	\$ 14,937,720	\$ 17,934,143	\$ 9,842,750	\$ 8,885,541
Master Environmental Trust Fund:					
U.S. Treasuries	1,993,240	1,993,240	0	0	0
U.S. Agency securities	18,463,911	3,493,925	3,965,340	4,948,040	6,056,606
	<u>20,457,151</u>	<u>5,487,165</u>	<u>3,965,340</u>	<u>4,948,040</u>	<u>6,056,606</u>
Total investments	<u>\$ 72,057,305</u>	<u>\$ 20,424,885</u>	<u>\$ 21,899,483</u>	<u>\$ 14,790,790</u>	<u>\$ 14,942,147</u>

NOTE 4 – Inventories

Inventories at September 30, 2005 and 2004 follow:

	2005	2004
Flight line merchandise, including fuel, for resale	\$ 254,304	\$ 176,505
Operating and maintenance supplies	346,960	359,688
	<u>\$ 601,264</u>	<u>\$ 536,193</u>

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 5 – Capital assets

Capital asset activity for the year ended September 30, 2005 follows:

	Beginning balance	Transfers	Increases	Decreases	Ending balance
Business type activities:					
Capital assets not being depreciated:					
Land	\$ 46,277,243	\$ 10,849,627			\$ 57,126,870
Artwork	223,798				223,798
Construction in progress	88,549,239	(86,786,645)	\$ 19,641,098	\$ (175,997)	21,227,695
Total capital assets not being depreciated	<u>135,050,280</u>	<u>(75,937,018)</u>	<u>19,641,098</u>	<u>(175,997)</u>	<u>78,578,363</u>
Capital assets being depreciated:					
Utilities	5,741,318		13,444		5,754,762
Land improvements	77,765,163	6,873,332	4,415		84,642,910
Buildings and improvements	102,300,512	68,126,853	72,345		170,499,710
Furniture, fixtures, machinery and equipment	17,633,937	936,833	490,586	(285,748)	18,775,608
Total capital assets being depreciated	<u>203,440,930</u>	<u>75,937,018</u>	<u>580,790</u>	<u>(285,748)</u>	<u>279,672,990</u>
Less accumulated depreciation for:					
Utilities	4,963,714		128,175		5,091,889
Land improvements	50,138,507		3,533,611		53,672,118
Buildings and improvements	50,498,166		5,566,686		56,064,852
Furniture, fixtures, machinery and equipment	12,736,525		1,063,879	(269,322)	13,531,082
	<u>118,336,912</u>	<u>0</u>	<u>10,292,351</u>	<u>(269,322)</u>	<u>128,359,941</u>
Net capital assets being depreciated	<u>85,104,018</u>	<u>75,937,018</u>	<u>(9,711,561)</u>	<u>(16,426)</u>	<u>151,313,049</u>
Net capital assets	<u>\$ 220,154,298</u>	<u>\$ 0</u>	<u>\$ 9,929,537</u>	<u>\$ (192,423)</u>	<u>\$ 229,891,412</u>

Capital asset activity for the year ended September 30, 2004 follows:

	Beginning balance	Transfers	Increases	Decreases	Ending balance
Business type activities:					
Capital assets not being depreciated:					
Land	\$ 46,277,243				\$ 46,277,243
Artwork	223,798				223,798
Construction in progress	63,866,078	\$ (153,031)	\$ 24,836,192		88,549,239
Total capital assets not being depreciated	<u>110,367,119</u>	<u>(153,031)</u>	<u>24,836,192</u>		<u>135,050,280</u>
Capital assets being depreciated:					
Utilities	5,738,798		2,520		5,741,318
Land improvements	74,718,142		3,355,686	\$ (308,665)	77,765,163
Buildings and improvements	101,056,402		1,353,519	(109,409)	102,300,512
Furniture, fixtures, machinery and equipment	17,673,411	153,031	341,794	(534,299)	17,633,937
Total capital assets being depreciated	<u>199,186,753</u>	<u>153,031</u>	<u>5,053,519</u>	<u>(952,373)</u>	<u>203,440,930</u>
Less accumulated depreciation for:					
Utilities	4,787,451		176,263		4,963,714
Land improvements	46,710,552		3,427,955		50,138,507
Buildings and improvements	46,677,318		3,820,848		50,498,166
Furniture, fixtures, machinery and equipment	11,918,325		1,305,371	(487,171)	12,736,525
	<u>110,093,646</u>	<u>0</u>	<u>8,730,437</u>	<u>(487,171)</u>	<u>118,336,912</u>
Net capital assets being depreciated	<u>89,093,107</u>	<u>153,031</u>	<u>(3,676,918)</u>	<u>(465,202)</u>	<u>85,104,018</u>
Net capital assets	<u>\$ 199,460,226</u>	<u>\$ 0</u>	<u>\$ 21,159,274</u>	<u>\$ (465,202)</u>	<u>\$ 220,154,298</u>

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 5 – Capital assets – continued

The amount of interest capitalized as part of construction in progress in 2005 and 2004 was \$352,700 and \$2,136,698, respectively. These amounts were reduced by the interest earned from bond proceeds restricted for construction in 2005 and 2004 of \$0 and \$7,559, respectively. Depreciation expense was \$10,292,351 and \$8,730,437 for the years ended September 30, 2005 and 2004, respectively.

NOTE 6 – Deferred revenues

The Authority has been awarded certain amounts by the Court in connection with assets seized by Authority law enforcement officers in narcotics investigations. Such amounts have been recorded as deferred revenues pending approval for expenditure by the Pima County Attorney's Office. The Authority's Board of Directors has approved the use of 25% of these funds for the Pima County Anti-Drug/Anti-Gang Program, and the remainder for drug enforcement and prevention by the Authority's Police Department.

At September 30 2005 and 2004, the Authority has received rent payments applicable to the subsequent fiscal year from certain tenants. Such amounts have been classified as deferred revenue.

A detail of deferred revenues at September 30 follows:

	2005	2004
Narcotics funds	\$ 61,840	\$ 81,626
Tenant rent payments	592,516	525,378
	\$ 654,356	\$ 607,004

NOTE 7 – Long-term debt

	Beginning balance	Increases	Decreases	Ending balance
2005 activity:				
Business-type activities:				
Note	\$ 213,927		\$ (38,860)	\$ 175,067
Authority bonds:				
Series 2001A	3,180,000			3,180,000
Series 2003A	3,635,000			3,635,000
2001 series A, B and C	13,855,000		(565,000)	13,290,000
2001 subordinate lien	40,865,000		(750,000)	40,115,000
2003 refunding series	34,665,000		(3,275,000)	31,390,000
Total debt	96,413,927		(4,628,860)	91,785,067
Less current portion	(4,628,860)	\$ (3,837,245)		(8,466,105)
Non-current debt	\$ 91,785,067	\$ (3,837,245)	\$ (4,628,860)	\$ 83,318,962
2004 activity:				
Business-type activities:				
Note	\$ 250,665		\$ (36,738)	\$ 213,927
Authority bonds:				
Series 2001A	3,180,000			3,180,000
Series 2003A	3,635,000			3,635,000
2001 series A, B and C	14,390,000		(535,000)	13,855,000
2001 subordinate lien	41,580,000		(715,000)	40,865,000
2003 refunding series	37,830,000		(3,165,000)	34,665,000
Total debt	100,865,665		(4,451,738)	96,413,927
Less current portion	(4,451,736)	\$ (177,124)		(4,628,860)
Non-current debt	\$ 96,413,929	\$ (177,124)	\$ (4,451,738)	\$ 91,785,067

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 7 - Long-term debt - continued

Long-term debt at September 30, 2005 and 2004 follows:

	<u>2005</u>	<u>2004</u>
\$3,180,000 Series 2001A bonds, interest payable monthly at a variable commercial paper interest rate (3.85% at September 30, 2005); secured by a letter of credit expiring November 15, 2007	\$ 3,180,000	\$ 3,180,000
\$380,987 purchase agreement to Lucent Technologies for telephone system; payable in monthly installments of \$4,159, including interest at 5.63%, maturing August 31, 2009. Secured by the equipment.	175,067	213,927
\$15,550,000 Airport Revenue Bonds, Series 2001 A (non-AMT), B (AMT), and C (taxable). Bonds due in annual amounts, ranging from \$645,000 to \$1,310,000, June 1, 2002 through June 1, 2020; interest payable semiannually at 4.00% to 7.24%.	13,290,000	13,855,000
\$41,580,000 Subordinate Lien Revenue Bonds, Series 2001. Bonds due in annual amounts, ranging from \$715,000 to \$2,720,000, June 1, 2004 through June 1, 2031; interest payable semiannually at 4.30% to 5.35%.	40,115,000	40,865,000
\$3,635,000 Series 2003A bonds, interest payable monthly at a variable commercial paper interest rate (3.8% at September 30, 2005); secured by a letter of credit expiring July 10, 2006	3,635,000	3,635,000
\$37,830,000 Refunding Revenue Bonds, Series 2003. Bonds due in annual amounts, ranging from \$3,165,000 to \$4,510,000, June 1, 2004 through June 1, 2013; interest payable semiannually at 4.00% to 5.00%.	31,390,000	34,665,000
	<u>\$ 91,785,067</u>	<u>\$ 96,413,927</u>

In March 1993, the Authority issued Airport Revenue Bonds Refunding Series 1993 (1993 Bonds). The net proceeds from the issuance of the 1993 Bonds were used to purchase government securities, and those securities were deposited in an irrevocable trust with an escrow agent until June 1993, when the trust paid in full the General Revenue Bonds, Series 1977 and 1983. As a result of the 1993 refunding, the Authority originally recognized a deferred loss of \$3,844,848 in 1993. In June 2003, the Authority issued Airport Revenue Bonds Refunding series 2003 (2003 Bonds). The proceeds from the issuance of the 2003 Bonds were used to pay in full the 1993 Bonds. As a result of the 2003 refunding, the Authority recognized a deferred loss of \$1,855,855 (inclusive of the remaining unamortized deferred loss of \$1,120,455 from the 1993 Bonds), of which \$1,156,272 has not been amortized.

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 7 - Long-term debt - continued

In July 2001, the Authority issued Airport Revenue Bonds Refunding Series 2001 A, B and C (2001 Bonds). The net proceeds from the 2001 Bonds were invested in government securities and deposited with a refunding trust until August 2001 when the trust paid in full the Airport Revenue Bonds, Series 1990. As a result of the 2001 refunding, the Authority originally recognized a deferred loss of \$875,665, of which \$576,256 has not been amortized.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, losses on bond refundings have been deferred and shown as a reduction of bond liabilities. Amortization of the losses totaled \$350,718 and \$380,415 for the years ended September 30, 2005 and 2004, respectively.

The purpose of the refundings was to take advantage of lower interest rates, as well as to restructure future debt service payments. This refunding decreased the Authority's total debt requirement and resulted in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$2,206,901.

A summary of long-term debt service requirements to maturity as of September 30, 2005, including required annual principal installments to the bond and note fund of \$91,785,067 and interest payments of \$47,955,515 totaling \$139,740,582 follows:

	Note		Airport Revenue Bonds Refunding Series 2003	
	Principal	Interest	Principal	Interest
Fiscal year ending September 30, 2006	\$ 41,105	\$ 8,806	\$ 3,420,000	\$ 1,316,363
2007	43,480	6,431	3,555,000	1,179,563
2008	45,992	3,919	3,700,000	1,037,363
2009	44,490	1,292	3,850,000	889,363
2010			3,965,000	773,863
2011-2015			12,900,000	1,311,000
	<u>\$ 175,067</u>	<u>\$ 20,448</u>	<u>\$ 31,390,000</u>	<u>\$ 6,507,515</u>

	Airport Revenue Bonds Series 2001 A, B and C		Airport Subordinate Lien Revenue Bonds, Series 2001	
	Principal	Interest	Principal	Interest
Fiscal year ending September 30, 2006	\$ 590,000	\$ 718,689	\$ 780,000	\$ 2,083,950
2007	615,000	690,469	815,000	2,050,410
2008	645,000	660,996	850,000	2,015,365
2009	675,000	630,038	885,000	1,978,815
2010	715,000	596,729	935,000	1,930,140
2011-2015	4,170,000	2,384,112	5,480,000	8,838,275
2016-2020	5,880,000	1,036,408	7,010,000	7,305,950
2021-2025			8,985,000	5,331,223
2026-2030			11,655,000	2,663,231
2031			2,720,000	145,520
	<u>\$ 13,290,000</u>	<u>\$ 6,717,441</u>	<u>\$ 40,115,000</u>	<u>\$ 34,342,879</u>

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 7 – Long-term debt – continued

	Series 2001A		Series 2003A	
	Principal	Interest	Principal	Interest
Fiscal year ending September 30, 2006	\$	\$ 122,430	\$ 3,635,000	\$ 107,098
2007		122,430		
2008	3,180,000	15,304		
	<u>\$ 3,180,000</u>	<u>\$ 260,164</u>	<u>\$ 3,635,000</u>	<u>\$ 107,098</u>

The Authority's bond resolutions require periodic transfers from gross operating income to bond funds restricted for the payment of principal and interest. Other transfers to certain accounts are required by the bond resolutions after payment of operating and maintenance expenses. At September 30, 2005 and 2004, the Authority was in compliance with these and other bond resolution covenants.

Under U.S. Treasury regulations, all governmental tax-exempt debt issued after August 31, 1986, is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax-exempt bond proceeds, which exceed related interest expenditure on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The Authority's practice is to engage an independent consultant to evaluate outstanding tax-exempt debt for arbitrage liability and the Authority is of the opinion that no liability has been incurred as of September 30, 2005.

NOTE 8 – Arizona State Retirement System

Substantially all full-time employees of the Authority (excluding fire and police personnel) participate in the Arizona State Retirement Plan (ASRP), a cost-sharing multiple-employer defined benefit pension plan. The plan is authorized under Title 38 of the Arizona Revised Statutes. The State of Arizona designates the management of the system, establishes the contribution rate, and has budgetary control. Arizona State Retirement System (ASRS) administers the ASRP and prepares the comprehensive annual financial report, which can be obtained by writing to ASRS, 3300 North Central Avenue, Suite 1300, Phoenix, Arizona 85012. The following information is based upon the most recent Comprehensive Annual Financial report of the ASRS for the fiscal year ended June 30, 2004. Participants in the plan are fully vested after five years of total credited service.

The Plan provides for retirement, disability, health insurance premium benefits, and death and survivor benefits. Employees attaining the earlier of ages 65 or 62 with 10 or more years of service or any combination of years of service and age which totals 80 are entitled to full retirement benefits. The monthly benefit is the product of the participant's best 36-month average compensation (in the last 120 months) multiplied by his or her years of total credited service, multiplied by the respective benefit multiplier as defined in the plan. The plan permits early retirement at the age of 50 after the completion of at least 5 years of service, but at a reduced retirement benefit. In addition, active employees who become disabled receive up to two-thirds of their salary reduced by any public disability benefits to which the member is entitled, payable commencing 6 months after date of disability.

Disability benefits are paid until the employee returns to work, ceases to be under a physician's care, or reaches normal retirement age. The minimum disability benefit is \$50 per month. If an active employee dies, his or her designated beneficiary receives 2 times the amount of contributions made to the retirement plan plus any amounts transferred from other systems, together with interest at the valuation rate up until the month of death. The beneficiary receives a benefit, which may be paid in a single sum or, in some cases, in the form of monthly annuity payment as defined in the plan.

If a member's employment is terminated before the member is eligible for any other benefits under the ASRP, the member may receive a refund of all employee contributions made to his or her retirement account, plus interest at the determined rate, or the member may leave his or her contributions in the ASRP subject to normal retirement requirements.

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 8 – Arizona State Retirement System - continued

Funding policy

Arizona Revised Statutes provide statutory authority for determining employees' and employers' contribution amounts. Employers are required to contribute at the same rate as employees. The current contribution rate for employees and the Authority is 6.90% for retirement and 0.50% for disability. Although the Statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is able to legislate a contribution rate other than the actuarially determined rate.

Annual pension cost/actuarial information

The Authority's annual pension cost for the fiscal years ended September 30, 2005, 2004 and 2003 was \$583,591, \$501,140, and \$261,498, respectively, and was equal to the required and actual contributions. The contribution rates were actuarially determined using the Projected Unit Credit (PUC) funding method. The contribution rate consists of a factor to cover normal costs using the same actuarial assumptions used to compute the pension benefit obligation and a factor to amortize the under-funded past service liability. The actuarial assumptions used include (a) a rate of return on investments of 8% per year, compounded annually; (b) projected salary increases of 4.0% to 9.9% per year; and (c) an inflation rate of 4.25% per year.

The cost to the Authority for the long-term disability portion of the plan for the years ended September 30, 2005, 2004 and 2003 was \$52,244, \$49,145 and \$46,032, respectively.

NOTE 9 – Arizona Public Safety Personnel Retirement System

Plan description

Employees of the Authority who are employed in either police or firefighting capacities and work at least 20 hours a week for more than 6 months a year participate in the Arizona Public Safety Personnel Retirement System (APSPRS), an agent multiple-employer defined benefit pension plan. The plan provides retirement and disability benefits to members and death benefits to beneficiaries.

Based on Arizona Revised Statutes, normal retirement benefits commence after 20 years of service or following a participant's 62nd birthday and completion of 15 years of service. The amount of monthly normal pension is based on credited service and average monthly compensation, as follows:

- For retirement with 25 or more years of credited service, 50% of average monthly compensation for the first 20 years of credited service, plus 2-1/2% of average monthly compensation for each year of credited service above 20 years.
- For retirement with 20 years of credited service but less than 25 years of credited service, 50% of average monthly compensation for the first 20 years of credited service, plus 2% of average monthly compensation for each year of credited service between 20 and 25 years.
- For retirement with less than 20 years of credited service, the percent of average monthly compensation is reduced at a rate of 4% for each year less than 20 years of credited service.

The maximum amount payable as a normal retirement pension is 80% of the average monthly compensation paid to a member during the 3 years of the last 20 years of credited service in which their compensation was highest.

The APSPRS issues a publicly available financial report, which may be obtained by contacting the APSPRS in Phoenix, Arizona.

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 9 - Arizona Public Safety Personnel Retirement System - continued

Funding policy

APSPRS members are required to contribute 7.65% of covered compensation. The Authority contributes at actuarially determined rates of 12.90% and 18.08% of covered compensation by fire and police employees, respectively. The contribution requirements are established and can be amended by the APSPRS Board of Trustees.

Annual pension cost

The Authority's 2005 expense for fire and police employees was \$114,304 and \$207,991, respectively. The Authority's 2004 expense for fire and police employees was \$109,988 and \$206,918, respectively. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. Actuarial assumptions include (a) 8.50% investment rate of return, (b) projected salary increases from 6% per year compound annually attributable to inflation and other across-the-board increases, and (c) additional projected salary increases of 0.1% to 3.0% per year attributable to seniority/merit. The actuarial value of APSPRS assets was determined using a smoothed market value approach.

The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2005 was 20 years.

Shown below is the three-year trend information for each plan:

Fiscal year ended	Annual pension cost	Percent contributed	Net pension obligation
Fire:			
June 30, 2003	\$ 72,707	100%	\$ 0
June 30, 2004	108,108	100%	0
June 30, 2005	112,407	100%	0
Police:			
June 30, 2003	186,651	100%	0
June 30, 2004	211,544	100%	0
June 30, 2005	190,448	100%	0

The schedules of funding progress are shown below:

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a / b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((a - b) / c)
Fire retirement plan:						
6/30/03	\$ 5,790,301	\$ 5,671,232	\$ (119,069)	102.1%	\$ 1,061,420	0.0%
6/30/04	5,891,494	6,256,501	365,007	94.2%	1,025,121	35.6%
6/30/05	6,183,976	7,795,929	1,611,953	79.3%	954,433	168.9%
Police retirement plan:						
6/30/03	\$ 4,390,145	\$ 5,766,461	\$ 1,376,316	76.1%	\$ 1,444,928	95.3%
6/30/04	4,425,430	6,288,486	1,863,056	70.4%	1,217,106	153.1%
6/30/05	4,303,343	7,593,274	3,289,931	56.7%	1,365,703	240.9%

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 10 – Operating leases

The Authority is the lessor of various facilities within the Airport System. Lease contracts are generally written with noncancelable terms of up to 30 years. Costs and related accumulated depreciation of property under leases are not practically determinable as the majority of the leases relate only to portions of buildings.

A summary of minimum noncancelable rentals under operating leases at September 30, 2005 follows:

Fiscal year ending September 30, 2006	\$ 12,483,892
2007	3,843,892
2008	2,713,472
2009	2,258,408
2010	1,669,820
2010-2014	6,871,535
2015-2019	5,094,442
2020-2024	4,580,167
2025-2029	2,663,773
2030-2034	153,453
	\$ 42,332,854

Several lease agreements have provisions for contingent rentals calculated on the tenant’s gross revenue or other operating criteria with a minimum annual guarantee. Revenue under these leases totaled \$6,056,528 and \$6,640,432 in 2005 and 2004, respectively, and is included in concession revenues.

NOTE 11 – Operating revenues

Concession fees from the airport rental car operations amounted to approximately 12% and 11% of total operating revenues in 2005 and 2004, respectively. Net revenues from the airport parking lot operations amounted to approximately 15% of total operating revenues in 2005 and 2004.

NOTE 12 – Passenger facility charges

Passenger Facility Charges (PFCs) are collected in accordance with FAA regulations allowing airports to impose a \$3 PFC. As described in the summary of significant policies, the Authority was granted permission to begin collection in February 1998. During the fiscal years ended September 30, 2005 and 2004, the Authority earned PFCs of \$5,351,062 and \$5,039,403, respectively. The total amount of PFCs to be collected under this FAA approved application is based on the estimated costs of approved PFC projects. The FAA approval letter provided total aggregate collection authority of \$101,234,420.

In accordance with FAA regulations, based on the approval date and continuing through the PFC collection period, the Authority’s share of entitlement grants will be reduced 50 percent. Entitlement grants totaled \$2,508,659 and \$2,510,341 for the fiscal years ended September 30, 2005 and 2004, respectively, and are estimated to be approximately \$2,550,000 for the year ended September 30, 2006.

NOTE 13 – Risk management

The Authority is exposed to various risks or losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Authority’s risk management activities include purchase of commercial insurance with standard deductibles for all significant insurable risks. There have been no significant reductions in insurance coverage in the last year. The amounts of settlements have not exceeded insurance coverage for the past four years. Other than for certain environmental remediation liabilities as discussed in Note 15, the financial statements do not include any liability for uninsured claims at September 30, 2005 and 2004.

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 13 – Risk management – continued

Losses arising from claims and judgments are expensed when (1) it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (2) the amount of the loss can be reasonably estimated.

NOTE 14 – Commitments and contingencies

The Authority participates in federal and state grant programs providing aid for airport development. The audits of these grants for or including the year ended September 30, 2005 have not been reviewed and accepted by the granting agencies. Accordingly, the Authority's compliance with applicable grant requirements will be evaluated and ultimately determined at some future date. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although Authority management expects such amounts, if any, to be immaterial.

Commitments for contractual services for federally funded and other construction projects at September 30, 2005 totaled approximately \$5,400,000. These commitments will be funded in whole or in part by federal and state grants of \$3,900,000 and the Authority's previously issued revenue bonds and Authority funds, as necessary, of \$1,500,000.

In connection with their law enforcement responsibilities, the Authority's police department confiscates cash from suspected felons. Assets held by the Authority in the Authority's operating account totaled \$13,679 and \$23,952 at September 30, 2005 and 2004, respectively. The Authority has established a bank account to maintain these funds. At September 30, 2005 and 2004, the Authority has recorded an offsetting liability for those assets held in trust and has included this liability in deferred revenue on the accompanying statement of net assets.

NOTE 15 – Environmental matters, litigation and uncertainties

Groundwater Cleanup "Consent Decree"

Pursuant to a 1991 Consent Decree, which the U.S. District Court modified in 2001 for the District of Arizona (the Modified Groundwater Consent Decree), the Authority is required to pay certain groundwater "remediation costs." Under the terms of the Modified Groundwater Consent Decree, the Authority is required to deposit funds sufficient to pay the remediation costs into a Trust on an as-needed basis.

Pursuant to the 2000 settlement with U.S. Environmental Protection Agency (EPA) and the other parties to the Modified Groundwater Consent Decree, certain settlement payments from other parties will be used to fund the Authority's obligations under the Modified Groundwater Consent Decree. The 2000 settlement is described in more detail in the Soils/Vadose Zone Remediation (Soils Consent Decree) section below.

In prior years, the Trustee disbursed funds from the Trust to pay costs associated with the construction of a water treatment facility. The total cost of constructing the water treatment facility approximated \$8,700,000. The Authority's share of these costs was capitalized. The water treatment facility commenced operation in September 1994, and annual operation and maintenance costs of the facility are projected at approximately \$660,000.

Soils/Vadose Zone Remedial Investigation and Feasibility Study (RI/FS)

In 1992, the U.S. EPA issued an Amended Unilateral Administrative Order (RI/FS UAO) directed to the Authority and other respondents alleging that each of those respondents is a potentially responsible party for the investigation and feasibility study (RI/FS) of the soils and vadose zone on and under Tucson International Airport. As a result of the work, in 1997, EPA issued its Record of Decision (ROD) regarding the soils and vadose zone. Authority and other respondents agreed upon the terms of a settlement, which became effective in 2000. As part of the settlement, U.S. EPA determined that the requirements of the UAO had been satisfied. The settlement is described in more detail below.

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 15 – Environmental matters, litigation and uncertainties – continued

Soils/Vadose Zone Remediation (Soils Consent Decree)

On October 5, 1998, the EPA served the Authority and several other parties with its “Special Notice Letter” demanding that the parties agree to perform the remediation activities described in the ROD and that the parties negotiate in good faith to agree upon the terms of a Consent Decree that would require the parties to fund and perform the required remediation work.

In 1999, the Authority and several other parties agreed to a settlement that included a final allocation of responsibility for obligations under the Modified Groundwater Consent Decree, the RI/FS UAO, and the work required to be performed pursuant to the Special Notice Letter. The settlement is embodied in a new Consent Decree (referred to as the Soils Consent Decree), the Modified Groundwater Consent Decree, and certain settlement agreements. The agreements became effective in 2000 when the Soils Consent Decree and the Modified Groundwater Consent Decree were approved and entered by the United States District Court.

Pursuant to the terms of the settlement, other parties paid \$38,683,630 to the Authority. As required by the terms of the Soils Consent Decree, the Authority deposited \$29 million into a Trust that is devoted exclusively to the funding of the remediation projects as required under the Modified Groundwater Consent Decree and under the Soils Consent Decree. The remaining settlement proceeds constituted reimbursements to the Authority for amounts the Authority previously spent on the remediation projects. Pursuant to the settlement, the Authority is obligated to pay 100% of the ongoing operation and maintenance expenses associated with the water treatment facility and 80% of the costs of the work required under the Soils Consent Decree. General Dynamics Corporation and McDonnell Douglas Corporation are each obligated to pay 10% of the costs of the work required under the Soils Consent Decree, for a combined obligation of 20%.

The Authority’s estimate of the net present value of the ongoing costs associated with the water treatment facility and Soils Consent Decree, over the estimated life of the project, ranges from \$20,207,300 to \$39,380,000 and the recorded liability has been included as a liability on the Statements of Net Assets.

Changes in the estimated environmental remediation liability for the years ended September 30, 2005 and 2004 follow:

	<u>2005</u>	<u>2004</u>
Environmental remediation liability, beginning of year	\$ 21,843,100	\$ 23,948,569
Current year accrual	0	552,982
Investment earnings on Environmental Remediation Trust assets	445,398	168,079
Current year payments	<u>(1,341,649)</u>	<u>(2,826,530)</u>
Environmental remediation liability, end of year	<u>\$ 20,946,849</u>	<u>\$ 21,843,100</u>
Environmental remediation liability:		
Current	\$ 3,674,260	\$ 3,407,030
Long-term	<u>17,272,589</u>	<u>18,436,070</u>
	<u>\$ 20,946,849</u>	<u>\$ 21,843,100</u>
Trust assets available, end of year	<u>\$ 22,533,148</u>	<u>\$ 23,429,399</u>

In July 2003, the Authority submitted its Final Design Report to EPA for the work required under the Soils Consent Decree and received agency approval to proceed with construction on September 10, 2004.

TUCSON AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS - continued
September 30, 2005 and 2004

NOTE 15 – Environmental matters, litigation and uncertainties – continued

On September 13, 2004, the EPA served the Authority and several other parties with its “General Notice Letter for Focused Feasibility Study and Section 104(e) Information Request for the Tucson International Airport Area Site, Tucson, Arizona.” The letter requested that the parties provide certain information regarding the activities at the Site and stated that the parties may have additional liability for response activities at the Site. The Authority has responded to the information request. Management is unable to determine the probability of an unfavorable outcome, if any, related to this matter.

The Authority is involved in other claims in the ordinary course of business. In the opinion of management, based on consultations with legal counsel, these matters are considered immaterial to the Authority or will be covered by insurance.

APPENDIX C

UNAUDITED FINANCIAL STATEMENTS FOR THE ELEVEN
MONTH PERIODS ENDED AUGUST 31, 2006
AND AUGUST 31, 2005

**TUCSON AIRPORT AUTHORITY
STATEMENTS OF NET ASSETS
AS OF AUGUST 31, 2006 AND 2005**

UNAUDITED

ASSETS

	<u>August 31, 2006</u>	<u>August 31, 2005</u>
CURRENT ASSETS		
Cash and cash equivalents	\$8,530,070	\$10,312,951
Investments	55,394,748	44,717,992
Accts. rec. trade, net of \$629,589 allow. for doubtful accts. at 8/31/06 and \$250,000 at 8/31/05	1,668,875	2,304,186
Accounts receivable Pima County Attorney	55,433	48,734
Accrued interest receivable	546,635	249,282
Grants receivable	772,118	715,359
Notes receivable (Current)	42,902	38,927
Inventories	588,454	605,608
Prepaid expenses and other assets	718,167	473,429
Total current assets	<u>68,317,403</u>	<u>59,466,468</u>
NONCURRENT ASSETS		
Restricted assets:		
Revenue Bonds, Senior Lien Series 2001A, B and C:		
Cash and cash equivalents	21,554	35,387
Investments	304,813	291,785
	<u>326,367</u>	<u>327,172</u>
Revenue Bonds, Refunding Series 2003:		
Cash and cash equivalents	78,109	128,105
Investments	1,104,631	1,056,286
	<u>1,182,740</u>	<u>1,184,391</u>
Revenue Bonds, Subordinate Lien Fund Series 2001:		
Cash and cash equivalents	47,309	77,442
Investments	669,045	638,546
	<u>716,354</u>	<u>715,988</u>
Deferred Bond Issuance Costs:		
Senior Lien Series 2001	265,450	298,827
Subordinate Series 2001	941,953	1,004,400
Refunding Series 2003	1,075,002	1,375,018
Letter of Credit 2001	23,277	68,298
	<u>2,305,682</u>	<u>2,746,544</u>

Passenger Facility Charge Fund:		
Cash and cash equivalents	171,046	(68,228)
Investments	2,443,644	(563,379)
Accrued interest receivable	26,850	1,850
Accounts receivable	928,403	814,904
	<u>3,569,943</u>	<u>185,147</u>
Land Acquisition Fund:		
Cash and cash equivalents	102,237	152,309
Investments	1,468,639	1,260,724
Accrued interest receivable	13,436	6,071
	<u>1,584,313</u>	<u>1,419,103</u>
Environmental Trust		
Cash and cash equivalents	905,925	-
Investments	20,089,121	22,498,714
Accrued interest receivable	194,218	124,218
	<u>21,189,265</u>	<u>22,622,932</u>
Total restricted assets	<u>30,874,664</u>	<u>29,201,276</u>
Notes receivable (noncurrent portion)	111,143	158,069
PROPERTY, PLANT AND EQUIPMENT	370,673,331	356,804,095
Less accumulated depreciation	137,852,402	125,768,319
Net property, plant and equipment	<u>232,820,930</u>	<u>231,035,775</u>
TOTAL ASSETS	<u>\$332,124,139</u>	<u>\$319,861,588</u>

LIABILITIES & NET ASSETS

UNAUDITED

	<u>August 31, 2006</u>	<u>August 31, 2005</u>
CURRENT LIABILITIES		
Payable from current assets		
Accounts payable	\$2,322,765	\$1,215,389
Accrued expenses	983,174	782,997
Deferred revenue (Note 5)	43,820	47,059
Construction contracts payable	-	-
Current portion of notes payable (Note 6)	41,105	38,860
Total payable from current assets	<u>3,390,864</u>	<u>2,084,305</u>
Payable from restricted assets		
Revenue Bonds, Senior Lien Series 2001A, B & C:		
Current portion of bonds	615,000	560,000
Accrued interest payable	172,617	179,673
	<u>787,617</u>	<u>739,673</u>
Revenue Bonds, Subordinate Lien Fund Series 2001:		
Current portion of bonds	815,000	780,000
Accrued interest payable	512,603	520,989
	<u>1,327,603</u>	<u>1,300,989</u>
Revenue Bonds, Refunding Series 2003:		
Current portion of bonds	3,555,000	3,420,000
Accrued interest payable	294,891	329,091
	<u>3,849,891</u>	<u>3,749,091</u>
Current portion of environmental payable (Note 4)	3,674,260	1,991,020
Total payable from restricted assets	<u>9,639,370</u>	<u>7,780,773</u>
Total current liabilities	<u>13,030,234</u>	<u>9,865,078</u>
LONG-TERM LIABILITIES, net of current portion		
Notes payable (Note 6)	6,911,371	6,954,530
Revenue Bonds, Senior Lien Series 2001A, B & C	12,085,000	12,730,000
Original Issue Discount, Senior Lien Series 2001A, B & C	(105,355)	(118,602)
Revenue Bonds, Subordinate Lien Series 2001	38,520,000	39,335,000
Original Issue Discount, Subordinate Lien Series 2001	(178,777)	(190,629)
Revenue Bonds, Refunding Series 2003	24,415,000	27,970,000
Original Issue Premium, Refunding Series 2003	1,065,445	1,362,794
Deferred loss on bond refunding	(1,439,326)	(1,761,755)
Environmental Payable (Note 4)	15,848,828	19,045,613
Total long-term liabilities	<u>97,122,185</u>	<u>105,326,950</u>
TOTAL LIABILITIES	<u><u>110,152,420</u></u>	<u><u>115,192,028</u></u>

NET ASSETS

Invested in capital assets, net of related debt	148,827,149	142,702,122
Restricted for:		
Debt service	1,245,351	1,197,797
Capital projects	3,569,943	185,147
Land acquisition	1,584,313	1,419,103
Environmental	1,666,177	1,586,299
Unrestricted	65,078,786	57,579,092

TOTAL NET ASSETS

\$221,971,719	\$204,669,560
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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTIONS

The following are certain definitions and summaries of certain provisions of the Senior Lien Bond Resolution and the Subordinate Lien Bond Resolution. The summaries do not purport to be complete or to follow the exact language of the Senior Lien Bond Resolution or the Subordinate Lien Bond Resolution and are subject in all respects to the detailed provisions of the applicable provisions of such Bond Resolutions, copies of which are available upon request at the office of the Authority. The capitalization of any word or phrase which is not otherwise defined in this Official Statement or under this caption, or not conventionally capitalized indicates that such word or phrase is defined in the Senior Lien Bond Resolution and/or the Subordinate Lien Bond Resolution. Terms utilized in the Senior Lien Bond Resolution, the Subordinate Lien Bond Resolution and the Use Agreement do not necessarily have the same meaning.

DEFINITIONS

“Accountant” means an independent Certified Public Accountant or a firm of independent Certified Public Accountants of recognized standing, employed by the Authority but in fact independent and not under the control of the Authority.

“Airport Consultant” means an independent person or firm or corporation (a) not under the control of the Authority or any airline or air carrier, and (b) who shall have a widely known and favorable reputation for special skill, knowledge and experience in methods of the development, operation and management of airports of the approximate size and character as the properties constituting the Airport System.

“Airport Purpose” means any action or undertaking by the Authority reasonably related to the development and promotion of the Airport System as a destination for air commerce or as industrial or commercial sites or related to the development and promotion of air transportation and commerce by air in the State of Arizona generally and in the County of Pima in particular, including the funding of any judgment or settlement of pending or threatened litigation.

“Airport System” means the Airport, the facilities known as Ryan Airfield and such other facilities as may from time to time be added to the jurisdiction of the Authority.

“Balloon Indebtedness” means with respect to any Series of Senior Lien or Subordinate Lien Bonds, as applicable, 50% or more of the principal of which comes due on the same date or within a Fiscal Year, that portion of such Series which matures on such date or within such Fiscal Year; provided, however, that to constitute Balloon Indebtedness the amount of principal maturing on a single date or within a Fiscal Year must equal or exceed 150% of the principal amount of such Series which matures during any prior Fiscal Year. For purposes of this definition, the principal amount maturing on any date shall be reduced

by the principal amount of such Series scheduled to be amortized by redemption prior to the stated maturity date thereof.

“BMA Index” means an index based upon the weekly interest rate resets of tax-exempt variable rate issues included in a data base maintained by Municipal Market Data which meet specific criteria established by The Bond Market Association and effective on the date applied or in the event such index is no longer maintained, an equivalent index with the same components as the BMA Index.

“Bond Counsel” means an attorney or firm of attorneys of recognized national standing in the field of law relating to municipal securities and to exclusion of interest thereon from income for federal income tax purposes selected by the Authority.

“Commercial Paper Dealer” means, with respect to a Senior Lien or Subordinate Lien Commercial Paper Program, the dealer appointed by the Authority in the Supplemental Senior Lien or Subordinate Lien Resolution, providing for the issuance of the Senior Lien or Subordinate Lien Commercial Paper Program and serving as such under a dealer agreement for such program, including any successors or assigns.

“Construction Fund” means the separate special fund of the Authority by that name created and established pursuant to the Senior Lien Bond Resolution or the Subordinate Lien Bond Resolution, as applicable.

“Coverage Transfer Amount” means, for any Fiscal Year, the amount determined by the Designated Financial Officer of the Authority from amounts on deposit in the Airport Improvement Fund on the last day of the preceding Fiscal Year, other than those constituting Required Transfer Amounts, which may be used in the manner provided under “Additional Obligations of the Authority” or “Covenants as to Rates, Rentals, Fees and Charges” under the captions “THE SENIOR LIEN BOND RESOLUTION” and “THE SUBORDINATE LIEN BOND RESOLUTION” of this Appendix D.

“Debt Service” means with respect to any Series of Senior Lien or Subordinate Lien Bonds, as applicable, as of any particular date of computation and for any particular period or year:

(a) The aggregate amount required to be deposited during such period or year in the Senior Lien or Subordinate Lien Bond Fund, as applicable, (i) to provide for the payment of interest on such Series, except to the extent that such interest is to be paid from (x) amounts credited to a Construction Interest Account in the Construction Fund, (y) amounts credited to any Interest Account for such Series, or (z) any other amounts available for the payment of interest, (ii) to provide for the payment at maturity of any bonds of such Series issued in serial form, and (iii) to provide for the retirement of any bonds of such Series issued in term form.

(b) For the purposes of computing Debt Service with respect to a Series of Variable Rate Senior Lien or Subordinate Bonds, as applicable, or an Integrated Swap Agreement that provides for variable rate payments to be made by the Authority, the interest rate per annum shall be the average interest rate per annum expected to be borne by such

Series or Integrated Swap Agreement (computed on an actual day basis) for each Fiscal Year as estimated by the Designated Financial Officer of the Authority, provided, however, that if the Authority enters into an Integrated Swap Agreement with respect to such Series that provides for fixed payments to be made by the Authority, the interest rate thereon shall be the fixed interest rate established under the Integrated Swap Agreement.

With respect to payments under any Hedge Agreement or Support Agreement, which payments are payable from Net Revenues and secured by a lien on and pledge of Net Revenues on a parity with the lien on and pledge of the Net Revenues created for the payment and security of the Senior Lien or Subordinate Lien Bonds, as applicable, "Debt Service" shall include the full amount of any such payments.

(c) If all or any portion of a Series of outstanding Senior or Subordinate Lien Bonds, as applicable, constitute Balloon Indebtedness, then for purposes of computing Debt Service, each maturity which constitutes Balloon Indebtedness shall, unless otherwise provided in the Supplemental Senior Lien or Subordinate Lien Resolution providing for the issuance of such Balloon Indebtedness or unless paragraph (d) of this definition applies, be treated as if it were to be amortized over a period of 20 years (or the actual number of years over which such Balloon Indebtedness is to be amortized, if greater than 20 years, but in no event greater than 30 years) and with substantially level annual debt service funding payments commencing not later than the year following the year in which such Balloon Indebtedness was issued, and extending not later than the stated or deemed, as the case may be, final maturity of such Balloon Indebtedness, but in no event later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation shall be that rate equal to (i) as to such Senior Lien or Subordinate Lien Bonds, as applicable, which are to bear interest excludable from gross income for federal income tax purposes, The Bond Buyer Revenue Bond Index or, if discontinued, another comparable index selected by the Designated Financial Officer, for obligations of similar credit quality, and (ii) as to Senior Lien or Subordinate Lien Bonds, as applicable, which are not to bear interest excludable from gross income for federal income tax purposes, United States Treasury obligations of similar maturities; with respect to a Series only a portion of which constitutes Balloon Indebtedness, the remaining portion shall be treated as described in paragraph (a) above or such other provision of this definition as shall be applicable and, with respect to a Series or that portion of a Series which constitutes Balloon Indebtedness, all funding requirements of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness shall be treated as described in paragraph (a) above or such other provision of this definition as shall be applicable Balloon Indebtedness.

(d) Any maturity of a Series of Senior Lien or Subordinate Lien Bonds, as applicable, which constitutes Balloon Indebtedness as described in paragraph (c) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation of Debt Service is made, shall be assumed to become due and payable on the stated maturity date and paragraph (c) above shall not apply thereto unless there is delivered to the Designated Financial Officer of the Authority a letter or agreement evidencing a binding commitment from a banking institution or investment banking institution to provide financing to refinance such maturity of Balloon Indebtedness and stating the probable terms of such refinancing and that the Net Revenues of the Authority

are sufficient to successfully complete such refinancing; upon the receipt of such commitment, such Balloon Indebtedness shall be assumed to be refinanced in accordance with the terms set out in such commitment and such terms shall be used for purposes of calculating Debt Service, provided that such assumption shall not result in an interest rate lower than that which would be assumed under paragraph (c) above and shall be amortized over a term of not more than 30 years from the date of refinancing.

(e) For purposes of computing Debt Service with respect to any Series of Senior Lien or Subordinate Lien Commercial Paper Program Bonds or Senior Lien or Subordinate Lien Unissued Commercial Paper Program Bonds, as applicable, it shall be assumed that the full principal amount of such Series will be amortized over a term certified by the Designated Financial Officer of the Authority at the time the initial Series of such Senior Lien or Subordinate Lien Commercial Paper Program Bonds or Senior Lien or Subordinate Lien Unissued Commercial Paper Program Bonds, as applicable, are issued to be the expected duration of such Senior Lien or Subordinate Lien Commercial Paper Program or, if such expectations have changed, over a term certified by the Designated Financial Officer of the Authority to be the expected duration of such Senior Lien or Subordinate Lien Commercial Paper Program at the time of such calculation, but not to exceed 30 years from the date the initial Senior Lien or Subordinate Lien Commercial Paper Program Bonds are issued and it shall be assumed that Debt Service shall be paid in substantially level annual debt service payments over such assumed term; the interest rate used for such computation shall be a rate equal to (i) as to such Senior Lien or Subordinate Lien Commercial Paper Program Bonds which are to bear interest excludable from gross income for federal income tax purposes, The Bond Buyer Revenue Bond Index or, if discontinued, another comparable index selected by the Designated Financial Officer, for obligations of similar credit quality, and (ii) as to Senior Lien or Subordinate Lien Commercial Paper Program Bonds which are not to bear interest excludable from gross income for federal income tax purposes, United States Treasury obligations of similar maturities.

“Designated Financial Officer” means the Vice President, Finance and Administration of the Authority or any other person as designated by the President/CEO of the Authority.

“Financial Institution” means any issuer or issuers of the Support Facility, successors or assigns.

“Fiscal Year” means the fiscal year for the Authority as established from time to time by the Authority, currently being the twelve-month period ending September 30.

“Fitch” means Fitch, Inc., Fitch Ratings, Ltd., and Fitch Ratings, a subsidiary of Fimalac, S.A.

“Governmental Obligations” shall mean (i) direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America which are non-callable or redeemable only at the option of the holder and which at the time are legal investments for the monies proposed to be invested therein, (ii) receipts, certificates or other similar documents

evidencing ownership of future interest or principal payments due on direct obligations of the United States of America held in a custody or trust account by a commercial bank (having at least \$20,000,000 in capital stock, surplus and undivided profits) pursuant to a custody or trust agreement, (iii) (A) direct and general obligations, to the payment of the principal of and interest on which the full faith and credit of the issuer is pledged, of any of the following: any state of the United States, or any political subdivision of any such state; provided that (1) as to such obligations of a political subdivision, all the taxable real property within such political subdivision shall be subject to taxation thereby to pay such obligations and the interest thereon, without limitation as to rate or amount, and (2) at the time of their purchase, such obligations of any such state or political subdivision are rated in either of the two highest rating categories by two nationally recognized bond rating agencies, or (B) long-term obligations of any state or any political subdivision thereof the entire principal of and interest on which is insured pursuant to an irrevocable municipal bond insurance policy and which obligations are rated by two nationally recognized bond rating agencies in the highest rating category or (iv) Refunded Municipal Obligations.

“Hedge Agreement” means an interest rate swap or exchange agreement, including an Integrated Swap Agreement, a payment exchange agreement, forward purchase agreement or any other hedge agreement entered into by the Authority for any purpose providing for payments between the parties based on levels of, or changes in, interest rates, stock or other indices or contracts to exchange cash flows or a series of payments or contracts, including without limitation, interest rate floors or caps, options, puts or calls to hedge payment, rate, spread or similar risk.

“Holder” means Senior Lien Bondholder or Subordinate Lien Bondholder, as applicable.

“Integrated Swap Agreement” means any interest rate swap agreement entered into by the Authority with respect to a Series of Senior Lien or Subordinate Lien Bonds, as applicable, having a notional amount not exceeding the outstanding principal amount of such Series and pursuant to which the Authority agrees to make payments on the basis of (a) a fixed rate of interest or (b) a variable rate of interest.

“Integrated Swap Agreement Payments” means payments made pursuant to an Integrated Swap Agreement on the basis of fixed or variable rates of interest; specifically excluding, however, termination payments, fees, expenses and other amounts payable under an Integrated Swap Agreement not specifically made on the basis of interest rates.

“Interest Increment Amount” means, as of any particular date of computation and for any particular period or year, with respect to any Variable Rate Senior Lien or Subordinate Lien Bonds, as applicable, the difference, if any, between the rate of interest per annum borne by such Variable Rate Senior Lien or Subordinate Lien Bonds in accordance with their terms as set forth in the applicable Supplemental Senior Lien or Subordinate Lien Resolution providing for the issuance thereof for all Holders other than an issuer or issuers of a Support Facility, and the rate such Variable Rate Senior Lien or Subordinate Lien Bonds bear when such bonds are held by an issuer or issuers of a Support Facility.

“Interest Payment Date” means, with respect to any particular Series of Senior Lien or Subordinate Lien Bonds, as applicable, any date on which interest is payable on such Series as such date shall be established in the Supplemental Senior Lien or Subordinate Lien Resolution providing for the issuance of such Series.

“Investment Securities” means any of the following which at the time are legal investments under the laws of the State of Arizona for the monies held then proposed to be invested therein: (a) Government Obligations; (b) obligations of the Federal Financing Bank, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration and the Farmers Home Administration; (c) bonds, notes or other obligations of any State of Arizona local government or public authority, provided such bonds, notes or other obligations are rated in one of the two highest rating categories by Moody's and S&P; (d) savings certificates or certificates of deposit issued by any commercial bank or savings and loan association organized under the laws of the State of Arizona or by any federal bank or savings and loan association; provided, however that any principal amount of such certificates in excess of the amount insured by the federal government or any agency thereof, be fully collateralized by obligations described in (a) or (b) above; (e) prime quality commercial paper bearing the highest rating of Moody's and S&P and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation; (f) participating shares in pooled investment funds maintained by the State Treasurer of Arizona for the collective investments of monies of State and local entities; (g) repurchase agreements with respect to Government Obligations if (1) entered into with a broker or dealer, as defined by the Securities Exchange Act of 1934, as amended, which is a dealer recognized as a primary dealer by a Federal Reserve bank with a short-term rating of not less than "P-1" from Moody's and not less than "A-1" from S&P, or any commercial bank, trust company or national banking association rated "A" or better by Moody's and S&P, the deposits of which are insured by the Federal Deposit Insurance Corporation or any successor thereof, or (2) the repurchase agreement constitutes a "repurchase agreement" within the meaning of the United States Bankruptcy Code, if:

(A) such obligations that are subject to such repurchase agreement are delivered (in physical or in book-entry form) to the Authority, or any financial institution serving either as trustee for the Authority or as fiscal agent for the Authority or are supported by a safekeeping receipt issued by a depository satisfactory to the Authority, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated at least daily, of not less than 100% of the repurchase price, and, provided further, that the financial institution serving either as trustee or as fiscal agent for the Authority holding the obligations subject to the repurchase agreement or the depository issuing the safekeeping receipt shall not be the provider of the repurchase agreement;

(B) a valid and perfected first security interest in the obligations which are the subject of such repurchase agreement has been granted to the Authority or its assignee or book entry procedures, conforming, to the extent

practicable, with federal regulations and satisfactory to the Authority have been established for the benefit of the Authority or its assignee;

(C) such securities are free and clear of any adverse third party claims; and

(D) such repurchase agreement is in a form satisfactory to the Authority; and

(E) any other investments which at the time are legal investments under the laws of the State of Arizona for the monies held then proposed to be invested therein

“Junior Subordinate Lien Obligations” means bonds, notes, certificates, warrants or other evidences of indebtedness for any corporate use or purpose of the Authority relating to the Airport System payable as to principal and interest from the Net Revenues subject and subordinate, and secured by a lien and pledge on the Net Revenues junior and inferior, to the lien and pledge of the Senior Lien and Subordinate Lien Bonds.

“Moody’s” means Moody’s Investors Service, a subsidiary of Moody’s Corporation.

“Net Revenues” means (i) for any period or year which has concluded at the time a calculation was made the aggregate of the Revenues actually deposited into the Revenue Fund during such past period or year minus for such past period or year the aggregate of the Operation and Maintenance Expenses; and (ii) for any future period or year the aggregate of the Revenues that is estimated will be deposited into the Revenue Fund during such future period or year, minus for such future period or year the aggregate of the estimated Operation and Maintenance Expenses in such future year or period.

“Operation and Maintenance Expenses” means the reasonable and necessary expenses of the Authority paid or accrued (or to be paid or accrued) in administering, operating, maintaining, and repairing the Airport System. The term “Operation and Maintenance Expenses” shall include, without limitation, the following items: (a) costs of collecting Revenues and of making any refunds therefrom lawfully due others; (b) engineering, auditing, legal and other overhead expenses directly related to the administration, operation, maintenance, and repair of the Airport System; (c) costs of salaries, wages and other compensation of officers and employees and payments to pension, retirement, health and hospitalization funds and other insurance, including self-insurance for the foregoing; (d) costs of repairs, replacements, renewals and alterations occurring in the usual course of business; (e) taxes, assessments and other governmental charges, or payments in lieu thereof, imposed on the Airport System or any part thereof or on the operation thereof or on the income therefrom or on any privilege in connection with the ownership or operation of the Airport System or otherwise imposed on the Airport System or the operation thereof or income therefrom; (f) costs of utility services; (g) costs and expenses of general administrative overhead of the Authority allocable to the Airport System; (h) costs of equipment, materials and supplies used in the ordinary course of business, including ordinary and current rentals of equipment or other property or fees and charges for equipment or other

property incurred under agreements as and to the extent permitted by the Resolutions; (i) contractual services and professional services, including but not limited to, legal services, accounting services and services of financial consultants and airport consultants; (j) costs of fidelity bonds, or a properly allocable share of the premium of any blanket bond, pertaining to the Airport System or Revenues or any other monies held or required to be held or deposited; (k) costs of carrying out the provisions of the Resolutions, including Paying Agents` fees and expenses; fees for remarketing bonds and Support Facilities, costs of required insurance, or a properly allocable share of any premium of any blanket policy pertaining to the Airport System or Revenues; and costs of recording, mailing and publication; and (l) all other costs and expenses of administering, operating, maintaining and repairing the Airport System arising in the routine and normal course of business; provided, however, that (A) for the purposes of complying with the tests for the issuance of additional Senior Lien or Subordinate Lien Bonds, as applicable, or compliance with the covenants regarding rates, rentals, fees and charges, the term “Operation and Maintenance Expenses” shall not include: (1) any allowance for depreciation or any amounts for capital replacements or reserves therefor; (2) costs of extensions, enlargements, betterments and improvements or reserves therefor; (3) reserves for operation, maintenance, renewals and repairs occurring in the normal course of business; (4) payment (including redemption) of bonds or other evidences of indebtedness or interest and premium thereof or reserves therefor; and (B) for all purposes of the Resolutions, the term “Operation and Maintenance Expenses” shall not include any operation and maintenance costs and expenses pertaining to (1) Special Facilities or expenses incurred by any lessee under a Special Facility Agreement, or (2) lands and properties not a part of the Airport System leased for industrial, governmental or other non-aviation purposes.

“Paying Agent” means as to any Senior Lien or Subordinate Lien Bond of a Series the Paying Agent or Paying Agents for such Series appointed in the Supplemental Senior Lien or Subordinate Lien Resolution providing for the issuance of such Series.

“PFC Revenues” means the net proceeds of any passenger facility charge that may be levied pursuant to 49 U.S.C. §40177, as amended from time to time, and regulations promulgated pursuant thereto, or analogous charge or fee levied pursuant to law, which are received and retained by the Authority.

“Rating Agency” means S&P, or Moody’s, or Fitch, or any other nationally recognized rating agency, or their respective successors.

“Refunded Municipal Obligations” means noncallable obligations of any state, the District of Columbia or possession of the United States or any political subdivision thereof which obligations are rated in the highest rating category by Moody’s and S&P and provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of direct obligations of the United States of America, which are held by a bank or trust company organized and existing under the laws of the United States of America or any state, the District of Columbia or possession thereof in the capacity as custodian, the maturing principal of and interest on which obligations when due and payable shall be sufficient to pay when due the principal of and interest on such obligations of such state, the District of Columbia, possession, or political subdivision.

“Released Senior Lien Revenues” means revenues of the Authority in respect of which the following have been filed with the Authority: (a) a written determination of the Designated Financial Officer to release such category of revenues, accompanied by a written certificate certifying the Authority is in compliance with all requirements of the Senior Lien Bond Resolution; (b) a report of an Accountant to the effect that Net Revenues, excluding the category of revenues proposed to become Released Senior Lien Revenues, for each of the two most recently completed Fiscal Years prior to the date of such report were equal to at least 150% of Senior Lien Maximum Aggregate Annual Debt Service with respect to the Senior Lien Bond Resolution; (c) a certificate of an Airport Consultant retained by Authority to the effect that based upon current knowledge of the operations of the Airport System, Net Revenues, excluding the category of revenues proposed to become Released Senior Lien Revenues, for the then-current Fiscal Year will be equal to at least 150% of Senior Lien Maximum Aggregate Annual Debt Service; (d) Rating Agency confirmation that the uninsured ratings, if any, then assigned to any Senior Lien Bonds by such Rating Agency will not be reduced or withdrawn as a result of such withdrawal of Released Senior Lien Revenues; and (e) an opinion of Bond Counsel to the effect that the exclusion of such revenues from the definition of Revenues and from the pledge, charge and lien of the Senior Lien Bond Resolution will not in and of itself cause the interest on any outstanding Senior Lien Bond issued as tax-exempt securities to be included in gross income for purposes of federal income taxation.

“Released Subordinate Lien Revenues” means revenues of the Authority (i) which have qualified as “Released Senior Lien Revenues” under the Senior Lien Bond Resolution, if any Senior Lien Bonds are outstanding thereunder, and (ii) in respect of which the following have been filed with the Authority: (a) a written determination of the Designated Financial Officer to release such category of revenues, accompanied by a written certificate certifying the Authority is in compliance with all requirements of the Subordinate Lien Bond Resolution; (b) a report of an Accountant to the effect that Net Revenues, after deducting Senior Lien Aggregate Annual Debt Service, excluding the category of revenues proposed to become Released Subordinate Lien Revenues, for each of the two most recently completed Fiscal Years prior to the date of such report were equal to at least 125% of Subordinate Lien Maximum Aggregate Annual Debt Service; (c) a certificate of an Airport Consultant retained by Authority to the effect that based upon current knowledge of the operations of the Airport System, Net Revenues, after deducting Senior Lien Aggregate Annual Debt Service, excluding the category of revenues proposed to become Released Subordinate Lien Revenues, for the then-current Fiscal Year will be equal to at least 150% of Subordinate Lien Maximum Aggregate Annual Debt Service; (d) Rating Agency confirmation that the uninsured ratings, if any, then assigned to any Subordinate Lien Bonds by such Rating Agency will not be reduced or withdrawn as a result of such withdrawal of Released Subordinate Lien Revenues; and (e) an opinion of Bond Counsel to the effect that the exclusion of such revenues from the definition of Revenues and from the pledge, charge and lien of the Subordinate Lien Bond Resolution will not in and of itself cause the interest on any outstanding Subordinate Lien Bond issued as tax-exempt securities to be included in gross income for purposes of federal income taxation.

“Remarketing Agent” means with respect to a Series of Variable Rate Senior Lien or Subordinate Lien Bonds, as applicable, the Remarketing Agent appointed by the Authority in the Supplemental Senior Lien or Subordinate Lien Resolution providing for the issuance of such Series and serving as such under the Remarketing Agreement for such Series, including any successors or assigns.

“Remarketing Agreement” means with respect to any Series of Variable Rate Senior Lien or Subordinate Lien Bonds the agreement entered into by the Authority with a Remarketing Agent which provides for the purchase and remarketing of such Variable Rate Senior Lien or Subordinate Lien Bonds, as such agreement may be supplemented and amended from time to time.

“Required Transfer Amount” means amounts in the Airport Improvement Fund which are required to be transferred by the Authority to the Revenue Fund under contractual obligations with air carriers.

“Revenues” or “Gross Operating Income” means the total of all income and revenue from all sources collected or received by the Authority in connection with the Airport System, including all rates, charges, rentals, fees and any other compensation, regardless of form, investment income earned by the Authority, except as provided below to the contrary, and the Required Transfer Amount. “Revenues” shall not include: (i) proceeds from bonds issued by the Authority or proceeds from loans obtained by the Authority; (ii) proceeds derived from condemnation or insurance awards or settlement and earnings thereon, except insurance proceeds received from rental or business interruption insurance; (iii) revenues, other than ground rent, derived from any Special Facility, including amounts which are assigned as security to liquidate indebtedness incurred to finance such Special Facility; (iv) grants-in-aid or similar payments received from public agencies; (v) the proceeds of any PFC Revenues or analogous charge or fee levied pursuant to law; (vi) monies or securities received by the Authority as gifts or grants; (vii) investment income derived from monies or securities on deposit in the Construction Fund and investment income derived from any monies or securities which may be placed in escrow or trust to defease bonds of the Authority, including the Senior Lien or Subordinate Lien Bonds, or to meet Authority’s obligation under any consent decree; (viii) any arbitrage earnings which are required to be paid to the U.S. Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended, and the rulings and regulations promulgated thereunder; (ix) the proceeds of any Support Facility; and (x) Released Senior Lien Revenues with respect to the Senior Lien Bonds and Released Subordinate Lien Revenues with respect to the Subordinate Lien Bonds; provided, however, that the Authority may, by Supplemental Senior Lien or Subordinate Lien Resolution, include any of such excluded sources into the definition of Revenues.

“S&P” means Standard & Poor’s, a division of The McGraw Hill Companies, Inc.

“Senior Lien Aggregate Annual Debt Service” means for any Fiscal Year the aggregate amount of Debt Service on all outstanding Senior Lien Bonds and Senior Lien Unissued Commercial Paper Program Bonds; provided, however, that if federal or state grants or other monies have been irrevocably committed or are held by the Authority or by a fiduciary and are to be set aside exclusively to be used to pay the principal of and/or interest on all or a portion of any

Series of Senior Lien Bonds, then the principal of and/or interest on such Series of Senior Lien Bonds to be paid from such federal or state grants or other monies or from earnings thereon may be disregarded and not included in calculating Senior Lien Aggregate Annual Debt Service.

“Senior Lien Bondholder” or “holder of a Senior Lien Bond” means the registered owner of any Senior Lien Bond, including any beneficial owner of a Senior Lien Bond or his nominee.

“Senior Lien Bond Reserve Fund Requirement” means with respect to any Series of Senior Lien Bonds, unless otherwise provided in the Supplemental Senior Lien Resolution authorizing such Series, the least of (a) the greatest amount of principal and interest payable on a Series of Senior Lien Bonds in the then current or any future Fiscal Year, (b) 125% of the average annual principal and interest payable on such Series of Senior Lien Bonds (calculated by dividing the sum of principal and interest payments on such Series of Senior Lien Bonds by the number of years to the final maturity of such Series of Senior Lien Bonds) or (c) 10% of the initial public offering price of such Series of Senior Lien Bonds.

“Senior Lien Commercial Paper Program” means a financing program of stated duration authorized by Supplemental Senior Lien Resolution, which authorizes the issuance from time to time of a Series of Senior Lien Commercial Paper Program Bonds of maximum principal amount outstanding at any one time, each of which matures over a period of not exceeding 270 days, and the issuance of additional Senior Lien Commercial Paper Program Bonds from time to time to retire outstanding Senior Lien Commercial Paper Program Bonds.

“Senior Lien Commercial Paper Program Bonds” means any Series of Senior Lien Bonds issued and outstanding pursuant to a Senior Lien Commercial Paper Program, other than Senior Lien Unissued Commercial Paper Program Bonds.

“Senior Lien Maximum Aggregate Annual Debt Service” means, at the time of computation, the greatest amount of Senior Lien Aggregate Annual Debt Service payable on all Senior Lien Bonds outstanding in the then current or any future Fiscal Year.

“Senior Lien Unissued Commercial Paper Program Bonds” means the Senior Lien Commercial Paper Program Bonds which are within the maximum principal amount authorized by Supplemental Senior Lien Resolution as part of a Senior Lien Commercial Paper Program, but which have not yet been authenticated and delivered as part of the Senior Lien Commercial Paper Program.

“Series” means any particular Series of Senior Lien or Subordinate Lien Bonds, as applicable, issued pursuant to a Supplemental Senior Lien or Subordinate Lien Resolution.

“Special Facility” means hangar, overhaul, maintenance or repair building or shop, or other aviation or aerospace or airport or air navigation facility, including, without limitation, any hotel, garage other building or facility incident or related to the Airport System.

“Subordinate Lien Aggregate Annual Debt Service” means for any Fiscal Year the aggregate amount of Debt Service on all outstanding Subordinate Lien Bonds and Subordinate Lien Unissued Commercial Paper Program Bonds; provided, however, that if federal or state grants or other monies have been irrevocably committed or are held by the Authority or by a

fiduciary and are to be set aside exclusively to be used to pay the principal of and/or interest on all or a portion of any Series of Subordinate Lien Bonds, then the principal of and/or interest on such Series of Subordinate Lien Bonds to be paid from such federal or state grants or other monies or from earnings thereon may be disregarded and not included in calculating Subordinate Lien Aggregate Annual Debt Service.

“Subordinate Lien Bondholder” or “holder of a Subordinate Lien Bond” means the registered owner of any Subordinate Lien Bond, including any beneficial owner of a Subordinate Lien Bond or his nominee.

“Subordinate Lien Bond Reserve Fund Requirement” means with respect to any Series of Subordinate Lien Bonds, unless otherwise provided in the Supplemental Subordinate Lien Resolution authorizing such Series, the least of (a) the greatest amount of principal and interest payable on a Series of Subordinate Lien Bonds in the then current or any future Fiscal Year, (b) 125% of the average annual principal and interest payable on such Series of Subordinate Lien Bonds (calculated by dividing the sum of principal and interest payments on such Series of Subordinate Lien Bonds by the number of years to the final maturity of such Series of Subordinate Lien Bonds) or (c) 10% of the initial public offering price of such Series of Subordinate Lien Bonds.

“Subordinate Lien Commercial Paper Program” means a financing program of stated duration authorized by Supplemental Subordinate Lien Resolution, which authorizes the issuance from time to time of a Series of Subordinate Lien Commercial Paper Program Bonds of maximum principal amount outstanding at any one time, each of which matures over a period of not exceeding 270 days, and the issuance of additional Subordinate Lien Commercial Paper Program Bonds from time to time to retire outstanding Subordinate Lien Commercial Paper Program Bonds.

“Subordinate Lien Commercial Paper Program Bonds” means any Series of Subordinate Lien Bonds issued and outstanding pursuant to a Subordinate Lien Commercial Paper Program, other than Subordinate Lien Unissued Commercial Paper Program Bonds.

“Subordinate Lien Maximum Aggregate Annual Debt Service” means, at the time of computation, the greatest amount of Subordinate Lien Aggregate Annual Debt Service payable on all Subordinate Lien Bonds outstanding in the then current or any future Fiscal Year.

“Subordinate Lien Unissued Commercial Paper Program Bonds” means the Subordinate Lien Commercial Paper Program Bonds which are within the maximum principal amount authorized by Supplemental Subordinate Lien Resolution as part of a Subordinate Lien Commercial Paper Program, but which have not yet been authenticated and delivered as part of the Subordinate Lien Commercial Paper Program.

“Supplemental Senior Lien Resolution” means any resolution adopted providing for the issuance of a Series of Senior Lien Bonds or amending or supplementing the Senior Lien Bond Resolution.

“Supplemental Subordinate Lien Resolution” means any resolution adopted providing for the issuance of a Series of Subordinate Lien Bonds or amending or supplementing the Subordinate Lien Resolution.

“Support Agreement” means any agreement entered into by the Authority which provides for a Support Facility, and any and all modifications, alterations, amendments and supplements thereto.

“Support Facility” means any instrument, contract or agreement entered into or obtained in connection with an issue of Senior Lien or Subordinate Lien Bonds such as a letter of credit, a committed line of credit, insurance policy, surety bond or standby bond purchase agreement, or any combination of the foregoing, and issued by a bank or banks, other financial institution or institutions, or any combination of the foregoing, which Support Facility provides for the payment of (i) the purchase price equal to the principal of and accrued interest on Senior Lien or Subordinate Lien Bonds, as applicable, delivered to the Remarketing Agent or any depository, tender agent or other party pursuant to a Remarketing Agreement or Supplemental Senior Lien or Supplemental Lien Resolution and discount, if any, incurred in remarketing such Senior Lien or Subordinate Lien Bonds, and/or (ii) principal of and interest on all Senior Lien or Subordinate Lien Bonds becoming due and payable during the term thereof.

“Trustee” means (i) with respect to the Senior Lien Bond Resolution and the Senior Lien Bonds, The Bank of New York Trust Company, N.A. (as successor in interest to The Valley National Bank of Arizona, Bank One Arizona, NA, Bank One Trust Company, N.A., and J.P. Morgan Trust Company, N.A., as Trustee), a national banking association, in its capacity as Trustee under the Senior Lien Bond Resolution, and (ii) with respect to the Subordinate Lien Bond Resolution and the Subordinate Lien Bonds, Zions First National Bank (as successor in interest to National Bank of Arizona, as Trustee), a national banking association, in its capacity as Trustee under the Subordinate Lien Bond Resolution, and their respective successors or assigns, and any successor as Trustee.

“Variable Rate Senior Lien Bonds” means any Senior Lien Bonds issued bearing interest at a rate per annum subject to adjustment from time to time pursuant to the terms thereof and calculated in a manner which precludes the actual rate for the entire term of such debt from being ascertainable in advance.

“Variable Rate Subordinate Lien Bonds” means any Subordinate Lien Bonds issued bearing interest at a rate per annum subject to adjustment from time to time pursuant to the terms thereof and calculated in a manner which precludes the actual rate for the entire term of such debt from being ascertainable in advance.

THE SENIOR LIEN BOND RESOLUTION

Additional Obligations of the Authority

Additional Senior Lien Bonds. The Authority may issue additional Senior Lien Bonds from time to time for the purpose of paying costs of additions, expansions and improvements to the Airport System upon compliance with the following conditions:

(1) The Designated Financial Officer shall have found and determined that no Event of Default exists under the Senior Lien Bond Resolution.

(2) Either (i) the Designated Financial Officer shall have certified that, based on audited financial statements of the Authority or, to the extent audited financial statements are not available, on information derived from the books and records of the Authority for the most recent Fiscal Year, the Net Revenues for such Fiscal Year, together with the Coverage Transfer Amount, will equal at least 125% of Senior Lien Maximum Aggregate Annual Debt Service on all Senior Lien Bonds outstanding and the Senior Lien Bonds then proposed to be issued; or (ii) an Airport Consultant shall have certified that estimated Net Revenues, together with the Coverage Transfer Amount, to be derived in each of the three full Fiscal Years following the Fiscal Year in which (a) the Authority estimates that the properties included or to be included in the Airport System which are to be financed by the issuance of such additional Senior Lien Bonds, will be placed in continuous service or in commercial operation or amounts credited to a Construction Interest Account in the Construction Fund are expended, whichever is earlier, or (b) Senior Lien Refunding Bonds are issued, will equal at least 125% of Senior Lien Aggregate Annual Debt Service for the comparable Fiscal Years on all Senior Lien Bonds outstanding and the Senior Lien Bonds then proposed to be issued.

For purposes of (2) above, the Coverage Transfer Amount taken into account shall not exceed (i) for purposes of clause 2(i) above, 25% of Senior Lien Maximum Aggregate Annual Debt Service on Senior Lien Bonds outstanding and the Senior Lien Bonds then proposed to be issued, and (ii) for purposes of clause 2(ii) above, for each Fiscal Year being compared, 25% of Senior Lien Aggregate Annual Debt Service for such Fiscal Year on Senior Lien Bonds outstanding and the Senior Lien Bonds then proposed to be issued.

Senior Lien Completion Bonds. Without complying with the preceding provisions under “Additional Senior Lien Bonds,” the Authority may at any time and from time to time issue one or more Series of additional Senior Lien Bonds for the purpose of completing any project specified and described in a Supplemental Senior Lien Resolution and for which Senior Lien Bonds have been previously issued. Prior to the issuance of such additional Senior Lien Bonds the Authority must, in addition to meeting all of the requirements contained in paragraph (1) under “Additional Senior Lien Bonds,” find and determine that such project has not been materially changed in scope since the issuance of the initial Series of Senior Lien Bonds for such purpose and that the issuance of such additional Senior Lien Bonds is necessary to provide funds for the completion of the project.

Senior Lien Refunding Bonds. The Authority may at any time and from time to time issue one or more Series of Senior Lien Bonds upon compliance with the provisions described under “Additional Senior Lien Bonds,” provided that the Authority need not comply with such provisions with respect to Senior Lien Refunding Bonds issued for the purpose of (a) refunding at their maturity, or at any time within one year prior to their maturity, any of the then-outstanding Senior Lien Bonds for the payment of which sufficient funds are not available, and any Senior Lien Refunding Bonds for such purpose shall mature or be subject to mandatory redemption in a year later than the latest stated maturity date of any Senior Lien Bond then outstanding which shall remain outstanding after the completion of such refunding, or (b)

refunding at any time only part of the Senior Lien Bonds, provided that the amount required to be paid in any Fiscal Year after the delivery of such Senior Lien Refunding Bonds for the principal of, interest and premium, if any, on the Senior Lien Bonds shall not be greater in any Fiscal Year after such delivery in which any of the Senior Lien Bonds not refunded shall remain outstanding, than would have been the total amount required to be paid for the principal of, interest and premium, if any, on the Senior Lien Bonds for such Fiscal Year were such Senior Lien Refunding Bonds not to be issued.

Subordinate Lien and Other Obligations. The Authority may issue or incur Subordinate Lien Bonds or Junior Subordinate Lien Obligations.

Subject to any other contractual obligations of the Authority, the Authority may also issue or incur bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, other than Senior Lien Bonds, for the purpose of providing proceeds to finance any Airport Purpose payable from and secured by a pledge of and lien on those revenues, proceeds, grants or other sources specifically excluded from the definition of Revenues and all income or revenues derived with respect to any Airport Purpose so financed shall constitute Revenues and be paid into the Revenue Fund.

Variable Rate Senior Lien Bonds and Senior Lien Commercial Paper Program Bonds. The Authority may issue Variable Rate Senior Lien Bonds or Senior Lien Commercial Paper Program Bonds. The Supplemental Senior Lien Resolution or Resolutions providing for the issuance of such Variable Rate Senior Lien Bonds or such Senior Lien Commercial Paper Program may provide for the Authority to obtain Support Facilities or alternate Support Facilities and enter into Support Agreements in connection therewith, enter into Remarketing Agreements and dealer and issuing and paying agent agreements and appoint Remarketing Agents, Commercial Paper Dealers and/or issuing and paying agents in accordance with standards specified in the Supplemental Senior Lien Resolution, provide for interest to be payable or redetermined on such dates and to accrue over such periods as set forth in such Supplemental Senior Lien Resolution, provide for the determination or establishment of rates of interest based on determinations of a Remarketing Agent, a Commercial Paper Dealer, market auction procedures or the establishment, use, composition, adjustment and change of interest indices or the establishment and use of alternate interest indices or the establishment of a fixed interest rate or rates, provide for an Interest Increment Amount, provide for the establishment of special funds and accounts in connection with the issuance of such Variable Rate Senior Lien Bonds or Senior Lien Commercial Paper Program Bonds, provide for special redemption or purchase provisions for such Variable Rate Senior Lien Bonds or Senior Lien Commercial Paper Program Bonds and establish notice provisions in connection with the purchase, redemption, delivery or tender of such Variable Rate Senior Lien Bonds or Senior Lien Commercial Paper Program Bonds.

Hedge, Support and Other Financial Agreements. The Authority may execute and deliver Hedge Agreements, Support Agreements or other financial agreements under which payments (including but not limited to, fees, charges, expenses but excluding any termination, indemnification or other payments intended to pay any person for loss of benefits under such agreement) are payable from Net Revenues and secured by a lien on and pledge of Net Revenues on a parity with the lien on and pledge of the Net Revenues created for the payment and security of the Senior Lien Bonds; provided such payments shall meet the requirements described above

under “Additional Senior Lien Bonds” and provided, further, that Integrated Swap Agreement Payments shall be treated as payment of interest on Senior Lien Bonds. In the event any such payments, other than payments constituting principal of, premium, if any, and interest on, Senior Lien Bonds, shall be secured by a lien on and pledge of Net Revenues on a parity with the lien on and pledge of the Net Revenues created for the payment and security of the Senior Lien Bonds, a separate account shall be established in the Senior Lien Bond Fund for the payment thereof and payments to such account shall be made ratably from Net Revenues at the time Net Revenues are disbursed to the other accounts in the Senior Lien Bond Fund.

Establishment of Funds and Accounts; Application of Revenues

Establishment of Funds and Accounts. The Senior Lien Bond Resolution establishes and maintains the following funds:

- (1) The Tucson Airport Authority Revenue Fund (the “Revenue Fund”);
- (2) The Tucson Airport Authority Senior Lien Bond Fund (the “Senior Lien Bond Fund”) and the Interest Account, Serial Bond Principal Account and Term Bond Principal Account therein;
- (3) The Tucson Airport Authority Senior Lien Bond Reserve Fund (the “Senior Lien Bond Reserve Fund”);
- (4) The Tucson Airport Authority Operation and Maintenance Reserve Fund (the “Operation and Maintenance Reserve Fund”);
- (5) The Tucson Airport Authority Maintenance Reserve Fund (the “Maintenance Reserve Fund”); and
- (6) The Tucson Airport Authority Airport Improvement Fund (the “Airport Improvement Fund”), including such accounts therein as may be established by the Authority.

Application of Revenues. All Revenues shall be collected by or for the account of the Authority and shall be set aside as collected and, except as is specifically provided otherwise in the Senior Lien Bond Resolution, shall be deposited in the Revenue Fund. The monies in the Revenue Fund shall be used and applied at the following times, in the following amounts, for the following purposes and in the following order of priority:

First, there shall be set aside and reserved each month the amount which the Authority determines to be required to pay Operation and Maintenance Expenses.

Second, there shall be applied and deposited each month into the Senior Lien Bond Fund and the Accounts therein the amount required by the Senior Lien Bond Resolution.

Third, there shall be applied the amount necessary to pay principal of, premium, if any, and interest on Subordinate Lien Bonds and Junior Subordinate Obligations for any corporate use or purpose of the Authority relating to the Airport System payable as to principal and interest from Net Revenues subject and subordinate, and secured by a lien and pledge of Net Revenues junior and inferior, to the lien and pledge of the Net Revenues created for the payment and security of the Senior Lien Bonds, in the funds and accounts established therefor.

Fourth, there shall be applied and deposited the amount required by the Senior Lien Bond Resolution, if any, to be deposited in the Senior Lien Bond Reserve Fund.

Fifth, there shall be applied the amount required, if any, to be deposited in any reserve fund or account established with respect to any Subordinate Lien Bonds or Junior Subordinate Obligations referred to in the preceding clause.

Sixth, there shall be applied and deposited to the Operation and Maintenance Reserve Fund, an amount equal to one-fourth (1/4) of the Operation and Maintenance Expenses estimated and budgeted for the Fiscal Year.

Seventh, from and after October 1, 2008, there shall be applied and deposited to the Maintenance Reserve Fund an amount during each Fiscal Year of not less than \$1,000,000 or such greater amount as specified by the Authority in its annual budget for such Fiscal Year, provided that no amounts are required to be deposited into the Maintenance Reserve Fund (i) at any time or times that such Fund contains an amount equal to or greater than 2.0% of gross depreciable assets of the Authority according to its most recently available audited financial statements, or (ii) during any period for which the Board of the Authority has made a determination that deposits into the Maintenance Reserve Fund are not in the best interests of the Authority due to extraordinary circumstances.

Eighth, at the end of each Fiscal Year, after making all deposits and credits required as described in "First" through "Seventh," all monies remaining on deposit in the Revenue Fund shall be applied and deposited into the Airport Improvement Fund and to the various accounts established therein by the Authority and, subject to any other contractual obligations of the Authority, shall be applied from time to time to any Airport Purpose as determined by the Authority by resolution of the Board.

Senior Lien Bond Fund and Accounts Therein. The Authority is required to deposit in said Senior Lien Bond Fund and the Accounts therein, the Net Revenues, to the extent necessary to provide for the punctual payment of the principal of and interest and premium, if any, on the Senior Lien Bonds, at the times and in the amounts provided in the Senior Lien Bond Resolution.

Senior Lien Bond Reserve Fund. The Authority is required to deposit Net Revenues into a separate account of the Senior Lien Reserve Fund established for each Series of Senior Lien Bonds by Supplemental Senior Lien Resolution and held by the Authority, except that by Supplemental Senior Lien Resolution, such account may also be granted as additional security for one or more other Series of Senior Lien Bonds. Each such Account shall be maintained in an

amount equal to the Senior Lien Bond Reserve Fund Requirement with respect to the Series of Senior Lien Bonds and shall be disbursed by the Authority solely for the purpose of paying principal of and interest on Senior Lien Bonds of the Series for which such account was established for the payment of which there shall be insufficient money in the Senior Lien Bond Fund and the Holders of any other Series of Senior Lien Bonds not secured by such account shall have no right to payment of principal of or interest on Senior Lien Bonds from or lien on amounts on deposit in such account. The Senior Lien Bond Reserve Fund Requirement shall be determined with respect to a Series of Senior Lien Bonds at the time of issuance of such Series of Senior Lien Bonds, September 30 of each year and such other time or times as the Authority shall determine.

If any time during a Fiscal Year the monies on deposit in the Senior Lien Bond Reserve Fund are less than the Senior Lien Bond Reserve Fund Requirement, the amount of the deficiency shall be restored from the first available Net Revenues; (b) if at the end of any Fiscal Year, the monies on deposit in the Senior Lien Bond Reserve Fund are less than the Senior Lien Bond Reserve Fund Requirement, the Authority shall deposit an amount in the Senior Lien Bond Reserve Fund from Net Revenues on deposit in the Revenue Fund after making the deposits "First" through "Fourth" as required by the Senior Lien Bond Resolution so that there shall then be on deposit in the Senior Lien Bond Reserve Fund an amount equal to the Senior Lien Bond Reserve Fund Requirement, (c) if the deficiency in the Senior Lien Bond Reserve Fund is due to the withdrawal of monies on deposit therein to pay principal of or interest on a particular Series of Senior Lien Bonds then in each month, commencing with the month which follows the month in which such withdrawal is made from the Senior Lien Bond Reserve Fund, the Authority shall deposit from the Net Revenues on deposit in the Revenue Fund after making the deposits "First" through "Fifth" as required by the Senior Lien Bond Resolution to the Senior Lien Bond Reserve Fund at least an amount which, if the same amount were so deposited to the Senior Lien Bond Reserve Fund in each month thereafter until the day which is 60 months from the making of the first of such deposits, there shall be on deposit in the Senior Lien Bond Reserve Fund on such day an amount not less than the Senior Lien Bond Reserve Requirement for such Series of Senior Lien Bonds; and (d) if at any time and for so long as the monies on deposit in the Senior Lien Bond Reserve Fund are at least equal to the Senior Lien Bond Reserve Fund Requirement, no further deposits shall be made to the Fund, and any amounts in excess of the Senior Lien Bond Reserve Fund Requirement may be restored to the Revenue Fund for use and application as are all other monies on deposit therein.

In lieu of the deposit of monies in the Senior Lien Bond Reserve Fund, the Authority may with respect to a Series of Senior Lien Bonds, cause to be credited a surety bond or an insurance policy payable to the Authority for the benefit of the Holders of such Series or a letter of credit in an amount equal to the difference between the Senior Lien Bond Reserve Fund Requirement and the amounts then on deposit in the Senior Lien Bond Reserve Fund with respect to such Series, in either case upon meeting certain conditions prescribed in the Senior Lien Bond Resolution. If a disbursement is made pursuant to a surety bond, an insurance policy or a letter of credit, the Authority shall be obligated either (i) to reinstate the maximum limits of such surety bond, insurance policy or letter of credit or (ii) to deposit funds into the Senior Lien Bond Reserve Fund, or a combination of such alternatives, as shall

provide that the amount credited to the Senior Lien Bond Reserve Fund equals the Senior Lien Bond Reserve Fund Requirement for such Series of Senior Lien Bonds.

Maintenance Reserve Fund. Monies in the Maintenance Reserve Fund may be used to pay for (a) renewals, reconstruction and replacement of any facilities of the Authority, (b) acquiring and installing or replacing equipment, (c) major maintenance or repairs, (d) repairs or replacements for which other funds are inadequate, and (e) for any other Airport Purpose.

Investment of Monies in Funds. Monies in the Senior Lien Bond Fund shall be invested and reinvested by the Authority to the extent reasonable and practicable in Investment Securities maturing in the amounts and at the times as determined by the Authority so that the payments required to be made from such Fund may be made when due. Monies on credit to the Senior Lien Bond Reserve Fund shall be invested in Investment Securities so as to mature by no later than the final maturity date of all Senior Lien Bonds then outstanding.

Covenants As To Rates, Rentals, Fees and Charges

(1) The Authority shall impose and prescribe such schedule of rates, rentals, fees and charges for the use and services of and the facilities and commodities furnished by the Airport System, and shall revise the same from time to time whenever necessary, and collect the income, receipts and other monies derived therefrom, so that the Airport System shall be and always remain financially self-sufficient and self-sustaining. The rates, rentals, fees and charges imposed, prescribed and collected shall be such as will produce Revenues for each Fiscal Year at least sufficient (i) to pay as and when the same become due all Operation and Maintenance Expenses; (ii) to pay the principal of and interest and premium on the Senior Lien Bonds as and when the same become due at maturity or upon required redemption prior to maturity or otherwise; (iii) to pay as when the same become due any Subordinate Lien Bonds, Junior Subordinate Lien Obligations and all other claims, charges or obligations payable from Revenues subject and subordinate, and secured by a lien and pledge on the Net Revenues junior and inferior, to the lien and pledge on the Net Revenues created for the payment and security of the Senior Lien Bonds, as and when same become due (whether at maturity or upon required redemption prior to maturity or otherwise); and (iv) to carry out all provisions and covenants of the Senior Lien Bond Resolution.

(2) Without limiting the provisions of paragraph (1) above, at all times and in any and all events such rates, rentals, fees and charges shall be imposed, prescribed, adjusted, enforced and collected for each Fiscal Year which will yield for such Fiscal Year Net Revenues, together with the Coverage Transfer Amount, which will equal at least 125% of Senior Lien Aggregate Annual Debt Service during such Fiscal Year on all Senior Lien Bonds outstanding.

For purposes of paragraph (2) above, the Coverage Transfer Amount taken into account shall not exceed 125% of Senior Lien Aggregate Annual Debt Service on Senior Lien Bonds outstanding.

(3) The failure to comply with the covenant in paragraphs (1) and (2) above shall not constitute an Event of Default under the Senior Lien Bond Resolution if the Authority shall promptly (i) cause an Airport Consultant to make a study for the purpose of making recommendations with respect to rates, rentals, fees and charges for the Airport System in order to provide funds for all the payments and other requirements as specified in paragraphs (1) and (2) above, consider the recommendations of the Airport Consultant, and (iii) take such action as the Authority, in its discretion, may deem necessary to comply with paragraphs (1) and (2) above.

Amendments of Senior Lien Bond Resolution

Amendments Without Consent of Senior Lien Bondholders. The Authority, without the consent or concurrence of the Holder of any Senior Lien Bond, may adopt a Supplemental Senior Lien Resolution (a) for the purpose of providing for the issuance of additional Senior Lien Bonds; Senior Lien Completion Bonds, or Senior Lien Refunding Bonds, (b) to make any changes or modifications hereof or amendments or additions hereto or deletions herefrom which may be required to permit the Senior Lien Bond Resolution to be qualified under the Trust Indenture Act of 1939 of the United States of America; and (c) if the provisions of such Supplemental Senior Lien Resolution shall not materially adversely affect the rights of the Holders of the Senior Lien Bonds then outstanding, for any one or more of the following purposes: (i) to make any changes or corrections in the Senior Lien Bond Resolution or any Supplemental Senior Lien Resolution as to which it shall have been advised by its counsel that the same are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Senior Lien Bond Resolution or in any such Supplemental Senior Lien Resolution, or to insert such provisions clarifying matters or questions arising under the Senior Lien Bond Resolution as are necessary or desirable; (ii) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Senior Lien Bonds; (iii) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Senior Lien Bond Resolution or any Supplemental Senior Lien Resolution; (iv) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the provisions of the Senior Lien Bond Resolution or any Supplemental Senior Lien Resolution; (v) to grant to or confer upon the Holders of the Senior Lien Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them; (vi) to prescribe further limitations and restrictions upon the issuance of the Senior Lien Bonds and the incurring of indebtedness by the Authority payable from the Net Revenues; and (vii) to modify in any other respect any of the provisions of the Senior Lien Bond Resolution, or any Supplemental Senior Lien Resolution previously adopted; provided that such modifications shall have no material adverse affect as to any Senior Lien Bond or Senior Lien Bonds which are then outstanding.

Amendments With Consent of Senior Lien Bondholders. With the consent of the Holders of not less than 51% of the principal amount of the Senior Lien Bonds then outstanding, the Authority, from time to time and at any time, may adopt a Supplemental Senior Lien Resolution amending or supplementing the provisions of the Senior Lien Bond Resolution for the purposes of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Senior Lien Bond Resolution or of any Supplemental Senior Lien Resolution, or modifying

in any manner the rights of the Holders of the Senior Lien Bonds then outstanding; provided, however, that, without the specific consent of the Holder of each such Senior Lien Bond which would be affected thereby, no such Supplemental Senior Lien Resolution amending or supplementing the provisions hereof shall: (a) change the fixed maturity date for the payment of the principal of any Senior Lien Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Senior Lien Bond or the rate of interest thereon or any premium payable upon the redemption thereof; or (b) reduce the aforesaid percentage of Senior Lien Bonds, the Holders of which are required to consent to any such Supplemental Senior Lien Resolution amending or supplementing the provisions hereof; or (c) give to any Senior Lien Bond or Senior Lien Bonds preference over any other Senior Lien Bond or Senior Lien Bonds; or (d) authorize the creation of any of the Net Revenues or any lien thereon prior, superior or equal to the pledge and lien created for the payment and security of the Senior Lien Bonds; or (e) deprive any Holder of the Senior Lien Bonds of the security afforded by the Senior Lien Bond Resolution. A modification or amendment of the provisions with respect to the funds and accounts established thereby shall not be deemed a change in the terms of payment of the Senior Lien Bonds; provided, however, that no such modification or amendment shall, except upon the consent of the Holders of all Senior Lien Bonds then outstanding affected thereby, reduce the amount or amounts required to be deposited from the Net Revenues to the Senior Lien Bond Fund or the priority of the deposits of such amounts.

Any consent, request, direction, approval, objection or other instrument required by the Senior Lien Bond Resolution to be signed or executed by the Holders of Senior Lien Bonds may be made by the provider of insurance, if any, as to principal and interest thereon in lieu of and substitution for the consent, request, direction, approval, objection or other instrument of such Holder, unless the provider of such insurance is in default with respect to its obligations with respect to such insurance.

Events of Default.

Each of the following is defined as and declared to be and shall constitute an “Event of Default” under the Senior Lien Bond Resolution: (a) payment of any installment of interest on any Senior Lien Bond shall not be made when due; (b) payment of the principal and premium (if any) of any Senior Lien Bond shall not be made when due; (c) the credits to the Term Bond Principal Account in the Senior Lien Bond Fund shall not be made or satisfied in any twelve-months’ period in the amount required for such period by a Supplemental Senior Lien Resolution and such failure shall have continued for 60 days after the expiration of such period; (d) a default shall occur in the performance or observance by the Authority of the covenants and agreements described under “Covenants As To Rates, Rentals, Fees and Charges” above, (e) the Authority shall fail in the due and punctual performance or any other of the covenants, conditions, agreements and provisions contained in the Senior Lien Bonds or in Senior Lien Bond Resolution (other than as described in (a) through (d) above) or in any Supplemental Senior Lien Resolution on the part of the Authority to be performed, and such failure shall continue for 90 days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Authority by the Trustee, or to the Authority and the Trustee by the Holders of not less than 20% in principal amount of the Senior Lien Bonds then outstanding or any committee therefor; provided that if any such

failure shall be such that it cannot be cured or corrected within such 90-day period, it shall not constitute an Event of Default if curative or corrective action is instituted within said period and diligently pursued until the failure of performance is cured or corrected; or (f) any proceedings shall be instituted with the consent or acquiescence of the Authority for the purpose of effecting a composition between the Authority and its creditors and if the claim of such creditors is in any circumstance payable from any of the Revenues or any other monies pledged and charged in the Senior Lien Bond Resolution or in any Supplemental Senior Lien Resolution or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or State statute now or hereafter enacted; (g) an order or decree shall be entered (i) with the consent or acquiescence of the Authority, appointing a receiver or receivers of the Airport System or any of the buildings and facilities thereof, or (ii) without the consent or acquiescence of the Authority appointing a receiver or receivers of the Airport System or any of the buildings and facilities thereof and such order or decree, having been entered, shall not be vacated or discharged or stayed on appeal within 60 days after the entry thereof; (h) if under the provisions of any applicable bankruptcy laws or any other law for the relief or aid of debtors, (i) any court of competent jurisdiction shall assume custody or control of the Airport System or any of the buildings and facilities thereof, and such custody or control shall not be terminated within 90 days from the date of assumption of such custody or control; or (ii) any court of competent jurisdiction shall approve of any petition for the reorganization of the Airport System or rearrangement or readjustment of the obligations of the Authority; or (i) the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Senior Lien Bond Resolution.

Action of Trustee in Event of Default

Upon the occurrence of an Event of Default of which the Trustee has actual knowledge and at all times thereafter while such default shall continue, the Trustee shall become vested with all the estate, properties, rights, trusts, duties and obligations of the Trustee and shall enter into and take possession of, or supervision over, the funds and accounts continued or created under the Senior Lien Bond Resolution, including a Construction Fund created under any Supplemental Senior Lien Resolution, and collect and receive and apply all Net Revenues and other monies held in the same manner as the Authority itself might do, and shall act in place of the Authority in the exercise of all rights and duties of the Authority.

The Trustee in case of an Event of Default may, and upon the written request of the Holders of not less than 25% in principal amount of the Senior Lien Bonds then outstanding, and upon being indemnified to its satisfaction, shall, exercise any or all of the following remedies to the extent that the same shall then be legally available:

(a) Proceed to protect and enforce its rights and the rights of the Holders of the Senior Lien Bonds by a suit or suits in equity, in bankruptcy or at law, either in mandamus or for the specific performance of any covenant or agreement contained in the Senior Lien Bond Resolution or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable remedy, as the Trustee, being advised by counsel, may deem most effectual to protect and enforce any of the rights or interests under the Senior Lien Bonds and/or the Senior Lien Bond Resolution. The Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered (i) to institute any action or

proceedings at law or in equity for the collection of all fees and charges, rents or sums, as the case may be, due and unpaid under any lease or other agreement to which the Authority is a party, and may prosecute any such action or proceedings to judgment or final decree, and may enforce any such judgment or final decree against the other party to such lease or other agreement and collect in the manner provided by law out of the property of such party wherever situated the monies adjudged or decreed to be payable, and (ii) to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the Trustee and of the Holders of the Senior Lien Bonds allowed in any equity, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings relative to the Authority or any party to a lease or agreement with the Authority.

(b) Proceed by appropriate proceedings in any court of competent jurisdiction in the Event of Default in the payment of principal of or interest on any Senior Lien Bonds, to obtain the appointment of a receiver for the Airport System, which receiver may enter upon and take possession of the Airport System and fix rates and charges and collect all Revenues arising therefrom in as full a manner and to the same extent as the Authority itself might do. The receiver shall collect and dispose of Revenues in accordance with the terms and conditions of the Senior Lien Bond Resolution or as the court shall direct.

Any consent, request, direction, approval, objection or other instrument required by the Senior Lien Bond Resolution to be signed or executed by the Holders of Senior Lien Bonds may be made by the provider of insurance, if any, as to principal and interest thereon in lieu of and substitution for the consent, request, direction, approval, objection or other instrument of such Holder, unless the provider of such insurance is in default with respect to its obligations with respect to such insurance.

Special Obligation Bonds and Special Facility Agreements

The Authority may issue bonds, notes or other evidences of indebtedness (“Special Obligation Bonds”) for the purpose of acquiring, constructing, renovating, remodeling or rehabilitating a Special Facility for use, lease or sublease thereof or for refunding other Special Obligation Bonds. Such Special Obligation Bonds (i) shall be payable solely from amounts payable by the user, lessee or sublessee under the Special Facility Agreement (defined below) entered into with respect to the Special Facility to be financed from such Special Obligation Bonds; (ii) shall not be a charge or claim against or payable from or secured by the Revenues or any other monies held; (iii) will not result in a reduction of Net Revenues; and (iv) shall mature within the term of the Special Facility Agreement entered into with respect to such Special Facility.

A Special Facility lease, loan or other agreement (“Special Facility Agreement”) shall be entered into between the Authority and the user or occupier of such Special Facility pursuant to which the user, lessee or sublessee shall agree to pay or otherwise provide for payment of (i) installment amounts which will be sufficient to pay during such term as the same respectively becomes due the principal of and interest on all Special Obligation Bonds to be issued to pay the cost of construction or acquisition of the Special Facility; (ii) amounts necessary or required to provide or maintain all reserves required for such Special Obligation

Bonds and to pay all trustees', fiscal agents' and paying agents' fees and expenses in connection therewith; (iii) installment amounts equal to a properly allocable share of the administrative costs of the Authority arising out of such Special Facility Agreement and the issuance and servicing of such Special Obligation Bonds or, if the land on which the Special Facility is to be constructed constitutes a part of the Airport System, a ground rental for the ground upon which such Special Facility is or is to be located payable in periodic installments in amounts not less than shall be required pursuant to the Authority's policy for rental of ground space in the Airport System as fixed from time to time by the Authority; any amount payable pursuant to this clause (iii) shall be free and clear of all charges under said Special Facility Agreement; shall be in addition to the amounts required by clauses (i), (ii) and (iii) ; and shall constitute Revenues and be paid into the Revenue Fund; and (iv) all costs connected with the ownership, operation, maintenance, repair, renewals and rehabilitation of the Special Facility (including, without limitation, insurance, utilities, taxes or payments in lieu of taxes and assessments).

If a Special Facility is located on land included in the Airport System, upon the retirement of the indebtedness evidenced by the Special Obligation Bonds issued therefor or evidenced by refunding Special Obligation Bonds, all rentals and other income thereafter received by the Authority from the Special Facility for which Special Obligation Bonds were issued shall, to the extent permitted by law, constitute Revenues and be paid into the Revenue Fund, to be used and applied as are other monies deposited therein, and if such rentals and other income shall then constitute Revenues, such Special Facility shall, unless contrary to law, then constitute part of the Airport System for all purposes of the Senior Lien Bond Resolution; provided, however, that if any such Special Obligation Bonds are retired through the refunding thereof from the proceeds of Additional Senior Lien Bonds, such Special Facility in all events shall thereafter constitute part of the Airport System for all purposes hereof.

Payment and Defeasance

The obligations of the Authority under the Senior Lien Bond Resolution and the liens, pledges, charges, trusts, assignments, covenants and agreements of the Authority therein made or provided for, shall be fully discharged and satisfied as to any Senior Lien Bond and such Senior Lien Bond shall no longer be deemed to be outstanding,

(i) when such Senior Lien Bond shall have been cancelled, or shall have been purchased by the Authority from monies in the Senior Lien Bond Fund, or

(ii) as to any Senior Lien Bond not cancelled or so purchased, when payment of the principal of and the applicable redemption premium, if any, on such Senior Lien Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or other-wise), either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided by irrevocably depositing with a Paying Agent for such Senior Lien Bond, in trust and irrevocably appropriated and set aside exclusively for such payment, (1) monies sufficient to make such payment, (2) Governmental Obligations, or (3) any combination thereof maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient monies to make

such payment, and all necessary and proper fees, compensation and expenses of the Paying Agents pertaining to the Senior Lien Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of said Paying Agents.

At such time as a Senior Lien Bond shall be deemed to be no longer outstanding, as aforesaid, such Senior Lien Bond shall cease to draw interest from the due date thereof (whether such due date be by reason of maturity, or upon redemption or prepayment or by declaration as aforesaid, or otherwise) and, except for the purposes of any such payment from such monies or Governmental Obligations, shall no longer be secured by or entitled to the benefits of the Senior Lien Bond Resolution, including all Supplemental Senior Lien Resolutions.

Notwithstanding the foregoing, in the case of the Senior Lien Bonds which by their terms may be redeemed or otherwise prepaid prior to their stated maturities from the monies or securities deposited, no deposit under clause (b) of subparagraph (ii) above shall constitute such payment, discharge and satisfaction as aforesaid, (A) as to any such Senior Lien Bonds as are not at the time of the making of such deposit immediately redeemable or prepayable in accordance with the provisions of the Supplemental Senior Lien Resolution providing for their issuance and of such Senior Lien Bonds, until either (1) such Senior Lien Bonds shall have been irrevocably called or designated for redemption or prepayment on the first date thereafter such Senior Lien Bonds may be redeemed or prepaid in accordance with the provisions of the Supplemental Senior Lien Resolution providing for their issuance and of such Senior Lien Bonds, or (2) until ninety days prior to the respective stated maturities of such Senior Lien Bonds; (B) as to any such Senior Lien Bonds as are at the time of the making of such deposit immediately redeemable or prepayable in accordance with the provisions of the Supplemental Senior Lien Resolution providing for their issuance and of such Senior Lien Bonds, until (1) 90 days prior to the date fixed for their redemption or prepayment, or (2) 90 days prior to the respective stated maturities of such Senior Lien Bonds; and (C) as to all such Senior Lien Bonds which are to be redeemed or prepaid prior to their respective stated maturities, until proper notice of such redemption or prepayment shall have been previously given or satisfactory provision shall have been irrevocably made for the giving of such notice.

Notwithstanding the foregoing, the payment of (i) the purchase price of or accrued interest on any Variable Rate Senior Lien Bonds tendered for purchase pursuant to the terms of a Supplemental Senior Lien Resolution or the Remarketing Agreement, or similar agreement, or (ii) principal of, premium, if any, or interest on any Variable Rate Senior Lien Bonds upon redemption, acceleration or when due and payable with a draw, borrowing or payment under a Support Facility shall not be deemed payment; provided, however, that with respect to (ii) above, a reimbursement or other payment by the Authority with respect to a draw, borrowing or payment under a Support Facility for the payment of principal of, premium, if any, or interest on Variable Rate Senior Lien Bonds upon redemption, acceleration or when due and payable may be deemed to be payment.

The Trustee

Prior to the occurrence of an Event of Default under the Senior Lien Bond Resolution, the Trustee shall have no duties and obligations as trustee thereunder. Upon the occurrence of an Event of Default under the Senior Lien Bond Resolution of which the Trustee has actual knowledge, all such estate, properties, rights, powers, trusts, duties and obligations granted to the Trustee in the Senior Lien Bond Resolution shall vest in the Trustee unless and until all such Events of Default shall have been cured in accordance with the Senior Lien Bond Resolution.

The Trustee may be removed at the request of and upon the affirmative vote of the Holders of a majority of the principal amount of Senior Lien Bonds outstanding. In the event of the removal or refusal to act of the Trustee, a successor may be appointed by the Holders of a majority of the principal amount of Senior Lien Bonds outstanding. The Trustee or any successor may resign at any time by giving not less than 60 days' notice to the Authority and thereupon the Authority, in the manner prescribed above, shall, unless an Event of Default shall have occurred and be continuing, appoint a successor Trustee. The Trustee may be removed by the Authority at any time, provided, however, that (i) such removal is subject to revocation by Senior Lien Bondholders of not less than 10% of the Senior Lien Bonds then outstanding and (ii) such removal may not be effected if (A) an Event of Default has occurred and is continuing, or (B) there is any deficiency in any fund or account held under the Senior Lien Bond Resolution.

SUBORDINATE LIEN BOND RESOLUTION

Additional Obligations of the Authority

Additional Senior Lien Bonds. The Authority reserves the right to issue additional Senior Lien Bonds under the Senior Lien Bond Resolution at any time, as described above under "THE SENIOR LIEN BOND RESOLUTION – Additional Obligations of the Authority" in this Appendix D.

Additional Subordinate Lien Bonds. The Authority may issue additional Subordinate Lien Bonds from time to time for the purpose of paying costs of additions, expansions and improvements to the Airport System upon compliance with the following conditions:

(1) The Designated Financial Officer shall have found and determined that no Event of Default exists under the Subordinate Lien Bond Resolution and no Event of Default exists under the Senior Lien Bond Resolution; and

(2) Either (i) the Designated Financial Officer shall have certified that, based on audited financial statements of the Authority, or, to the extent audited figures are not available, on figures derived from the books and records of the Authority, for the most recent Fiscal Year, the Net Revenues for such Fiscal Year, after deducting Senior Lien Aggregate Annual Debt Service, together with the Coverage Transfer Amount and the total amount of PFC Revenues and federal or state grants or other monies pledged as additional security for payment of Subordinate Lien Bonds applied in such Fiscal Year to the payment of Debt Service on Subordinate Lien Bonds outstanding, but not in excess of the amount of PFC Revenues and such federal or state

grants or other monies so pledged as additional security on Subordinate Lien Bonds, will equal at least 110% of Subordinate Lien Maximum Aggregate Annual Debt Service on all Subordinate Lien Bonds outstanding and the Subordinate Lien Bonds then proposed to be issued; or (ii) an Airport Consultant shall have certified that estimated Net Revenues, after deducting Senior Lien Aggregate Annual Debt Service, to be derived in each of the three full Fiscal Years following the Fiscal Year in which the Authority estimates the properties included or to be included in the Airport System which are to be financed by the issuance of such additional Subordinate Lien Bonds will be placed in continuous service or in commercial operation, or amounts credited to a Construction Interest Account in the Construction Fund are expended, whichever is earlier, or Subordinate Lien Refunding Bonds are issued, together with the Coverage Transfer Amount and the total amount of PFC Revenues and federal or state grants or other monies pledged as additional security for payment of Subordinate Lien Bonds to be applied in such Fiscal Years to the payment of Debt Service on Subordinate Lien Bonds outstanding, but not in excess of the amount of PFC Revenues and such federal or state grants or other monies so pledged as additional security on Subordinate Lien Bonds, will equal at least 110% of Subordinate Lien Aggregate Annual Debt Service for the comparable Fiscal Years on all Subordinate Lien Bonds outstanding and the Subordinate Lien Bonds then proposed to be issued.

For purposes of paragraph (2), the Coverage Transfer Amount taken into account shall not exceed (i) for purposes of clause 2(i) above, 10% of Subordinate Lien Maximum Aggregate Annual Debt Service on Subordinate Lien Bonds outstanding and the Subordinate Lien Bonds then proposed to be issued, and (ii) for purposes of clause 2(ii) above, for each Fiscal Year being compared, 10% of Subordinate Lien Aggregate Annual Debt Service for such Fiscal Year on Subordinate Lien Bonds outstanding and the Subordinate Lien Bonds then proposed to be issued.

The Authority is not required to comply with the requirements to issue a Series of additional Subordinate Lien Bonds to finance a project which is required by law or to fund a judgment or settlement.

Subordinate Lien Completion Bonds. Without complying with the preceding provisions under “Additional Subordinate Lien Bonds,” the Authority may at any time and from time to time issue one or more Series of additional Subordinate Lien Bonds for the purpose of completing any project specified and described in a Supplemental Subordinate Lien Resolution and for which Subordinate Lien Bonds have been previously issued, provided that the principal amount of Subordinate Lien Completion Bonds issued does not exceed 10% of the principal amount of Subordinate Lien Bonds issued to finance such project. Prior to the issuance of any Series of such additional Subordinate Lien Bonds the Authority must, in addition to meeting all of the requirements contained in paragraph (1) under “Additional Subordinate Lien Bonds” above, find and determine that the issuance of such additional Subordinate Lien Bonds is necessary to provide funds for the completion of the project.

Subordinate Lien Refunding Bonds. The Authority may at any time and from time to time issue one or more Series of Subordinate Lien Bonds upon compliance with the provisions described under “Additional Subordinate Lien Bonds,” provided that the Authority need not comply with such provisions with respect to Subordinate Lien Refunding Bonds issued for the

purpose of (a) refunding at their maturity, or at any time within one year prior to their maturity, any of the then-outstanding Subordinate Lien Bonds or Senior Lien Bonds for the payment of which sufficient funds are not available, and any Subordinate Lien Refunding Bonds for such purpose shall mature, or be subject to mandatory redemption in a year later than the latest stated maturity date of any Subordinate Lien Bond or Senior Lien Bonds then outstanding which shall remain outstanding after the completion of such refunding, or (b) refunding Subordinate Lien Bonds or Senior Lien Bonds, provided that the Subordinate Lien Maximum Annual Debt Service in any Fiscal Year on the Subordinate Lien Refunding Bonds proposed to be issued does not exceed the Debt Service in any Fiscal Year on the Subordinate Lien Bonds or Senior Lien Bonds being refunded by more than 10%.

Junior Subordinate Lien and Other Obligations. The Authority may issue or incur Junior Subordinate Lien Obligations.

Subject to any other contractual obligations of the Authority, the Authority may issue or incur bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, other than Subordinate Lien Bonds, for the purpose of providing proceeds to finance any Airport Purpose payable from and secured by a pledge of and lien on those revenues, proceeds, grants or other sources specifically excluded from the definition of Revenues and all income or revenues derived with respect to any Airport Purpose so financed shall constitute Revenues and be paid into the Revenue Fund.

Variable Rate Subordinate Lien Bonds and Subordinate Lien Commercial Paper Program Bonds. The Authority may issue Variable Rate Subordinate Lien Bonds or Subordinate Lien Commercial Paper Program Bonds. The Supplemental Subordinate Lien Resolution or Resolutions providing for the issuance of such Variable Rate Subordinate Lien Bonds or such Subordinate Lien Commercial Paper Program may provide for the Authority to obtain Support Facilities or alternate Support Facilities and enter into Support Agreements in connection therewith, enter into Remarketing Agreements and dealer and issuing and paying agent agreements and appoint Remarketing Agents, Commercial Paper Dealers and/or issuing and paying agents in accordance with standards specified in the Supplemental Subordinate Lien Resolution, provide for interest to be payable or redetermined on such dates and to accrue over such periods as set forth in such Supplemental Subordinate Lien Resolution, provide for the determination or establishment of rates of interest based on determinations of a Remarketing Agent, a Commercial Paper Dealer, market auction procedures or the establishment, use, composition, adjustment and change of interest indices or the establishment and use of alternate interest indices or the establishment of a fixed interest rate or rates, provide for an Interest Increment Amount, provide for the establishment of special funds and accounts in connection with the issuance of such Variable Rate Subordinate Lien Bonds or Subordinate Lien Commercial Paper Program Bonds, provide for special redemption or purchase provisions for such Variable Rate Senior Lien Bonds or Senior Lien Commercial Paper Program Bonds and establish notice provisions in connection with the purchase, redemption, delivery or tender of such Variable Rate Senior Lien Bonds or Senior Lien Commercial Paper Program Bonds.

Hedge, Support and Other Financial Agreements. The Authority may execute and deliver Hedge Agreements, Support Agreements or other financial agreements under which payments (including but not limited to, fees, charges, expenses but excluding any termination,

indemnification or other payments intended to pay any person for loss of benefits under such agreement) are payable from Net Revenues and secured by a lien on and pledge of Net Revenues on a parity with the lien on and pledge of the Net Revenues created for the payment and security of the Subordinate Lien Bonds; provided such payments shall meet the requirements described above under “Additional Subordinate Lien Bonds” and provided, further, that Integrated Swap Agreement Payments shall be treated as payment of interest on Subordinate Lien Bonds. In the event any such payments, other than payments constituting principal of, premium, if any, and interest on, Subordinate Lien Bonds, shall be secured by a lien on and pledge of Net Revenues on a parity with the lien on and pledge of the Net Revenues created for the payment and security of the Subordinate Lien Bonds, a separate account shall be established in the Subordinate Lien Bond Fund for the payment thereof and payments to such account shall be made ratably from Net Revenues at the time Net Revenues are disbursed to the other accounts in the Subordinate Lien Bond Fund.

Passenger Facility Charges; Other Additional Security

The Authority may by Supplemental Subordinate Lien Resolution, upon complying with the applicable provisions of the Subordinate Lien Bond Resolution (i) grant as additional security a pledge of and lien on, and a security interest for the benefit of Subordinate Lien Bondholders in, all or a portion of the PFC Revenues to all or a portion of a particular Series of Subordinate Lien Bonds (hereinafter referred to as “PFC Bonds”) issued under the Subordinate Lien Bond Resolution, and may (ii) provide that, upon compliance with such terms and provisions as may be set forth in such Supplemental Subordinate Lien Resolution, such Series of PFC Bonds shall be secured solely by a pledge of and lien on such PFC Revenues. In the event the Supplemental Subordinate Lien Resolution contains provisions as set forth in (ii) above, the Authority shall set forth in a separate resolution (hereinafter referred to as a “PFC Resolution”) adopted prior to the time such Series of PFC Bonds is issued the terms and provisions of which shall apply to such Series of PFC Bonds at such time as such Subordinate Lien Bonds are no longer secured by the Net Revenues.

(1) In the event the Authority issues one or more Series of PFC Bonds, the following provisions shall apply so long as such Series of PFC Bonds are outstanding under the Subordinate Lien Bond Resolution:

(i) PFC Revenues shall be segregated in a separate fund (hereinafter referred to as the “PFC Revenue Fund”) and shall be disbursed to the accounts and in the order of priority as set forth below:

(A) at the times provided in the Subordinate Lien Bond Resolution, to an interest account or accounts in the Subordinate Lien Bond Fund to the extent necessary to pay interest on such Series of PFC Bonds;

(B) at the times provided in the Subordinate Lien Bond Resolution, to a principal account or accounts in the Subordinate Lien Bond Fund to the extent necessary to pay principal of such Series of PFC Bonds; and

(C) at the times provided in the Subordinate Lien Bond Resolution, to an account or accounts in the Subordinate Lien Bond Reserve Fund to the extent necessary to maintain such account in amount established in the Supplemental Subordinate Lien Resolution providing for the issuance of such Series of PFC Bonds.

To the extent PFC Revenues in any month are in excess of the amounts required to be deposited in the Subordinate Lien Bond Fund, such PFC Revenues may be transferred to and deposited in a separate fund or account established under the PFC Resolution, if any, or may be applied to any other lawful purpose.

(ii) PFC Revenues consisting of investment earnings shall be deposited in the PFC Revenue Fund and applied in the same manner as all other PFC Revenues on deposit therein. Investment earnings on the proceeds of a Series of PFC Bonds, (a) on deposit in the Construction Fund shall be retained therein and applied to the same purposes as the proceeds of such Series of PFC Bonds and after completion of any project financed with said Series of PFC Bonds shall be deposited in the PFC Revenue Fund, and (b) on deposit in an account in the Subordinate Lien Bond Reserve Fund shall be deposited in the Airport Improvement Fund. All excess proceeds of any Series of PFC Bonds, whether in the Construction Fund or the Subordinate Lien Bond Reserve Fund, shall be deposited in the PFC Revenue Fund, or applied to the purposes prescribed in the Subordinate Lien Bond Resolution.

(iii) To the extent there is any deficiency in any account referred to in (2) (i) above, PFC Revenues, to the extent pledged as additional security and on deposit in the PFC Revenue Fund shall be applied to make up any such deficiency in any such account to the extent available and in the event such PFC Revenues on deposit in the PFC Revenue Fund are insufficient to make up such deficiency, Net Revenues shall be credited to said account in an amount necessary, together with the PFC Revenues on credit therein, to provide for the payment of the PFC Bonds. To the extent Net Revenues are credited to any account to provide for the payment of the PFC Bonds and PFC Revenues, to the extent pledged as additional security, subsequently become available prior to the expenditure of such Net Revenues, such Net Revenues shall be immediately restored to the Revenue Fund from such PFC Revenues.

(2) At such time as such Series of PFC Bonds is no longer secured by the Net Revenues, such PFC Bonds shall be deemed to be no longer outstanding under the Subordinate Lien Bond Resolution and shall be outstanding solely for the purpose of the PFC Resolution. Any PFC Revenues on deposit in the PFC Revenue Fund and proceeds of the Series of PFC Bonds, whether on deposit in the Construction Fund or Subordinate Lien Bond Reserve Fund, held under the Subordinate Lien Bond Resolution shall be transferred to and applied in the manner provided in the PFC Resolution.

(3) In the event one or more Supplemental Subordinate Lien Resolutions providing for the issuance of PFC Bonds grants as additional security a pledge of and lien on, and a security interest for the benefit of such PFC Bonds in, PFC Revenues, so long

as such PFC Bonds are entitled to the pledge of Net Revenues provided in the Subordinate Lien Bond Resolution, all such PFC Bonds shall be secured by a pledge of, and lien upon, the PFC Revenues equally and ratably to the extent of the pledge and lien on a particular Series of PFC Bonds.

(4) Nothing shall prohibit or be deemed to prohibit the issuance of bonds, notes, certificates, warrants or other evidences of indebtedness secured solely by PFC Revenues.

Notwithstanding any contrary provision contained in the Subordinate Lien Bond Resolution, the Authority may by Supplemental Subordinate Lien Resolution, upon complying with the applicable provisions of the Subordinate Lien Bond Resolution, grant as additional security a pledge of and lien on, and a security interest in for the benefit of Subordinate Lien Bondholders, all or a portion of federal or state grants or other monies available to the Authority for such purpose, to pay and secure all or a portion of the principal of and interest on a particular Series of Subordinate Lien Bonds.

Application of Subordinate Bond Proceeds; Construction Fund

The Subordinate Lien Bond Resolution creates the “Tucson Airport Authority Construction Fund” (the “Construction Fund”), to be held by the Authority, and two accounts therein: the “Construction Account” and the “Construction Interest Account.”

In connection with the issuance of a Series of additional Subordinate Lien Bonds for the purposes of paying Project Costs of airport projects constituting an Airport Purpose, the Authority shall in the Supplemental Subordinate Lien Resolution create a Construction Account in the Construction Fund from which such Project Costs shall be paid, and shall provide for a credit to such account of that amount of the proceeds of such Series of additional Subordinate Lien Bonds which are to be applied to the payment of such Project Costs. In the event that the interest on such Series of additional Subordinate Lien Bonds is to be provided from the proceeds of such Subordinate Lien Bonds, the Authority shall specify the amount of such proceeds to be applied to the payment of such interest or the formula for determining such amount, and shall establish a Construction Interest Account in the Construction Fund, to which shall be credited the amount of the proceeds so specified.

“Project Costs” includes the cost of acquiring any building or facility and the site thereof; costs of acquiring such land, rights, rights of way, leases, easements or other interest in land or other properties as may be deemed necessary or convenient by the Authority for the construction or operation of the Airport System; costs of acquiring any rights, interests or franchises deemed necessary or convenient by the Authority for the construction or operation of the Airport System; costs of labor, services, material, supplies, machinery, equipment and apparatus; costs of installation of utility services or connections thereto or relocation thereof, costs and expenses of all preliminary work necessary or incidental to construction; costs and expenses of planning, engineering and other studies, architectural drawings, surveys, tests and specifications and costs of other engineering and architectural and other consulting services; costs of builders’ risk or other insurance on the buildings and facilities being constructed; costs and expenses of financing, including fiscal services, airport consultants, financial

consultants and attorneys (including bond counsel); the payment and discharge of the principal of and interest and premium, if any, on any interim or temporary construction financing or loans, including the reimbursement to the Authority of monies advanced for such construction from other funds; if and to the extent permitted by law and determined by the Authority, interest on the Subordinate Lien Bonds issued to finance the construction of any project during the estimated period of construction and for one year after the completion thereof; and any and all other costs and expenses necessary or desirable and pertaining or incident to construction of any project, as estimated or otherwise ascertained by the Authority.

Withdrawals of monies on deposit in the Construction Fund (but not including monies on credit to a Construction Interest Account therein) shall be made only in accordance with applicable law and upon a written requisition for such payment signed by the Designated Financial Officer and, with respect to certain costs, by the engineer or architect (who may be in the employ of the Authority), as to among other things, the amounts to be paid and that the payment of such amount is a proper charge against such Construction Account.

Monies in each Construction Interest Account for a Series shall be deposited in the Subordinate Lien Bond Fund for credit to the Subordinate Lien Interest Account established for such Subordinate Lien Bonds in amounts sufficient to pay, to the extent that monies are sufficient, the interest to become due on such Series of Subordinate Bonds on each Interest Payment Date, on the Series of Subordinate Lien Bonds, the interest on which is to be provided from the monies on credit to such Construction Interest Account on each interest payment date.

Investment of Monies in the Construction Fund. Monies on deposit to the Construction Account therein shall be invested in Investment Securities maturing in such amounts and at such times as is anticipated by the Authority will provide monies required to pay the Project Costs to be satisfied from such Fund, and monies on deposit in a Construction Interest Account shall be invested in Investment Securities maturing in such amounts and at such times so that the transfers required by the preceding paragraph to be made therefrom can be made when due. The interest and income derived from all such investments shall be credited to the Account from which such investment is made, to be used and applied as are the other monies credited to such Account.

Establishment of Subordinate Lien Bond Funds; Application of Revenues

The Subordinate Lien Bond Resolution establishes the Subordinate Lien Bond Fund and the Subordinate Lien Bond Reserve Fund and requires that a separate Subordinate Lien Interest Account, Serial Bond Principal Account and Term Bond Principal Account be established in the Subordinate Lien Bond Fund and that a separate account be established in the Subordinate Lien Bond Reserve Fund with respect to each Series of Subordinate Lien Bonds, provided that a Supplemental Subordinate Lien Resolution may provide that an account may be granted as additional security for one or more other Series of Subordinate Lien Bonds. Amounts on deposit in any account established with respect to a particular Series of Subordinate Lien Bonds in the Subordinate Lien Bond Fund or the Subordinate Lien Bond Reserve Fund may not be applied to

the payment of Subordinate Lien Bonds of other Series, except as permitted in the Subordinate Lien Bond Resolution.

All Revenues shall be collected by or for the account of the Authority and shall be set aside as collected and, except as is specifically provided otherwise in the Senior Lien Bond Resolution or in the Subordinate Lien Bond Resolution, shall be deposited in the Revenue Fund. There shall also be deposited in the Revenue Fund other monies required to be deposited therein by the Senior Lien Bond Resolution. The monies in the Revenue Fund shall be used and applied for the following purposes and in the following order of priority,

After setting aside and reserving each month the amount which the Authority determines to be required to pay Operation and Maintenance Expenses, and that amount required to be deposited in any interest account, serial bond principal account, and term bond principal account established with respect to any Senior Lien Bonds issued under the Senior Lien Bond Resolution, the monies in the Revenue Fund shall be deposited each month into the Subordinate Lien Bond Fund and the Accounts therein in the following amounts.

In each month, commencing with the last business day of the month which follows the last month for which interest on such Series of Subordinate Lien Bonds, if any, is fully provided from monies credited to a Construction Interest Account, (a) with respect to each Series of Subordinate Lien Bonds (other than Variable Rate Subordinate Lien Bonds or Subordinate Lien Commercial Paper Program Bonds which have Interest Payment Dates occurring at intervals of one month or less), commencing on such last business day and continuing on the last business day of each month thereafter so long as any of the Subordinate Lien Bonds of each such Series are outstanding, the Authority shall credit to the Interest Account established for each such Series of Subordinate Lien Bonds an amount such that, if the same amount were so credited to each such Interest Account on the last business day of each succeeding month thereafter, the aggregate of such amounts on credit to each such Interest Account on the last business day of the month preceding an Interest Payment Date will be equal to the installment of interest falling due on the Subordinate Lien Bonds of such Series on such Interest Payment Date or the amount required to reimburse the Financial Institution for a draw on the Support Facility made to provide funds for the payment thereof, and (b) with respect to Variable Rate Subordinate Lien Bonds or Subordinate Lien Commercial Paper Program Bonds (which have Interest Payment Dates occurring at intervals of one month or less), on the last business day prior to each Interest Payment Date the Authority shall credit to each Interest Account the amount required together with other funds available therefor in the Interest Account, to pay, or to reimburse the Financial Institution for a draw on the Support Facility made to provide funds for the payment of, the interest payable on each Series of outstanding Variable Rate Subordinate Lien Bonds of Subordinate Lien Commercial Paper Program Bonds on such Interest Payment Date.

In making the foregoing credits to each Interest Account, consideration shall be given to and allowance made for accrued interest received upon the sale of a Series of the Subordinate Lien Bonds deposited in the Subordinate Lien Bond Fund and credited to the appropriate Interest Account and for other credits made or to be made to a particular Interest Account.

In the event of the issuance of any Series of Subordinate Lien Bonds maturing at times customarily known as maturing serially, in order to provide for the payment of principal of such Subordinate Lien Bonds of such Series, or to reimburse the Financial Institution for a draw on the Support Facility made to provide funds for the payment of, such Series of Subordinate Lien Bonds maturing serially, commencing with the month which is twelve months prior to the first principal payment of any of such Subordinate Lien Bonds maturing serially and in each month thereafter so long as any of such Series of Subordinate Lien Bonds so maturing are outstanding, there shall be credited to the Serial Bond Principal Account established for such Series an amount such that, if the same amount were so credited to such Account on the first business day of each succeeding month thereafter prior to the next date upon which the principal of any of said Series maturing serially becomes due and payable, the aggregate of the amounts on credit to such Account will on each such next principal payment date be equal to the principal amount of said Series becoming due on such principal payment date.

In making the foregoing credits to each Serial Bond Principal Account, consideration shall be given to and allowance made for other credits made or to be made to a particular Serial Bond Principal Account.

In the event of the issuance of any Series of Subordinate Lien Bonds in the form customarily known as “term bonds”, for the purpose of retiring such Subordinate Lien Bonds, or to reimburse the Financial Institution for a draw on the Support Facility made to provide funds for the payment of, such term Subordinate Lien Bonds, commencing with the month which is twelve months immediately prior to the date upon which the first sinking fund installment to provide for the retirement of such term Subordinate Lien Bonds is due, and in each month thereafter so long as any of such Subordinate Lien Bonds are outstanding, there shall be credited to each Term Bond Principal Account an amount such that, if the same amount were so credited to this Account on the first business day of each succeeding month thereafter prior to the next date upon which a sinking fund installment falls due, the aggregate of the amounts on credit to each such Account will on each such next date upon which a sinking fund installment falls due be sufficient to redeem such term Subordinate Lien Bonds in the principal amounts and at the times specified in the Supplemental Subordinate Lien Resolution authorizing the issuance thereof. The respective amounts of monies credited to the Term Bond Principal Account for the purpose of providing for the retirement of the term Subordinate Lien Bonds of a particular Series shall be applied to the redemption of such Series on each date on which such an installment for said Subordinate Lien Bonds is due in the respective principal amounts required by the Supplemental Subordinate Lien Resolution providing for the issuance of such Series to be on credit to this Account on each such date, or, if so determined by the Authority, semi-annually on both such due dates and the day six months prior to such due date, in the respective principal amounts on credit to this Account on such days for the Subordinate Lien Bonds of such Series, so that the aggregate amount so applied in each calendar year will equal the respective principal amount required by the respective Supplemental Subordinate Lien Resolution providing for their issuance to be credited to this Account on such installment dates. The Authority may also apply the monies credited to this Account for the retirement of Subordinate Lien Bonds of a particular Series issued in term form to the purchase of those Subordinate Lien Bonds, in which event the principal amount of said Subordinate Lien Bonds required to be redeemed on the next

respective ensuing installment date shall be reduced by the principal amount of the Subordinate Lien Bonds so purchased; provided, however, that no Subordinate Lien Bonds shall be purchased during the interval between the date on which notice of redemption of said Subordinate Lien Bonds from such installment is given and the date of redemption set forth in such notice, unless the Subordinate Lien Bonds so purchased are Subordinate Lien Bonds called for redemption in such notice or are purchased from monies other than those credited to this Account; and provided further, that no purchase of Subordinate Lien Bonds shall be made if such purchase would require the sale at a loss of securities credited to the Term Bond Principal Account unless the difference between the actual purchase price (including accrued interest and any brokerage or other charge) paid for such Subordinate Lien Bonds and the then maximum purchase price (plus accrued interest) permitted to be paid therefor, is greater than the loss upon the sale of any such securities. Any purchase of Subordinate Lien Bonds pursuant to this paragraph may be made with or without tenders of Subordinate Lien Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable redemption price of such Subordinate Lien Bonds, plus accrued interest.

Supplemental to the foregoing provisions, there shall be deposited in the Subordinate Lien Bond Fund PFC Revenues to the extent pledged as additional security for any Series of Subordinate Lien Bonds.

After setting aside and reserving the amount required, if any, by the Senior Lien Bond Resolution to be deposited in any reserve fund or account established with respect to a series of bonds issued thereunder, there shall be applied the amount required by this Resolution, if any, to be deposited in the Subordinate Lien Bond Reserve Fund, as follows: (a) if at any time during a Fiscal Year the monies on deposit in the Subordinate Lien Bond Reserve Fund are less than the Subordinate Lien Bond Reserve Fund Requirement, the amount of the deficiency shall be restored from the first available Net Revenues; (b) if at the end of any Fiscal Year, the monies on deposit in the Subordinate Lien Bond Reserve Fund are less than the Subordinate Lien Bond Reserve Fund Requirement, the Authority shall deposit an amount in the Subordinate Lien Bond Reserve Fund from Net Revenues on deposit in the Revenue Fund after making the deposits "First" through "Seventh" described under "SENIOR LIEN BOND RESOLUTION – Establishment of Funds and Accounts; Application of Revenues" above so that there shall then be on deposit in the Subordinate Lien Bond Reserve Fund an amount equal to the Subordinate Lien Bond Reserve Fund Requirement; (c) if the deficiency in the Subordinate Lien Bond Reserve Fund is due to the withdrawal of monies on deposit therein to pay principal of or interest on a particular Series of Subordinate Lien Bonds then in each month, commencing with the month which follows the month in which such withdrawal is made from the Subordinate Lien Bond Reserve Fund, the Authority shall deposit from the Net Revenues on deposit in the Revenue Fund after making the deposits "First" through "Seventh" described under "SENIOR LIEN BOND RESOLUTION – Establishment of Funds and Accounts; Application of Revenues" at least an amount which, if the same amount were so deposited to the Subordinate Lien Bond Reserve Fund in each month thereafter until the day which is 60 months from the making of the first of such deposits, there shall be on deposit in the Subordinate Lien Bond Reserve Fund on such day an amount not less than the Subordinate Lien Bond Reserve Requirement for such Series of Subordinate Lien Bonds; and (d) if at any time and for so long as the monies on deposit

in the Subordinate Lien Bond Reserve Fund are at least equal to the Subordinate Lien Bond Reserve Fund Requirement, no further deposits shall be made to the Fund.

In lieu of the deposit of monies in the Subordinate Lien Bond Reserve Fund, the Authority may cause to be so credited a surety bond or an insurance policy payable to the Authority for the benefit of the Holders of the Subordinate Lien Bonds of a Series or a letter of credit in an amount equal to the difference between the Subordinate Lien Bond Reserve Fund Requirement and the amounts then on deposit in the Subordinate Lien Bond Reserve Fund with respect to the Subordinate Lien Bonds of a Series. The surety bond, insurance policy or letter of credit shall be payable (upon the giving of notice as required thereunder) on any date on which monies will be required to be withdrawn from the Subordinate Lien Bond Reserve Fund and applied to the payment of the principal of or interest on any Subordinate Lien Bonds of such Series and such withdrawals cannot be made by amounts credited to the Subordinate Lien Bond Reserve Fund. The insurer providing such surety bond or insurance policy shall be an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in the highest rating category by either S&P or Moody's, or their successors, or any insurer who holds the highest policyholder rating accorded insurers by A.M. Best & Co. or any comparable service. The letter of credit issuer shall be a bank or trust company which is rated not lower than the second highest rating category by either S&P or Moody's, or their successors, and the letter of credit itself shall be rated in the highest category of either such Rating Agency. If a disbursement is made pursuant to a surety bond, an insurance policy or a letter of credit provided pursuant to this paragraph the Authority shall be obligated either (i) to reinstate the maximum limits of such surety bond, insurance policy or letter of credit or (ii) to deposit funds into the Subordinate Lien Bond Reserve Fund, or a combination of such alternatives, as shall provide that the amount credited to the Subordinate Lien Bond Reserve Fund equals the Subordinate Lien Bond Reserve Fund Requirement for such Series of Subordinate Lien Bonds.

If the issuer of a surety bond, insurance policy or letter of credit on deposit in the Subordinate Lien Bond Reserve Fund shall cease to have a rating described in the immediately preceding paragraph, the Authority shall use reasonable efforts to replace such surety bond, insurance policy or letter of credit with one issued by an issuer having a rating so described, but shall not be obligated to pay, or commit to pay, increased fees, expenses or interest in connection with such replacement or to deposit Net Revenues in the Subordinate Lien Bond Reserve Fund in lieu of replacing such surety bond, insurance policy or letter of credit with another and such surety bond, insurance policy or letter of credit shall fully satisfy the Subordinate Lien Bond Reserve Requirement with respect to a particular Series of Subordinate Lien Bonds notwithstanding such decrease in rating.

Investment of Monies in Funds. Monies in the Subordinate Lien Bond Fund shall be invested and reinvested by the Authority to the extent reasonable and practicable in Investment Securities maturing in the amounts and at the times as determined by the Authority so that the payments required to be made from such Fund may be made when due. Monies on credit to the Senior Lien Bond Reserve Fund shall be invested in Investment Securities so as to mature by no later than the final maturity date of all Senior Lien Bonds then outstanding. The Authority shall be authorized to sell any investment when necessary to make the payments to be made from the Funds (other than the Construction Fund). All earnings on and income from investments of monies in the Funds (other than the Construction Fund) shall be deposited in the Revenue

Fund, for use and application as are all other monies deposited in that Fund, other than earnings on PFC Revenues on deposit in the Subordinate Lien Bond Reserve Fund, which shall be transferred to the Airport Improvement Fund.

Covenants As To Rates, Rentals, Fees and Charges

(1) The Authority shall impose and prescribe such schedule of rates, rentals, fees and charges for the use and services of and the facilities and commodities furnished by the Airport System, and shall revise the same from time to time whenever necessary, and collect the income, receipts and other monies derived therefrom, so that the Airport System shall be and always remain financially self-sufficient and self-sustaining. The rates, rentals, fees and charges imposed, prescribed and collected shall be such as will produce Revenues at least sufficient (i) to pay as and when the same become due all Operation and Maintenance Expenses, (ii) to pay the principal of and interest and premium on the Senior Lien Bonds, Subordinate Lien Bonds, and any Junior Subordinate Lien Obligations outstanding, as and when the same become due (whether at maturity or upon required redemption prior to maturity or otherwise), and (iii) to carry out all provisions and covenants of the Subordinate Lien Bond Resolution.

(2) Without limiting the provisions of paragraph (1), at all times and in any and all events such rates, rentals, fees and charges shall be imposed, prescribed, adjusted, enforced and collected for each Fiscal Year which will yield for such Fiscal Year, Net Revenues, after deducting Senior Lien Aggregate Annual Debt Service, which together with the Coverage Transfer Amount and the total amount of PFC Revenues and federal or state grants or other monies pledged as additional security for payment of Subordinate Lien Bonds applied in such Fiscal Year to the payment of Debt Service on Subordinate Lien Bonds outstanding, but not in excess of the amount of PFC Revenues and such federal or state grants or other monies so pledged as additional security on Subordinate Lien Bonds, will equal at least 110% of Subordinate Lien Aggregate Annual Debt Service during such Fiscal Year on all Subordinate Lien Bonds outstanding.

For purposes of paragraph (2) above, the Coverage Transfer Amount taken into account shall not exceed 10% of Subordinate Lien Aggregate Annual Debt Service on Subordinate Lien Bonds outstanding.

(3) The failure to comply with the covenant in paragraphs (1) and (2) above shall not constitute an Event of Default under the Subordinate Lien Bond Resolution if the Authority shall promptly (i) cause an Airport Consultant to make a study for the purpose of making recommendations with respect to rates, rentals, fees and charges for the Airport System in order to provide funds for all the payments and other requirements as specified in paragraphs (1) and (2) above, consider the recommendations of the Airport Consultant, and (iii) take such action as the Authority, in its discretion, may deem necessary to comply with paragraphs (1) and (2) above.

Annual Airport Budget

The Authority before the beginning of each Fiscal Year shall prepare and adopt an annual budget for such Fiscal Year. Such budget shall set forth in reasonable detail Revenues anticipated to be derived in such Fiscal Year and the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year including, without limitation, the amounts required to provide for the payment of the principal of, interest and premium, if any, on the Subordinate Lien Bonds during such Fiscal Year, to pay or provide for Operation and Maintenance Expenses for such Fiscal Year, to make up any deficiencies in any fund or account anticipated for the then current Fiscal Year, and to pay or provide for the payment of all other claims or obligations required to be paid from Revenues in such Fiscal Year. The Authority shall mail either a copy of the budget or a copy of a summary thereof to any Holder of a Subordinate Lien Bond who shall file a written request therefor with the Authority.

Other Covenants of the Authority

Until such time as the lien of the Senior Lien Bond Resolution has been discharged in accordance with the defeasance provisions thereof, the Authority shall comply in all respects with each of the provisions, covenants and agreements of or contained in the Senior Lien Bond Resolution. In the event of any irreconcilable conflict between the provisions of the Subordinate Lien Bond Resolution and the provisions of the Senior Lien Bond Resolution, so long as any Senior Lien Bond shall remain outstanding under the Senior Lien Bond Resolution, the provisions of the Senior Lien Bond Resolution shall control and the Authority shall comply with such provisions. The Authority will not hereafter consent to or agree to any change, amendment or modification of the Senior Lien Bond Resolution except for changes, amendments or modifications currently contemplated by the Senior Lien Bond Resolution, which would in any way or manner prejudice or materially affect adversely the rights or interests of the Holders of the Senior Lien Bonds or the Subordinate Lien Bonds. Except as specifically provided in the Subordinate Lien Bond Resolution or in the Senior Lien Bond Resolution, at such time as all Senior Lien Bonds are no longer outstanding under the defeasance provisions of the Senior Lien Bond Resolution, the Authority shall not be required to comply with any provision of the Senior Lien Bond Resolution.

The Authority covenants that it will continually defend its interest in the Airport System and every part thereof for the benefit of the Holders and owners of the Subordinate Lien Bonds against the claims and demands of all persons whomsoever. If any defect (other than certain permitted encumbrances) shall be discovered in the title to the Airport System, the Authority shall promptly take such action as may be necessary or proper to remedy or cure the same.

The Authority will maintain, preserve, keep and operate, or cause to be maintained, preserved, kept and operated, the properties constituting the Airport System, including all additions, improvements and betterments thereto and extensions thereof and every part and parcel thereof) in good and efficient repair, working order and operating condition in conformity with standards customarily followed in the aviation industry for airports of like size and character. The Authority will from time to time make all necessary and proper repairs, renewals, replacements and substitutions to said properties, and construct additions and improvements thereto and extensions and betterments thereof which are economically sound, so that at all times

the business carried on in connection therewith shall and can be properly and advantageously conducted in an efficient manner and at reasonable cost. The Authority shall operate and maintain the Airport System as a revenue-producing enterprise and shall manage the same in the most efficient manner consistent with sound economy and public advantage and consistent with the protection of the Holders of the Subordinate Lien Bonds and so as to assure that the same shall be financially self-sufficient and self-sustaining.

The Authority will perform any construction, reconstructions and restorations of, improvements, betterments and extensions to, and equippings and furnishings of, and will operate and maintain the Airport System at standards required in order that the same may be approved by the proper and competent Federal Government authority or authorities for the landing and taking off of aircraft operating in scheduled service, and as a terminal point of the Authority for the receipt and dispatch of passengers, property and mail by aircraft. The Authority shall comply with the requirements of the Federal Government of grants-in-aid accepted by the Authority.

The Authority shall maintain and keep proper books, records and accounts in which complete and correct entries shall be made of all dealings and transactions relating to the Airport System. The Authority shall cause such financial accounts to be audited by an Accountant. Such audit shall be made annually and shall be completed within 120 days after the close of each Fiscal Year. A copy of each such annual audit shall be open for public inspection, filed with the Trustee, and shall be mailed to any Holder of Subordinate Lien Bonds filing with the Authority a request for the same.

The Authority shall not sell, lease, sublease, or otherwise dispose of all, or substantially all, of the properties constituting the Airport System without simultaneously with such sale, lease, sublease or other disposition depositing cash or Governmental Obligations in an amount sufficient so that no Subordinate Lien Bonds are any longer deemed outstanding. Nothing precludes an exchange of Airport System property for property of comparable value. The Authority may execute leases, licenses, easements and other agreements of or pertaining to properties constituting the Airport System in connection with the operation of the Airport System and in the normal and customary course of business thereof, according to the Authority's policy regarding rates, rentals, fees and charges of the Airport System, which rates, rentals, fees and charges shall be part of Revenues and which properties shall remain part of the Airport System, but any such leasing shall not be inconsistent with the provisions of the Subordinate Lien Bond Resolution, and no lease shall be entered into by which the security of and payment for the Subordinate Lien Bonds might be impaired or diminished. The Authority may enter into Special Facility Agreements pursuant to and in accordance with the provisions of the Subordinate Lien Bond Resolution.

The Authority may also execute agreements of or pertaining to the acquisition of properties that are or will become a part of the Airport System in connection with the operation of the Airport System and in the normal and customary course of business thereof, and may subject such properties to a lien pending payment therefor; provided that the aggregate of the payments under all such agreements in a Fiscal Year shall not exceed 5% of the annual budget of the Authority adopted for such Fiscal Year, and all payments under any

such agreements shall constitute Operation and Maintenance Expenses to the extent such agreement complies with this paragraph.

The Authority may from time to time sell, lease or otherwise dispose of any portion of the properties and facilities (real or personal) comprising a part of the Airport System which are surplus. Surplus properties or facilities shall be those the disposal of which will not impede or prevent the use of the Airport or its facilities for the conduct of air transportation or air commerce and which the Authority has determined have become unserviceable, unsafe or no longer required or which have been replaced by other property of substantially equal revenue-producing capability and of substantially equal utility for the conduct of air transportation or air commerce. Any monies received by the Authority as the proceeds of any such sale, lease, sublease or other disposition of such surplus properties or facilities shall become Revenues and be deposited in the Revenue Fund; provided, however, that to the extent that the original construction or acquisition of such surplus properties or facilities was financed from monies on deposit in the Airport Improvement Fund, then such proceeds shall be deposited in the Airport Improvement Fund; provided, further, however, that to the extent that the original construction or acquisition of such surplus properties or facilities was financed from monies derived from grants or passenger facility charges, then such proceeds shall be deposited in the Revenue Fund only to the extent that such application of proceeds is consistent with the conditions agreed to by the Authority with any governmental authority, or imposed on the Authority by law or any governmental authority, in obtaining such grants or passenger facility charges.

In the event any Airport System properties shall be taken by the exercise of the power of eminent domain, the amount of the award received by the Authority as a result of such taking shall be deposited in the Airport Improvement Fund and applied to any Airport Purpose consistent with the Airport Lease as then in effect, including to the redemption or purchase of Subordinate Lien Bonds and to acquire or construct revenue producing properties to constitute a part of the Airport System.

The Authority shall carry insurance with generally recognized responsible insurers with policies payable to the Authority against risks, accidents or casualties at least to the extent that similar insurance is usually carried by airport operators operating properties similar to the Airport System. The Authority shall seek the advice and counsel from time to time of an independent insurance consultant or consultants to advise and assist the Authority with respect to the insurance program of the Airport System, and the Authority shall take into consideration, but will not be bound to follow, the advice of such insurance consultant or consultants in the placement of insurance and the establishment of a self-insurance fund or funds.

The proceeds of all insurance, to the extent the same are paid directly to the Authority, shall be held by the Authority under and subject to the Subordinate Lien Bond Resolution and applied as follows: (i) the proceeds of fire and extended coverage insurance and war damage insurance shall be held separate and apart in the Revenue Fund and applied to the repairing, replacing or reconstruction of the damaged or destroyed property as provided in the Subordinate Lien Bond Resolution; (ii) the proceeds of loss of use insurance shall be deposited in the Revenue Fund for use and application as are all other monies deposited in that Fund; and (iii) the proceeds of liability, workmen's compensation and other insurance

shall be held separate and apart in the Revenue Fund and applied toward extinguishing or satisfying or remedying the liability, loss or damage with respect to which such proceeds may be paid, and pending such application or, to the extent of excess, may be used for any lawful purpose.

In the event of loss or damage to the Airport System, the Authority shall promptly commence, and proceed to completion, with the repair, replacement or reconstruction of the damaged or destroyed property, and apply to the costs thereof the proceeds of the insurance received with respect to such damage or destruction; provided that, to the extent permitted by the Airport Lease, no such repair, replacement or construction shall be required if the Authority finds that repair, replacement or reconstruction of the damaged or destroyed property is not in the best interest of the Authority and, based on a certificate of an Airport Consultant, that the failure to repair, replace or reconstruct the damaged or destroyed property will not cause the Revenues in any future Fiscal Year of the Authority to be less than an amount sufficient to enable the Authority to comply with all covenants and conditions of the Subordinate Lien Bond Resolution or impair the security or the payment of the Subordinate Lien Bonds. If the Authority elects to undertake the repair, replacement or reconstruction of the damaged or destroyed property and such proceeds of the aforesaid insurance are insufficient for such purpose, the amount of such insufficiency may be satisfied from monies available for any lawful Airport Purpose of the Authority. If the proceeds of such insurance are more than sufficient for the purpose of repair, replacement or reconstruction of the damaged or destroyed property or the Authority elects not to undertake such repair, replacement or reconstruction the excess amount of such proceeds or all such proceeds, as the case may be, shall be deposited in the Airport Improvement Fund.

The Authority shall pay and discharge, or cause to be paid or discharged, any taxes, assessments or other governmental charges lawfully imposed upon the Airport or any part thereof or upon Revenues, or any lawful claims for labor, materials and supplies furnished or supplied to the Airport System or any part thereof, as provided in the Subordinate Lien Bond Resolution.

Amendments of Subordinate Lien Bond Resolution

Amendments Without Consent of Subordinate Lien Bondholders. The Authority, from time to time and at any time and without the consent or concurrence of the Holder of any Subordinate Lien Bond, may adopt a Supplemental Subordinate Lien Resolution (i) for the purpose of providing for the issuance of additional Subordinate Lien Bonds; Subordinate Lien Completion Bonds, or Subordinate Lien Refunding Bonds, (ii) to make any changes or modifications hereof or amendments or additions hereto or deletions herefrom which may be required to permit the Subordinate Lien Bond Resolution to be qualified under the Trust Indenture Act of 1939 of the United States of America; and (iii) if the provisions of such Supplemental Subordinate Lien Resolution shall not materially adversely affect the rights of the Holders of the Subordinate Lien Bonds then outstanding, for any one or more of the following purposes: (i) to make any changes or corrections in the Subordinate Lien Bond Resolution or any Supplemental Subordinate Lien Resolution as to which it shall have been advised by its counsel that the same are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Subordinate

Lien Bond Resolution or in any such Supplemental Subordinate Lien Resolution, or to insert such provisions clarifying matters or questions arising under the Subordinate Lien Bond Resolution as are necessary or desirable; (ii) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Subordinate Lien Bonds; (iii) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Subordinate Lien Bond Resolution or any Supplemental Subordinate Lien Resolution; (iv) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the provisions of the Subordinate Lien Bond Resolution or any Supplemental Subordinate Lien Resolution; (v) to grant to or confer upon the Holders of the Subordinate Lien Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them; (vi) to prescribe further limitations and restrictions upon the issuance of the Subordinate Lien Bonds and the incurring of indebtedness by the Authority payable from the Net Revenues; and (vii) to modify in any other respect any of the provisions of the Subordinate Lien Bond Resolution, or any Supplemental Subordinate Lien Resolution previously adopted; provided that such modifications shall have no adverse affect as to any Subordinate Lien Bond or Subordinate Lien Bonds which are then outstanding.

Except for Supplemental Subordinate Lien Resolutions providing for the issuance of additional Subordinate Lien Bonds or required to permit the Subordinate Lien Bond Resolution to be qualified under the Trust Indenture Act of 1939 of the United States of America, the Authority shall not adopt any Supplemental Subordinate Lien Resolution authorized by the foregoing provisions unless in the opinion of counsel the adoption of such Supplemental Subordinate Lien Resolution is permitted by the foregoing provisions and the provisions of such Supplemental Subordinate Lien Resolution are not contrary to or inconsistent with the covenants or agreements of the Authority contained in the Subordinate Lien Bond Resolution as originally adopted or as amended with the consent of the Subordinate Lien Bondholders.

Amendments With Consent of Subordinate Lien Bondholders. With the consent of the Holders of not less than 51% of the principal amount of the Subordinate Lien Bonds then outstanding, the Authority, from time to time and at any time, may adopt a Supplemental Subordinate Lien Resolution amending or supplementing the provisions of the Subordinate Lien Bond Resolution for the purposes of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Subordinate Lien Bond Resolution or of any Supplemental Subordinate Lien Resolution, or modifying in any manner the rights of the Holders of the Subordinate Lien Bonds then outstanding; provided, however, that, without the specific consent of the Holder of each such Subordinate Lien Bond which would be affected thereby, no such Supplemental Subordinate Lien Resolution amending or supplementing the provisions hereof shall: (1) change the fixed maturity date for the payment of the principal of any Subordinate Lien Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Subordinate Lien Bond or the rate of interest thereon or any premium payable upon the redemption thereof; or (2) reduce the aforesaid percentage of Subordinate Lien Bonds, the Holders of which are required to consent to any such Supplemental Subordinate Lien Resolution amending or supplementing the provisions hereof; or (3) give to any Subordinate Lien Bond or Subordinate Lien Bonds preference over any other Subordinate Lien Bond or Subordinate Lien Bonds; or (4) authorize the creation of any of the Net Revenues or any lien thereon prior, superior or equal to the pledge and lien

created for the payment and security of the Subordinate Lien Bonds; or (5) deprive any Holder of the Subordinate Lien Bonds of the security afforded by the Subordinate Lien Bond Resolution. A modification or amendment of the provisions with respect to the funds and accounts established thereby shall not be deemed a change in the terms of payment of the Subordinate Lien Bonds; provided, however, that no such modification or amendment shall, except upon the consent of the Holders of all Subordinate Lien Bonds then outstanding affected thereby, reduce the amount or amounts required to be deposited from the Net Revenues to the Subordinate Lien Bond Fund or the priority of the deposits of such amounts.

Any consent, request, direction, approval, objection or other instrument required by the Subordinate Lien Bond Resolution to be signed or executed by the Holders of Subordinate Lien Bonds may be made by the provider of insurance, if any, as to principal and interest thereon in lieu of and substitution for the consent, request, direction, approval, objection or other instrument of such Holder, unless the provider of such insurance is in default with respect to its obligations with respect to such insurance. So long as the Policy with respect to the Series 2006 Bonds is in effect, the Holders of the Series 2006 Bonds shall be deemed to have delegated their respective right to consent to amendments to the Subordinate Lien Bond Resolution to the Insurer, and the consent of the Insurer shall be in lieu of and substitution for the consent of Holders of the Series 2006 Bonds.

Events of Default.

Each of the following is defined as and declared to be and shall constitute an “Event of Default” under the Subordinate Lien Bond Resolution: (a) payment of any installment of interest on any Subordinate Lien Bond shall not be made when the same shall become due and payable; (b) payment of the principal and premium (if any) of any Subordinate Lien Bond, whether at maturity or by proceedings for redemption shall not be made when the same shall become due and payable; (c) the credits to the Term Bond Principal Account in the Subordinate Lien Bond Fund shall not be made or satisfied in any twelve-months’ period in the amount required for such period by a Supplemental Subordinate Lien Resolution and such failure shall have continued for 60 days after the expiration of such period; (d) a default shall occur in the performance or observance by the Authority of the covenants and agreements described under “Covenants As To Rates, Rentals, Fees and Charges” above; (e) the Authority shall fail in the due and punctual performance or any other of the covenants, conditions, agreements and provisions contained in the Subordinate Lien Bonds or in the Subordinate Lien Bond Resolution (other than as described in (a) through (d) above) or in any Supplemental Subordinate Lien Resolution on the part of the Authority to be performed, and such failure shall continue for 90 days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Authority by the Trustee, or to the Authority and the Trustee by the Holders of not less than 20% in principal amount of the Subordinate Lien Bonds then outstanding or any committee therefor; provided that if any such failure shall be such that it cannot be cured or corrected within such 90-day period, it shall not constitute an Event of Default if curative or corrective action is instituted within said period and diligently pursued until the failure of performance is cured or corrected; (f) any proceedings shall be instituted with the consent or acquiescence of the Authority for the purpose of effecting a composition between the Authority and its creditors and if the claim of such creditors is in any circumstance payable from any of the Revenues or any other monies

pledged and charged in the Subordinate Lien Bond Resolution or in any Supplemental Subordinate Lien Resolution or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or State statute now or hereafter enacted; (g) an order or decree shall be entered (i) with the consent or acquiescence of the Authority, appointing a receiver or receivers of the Airport System or any of the buildings and facilities thereof, or (ii) without the consent or acquiescence of the Authority appointing a receiver or receivers of the Airport System or any of the buildings and facilities thereof and such order or decree, having been entered, shall not be vacated or discharged or stayed on appeal within 60 days after the entry thereof; or (h) if, under the provisions of any applicable bankruptcy laws or any other law for the relief or aid of debtors, (i) any court of competent jurisdiction shall assume custody or control of the Airport System or any of the buildings and facilities thereof, and such custody or control shall not be terminated within 90 days from the date of assumption of such custody or control; or (ii) any court of competent jurisdiction shall approve of any petition for the reorganization of the Airport System or rearrangement or readjustment of the obligations of the Authority; or (i) the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Subordinate Lien Bond Resolution.

Action of Trustee in Event of Default

Upon the occurrence of an Event of Default of which the Trustee has actual knowledge and at all times thereafter while such default shall continue, the Trustee shall become vested with all the estate, properties, rights, trusts, duties and obligations of the Trustee under the Subordinate Lien Bond Resolution and shall enter into and take possession of, or supervision over, the funds and accounts continued or created under the Subordinate Lien Bond Resolution, including a Construction Fund created under any Supplemental Subordinate Lien Resolution, and collect and receive and apply all Net Revenues and other monies held in the same manner as the Authority itself might do, and shall act in place of the Authority in the exercise of all rights and duties of the Authority.

The Trustee in case of an Event of Default may, and upon the written request of the Holders of not less than 25% in principal amount of the Subordinate Lien Bonds then outstanding, and upon being indemnified to its satisfaction, shall, exercise any or all of the following remedies to the extent that the same shall then be legally available:

(a) The Trustee may proceed to protect and enforce its rights and the rights of the Holders of the Subordinate Lien Bonds by a suit or suits in equity, in bankruptcy or at law, either in mandamus or for the specific performance of any covenant or agreement contained in the Subordinate Lien Bond Resolution or in aid of the execution of any power granted, or for the enforcement of any other appropriate legal or equitable remedy, as the Trustee, being advised by counsel, may deem most effectual to protect and enforce any of the rights or interests under the Subordinate Lien Bonds and/or the Subordinate Lien Bond Resolution. The Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered (i) to institute any action or proceedings at law or in equity for the collection of all fees and charges, rents or sums, as the case may be, due and unpaid under any lease or other agreement to which the Authority is a party, and may prosecute any such action or proceedings to judgment or final decree, and may enforce any such judgment or final decree against the other party to such lease or other agreement and collect in the manner provided

by law out of the property of such party wherever situated the monies adjudged or decreed to be payable, and (ii) to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the Trustee and of the Holders of the Subordinate Lien Bonds allowed in any equity, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings relative to the Authority or any party to a lease or agreement with the Authority. All rights of action under the Subordinate Lien Bond Resolution or under any of the Subordinate Lien Bonds may be enforced by the Trustee without the possession of any of the Subordinate Lien Bonds or the production thereof on any trial or other proceeding relative thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee, and any recovery of judgment shall be for the ratable benefit of the Holders of the Subordinate Lien Bonds;

(b) The Trustee may proceed by appropriate proceedings in any court of competent jurisdiction in the Event of Default in the payment of principal or interest on any Subordinate Lien Bonds, to obtain the appointment of a receiver for the Airport System, which receiver may enter upon and take possession of the Airport System and fix rates and charges and collect all Revenues arising therefrom in as full a manner and to the same extent as the Authority itself might do. The receiver shall collect and dispose of Revenues in accordance with the terms and conditions of the Subordinate Lien Bond Resolution or as the court shall direct.

No Subordinate Lien Bondholder shall have any right to institute or prosecute any suit or proceeding at law or in equity for the appointment of a receiver of the Authority, for the enforcement of any of the provisions hereof or of any remedies unless the Trustee, after a request in writing by the Holders of 25% in aggregate principal amount of the outstanding Subordinate Lien Bonds, and after the Trustee shall have been assured such reasonable indemnity as it may require, shall have neglected for 60 days to take such action; provided, however, that the right of any Holder of any Subordinate Lien Bond to receive payment of principal or interest, or both, on or after the respective due dates expressed therein, or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the consent of such Holder.

Any consent, request, direction, approval, objection or other instrument required by the Subordinate Lien Bond Resolution to be signed or executed by the Holders of Subordinate Lien Bonds may be made by the provider of insurance, if any, as to principal and interest thereon in lieu of and substitution for the consent, request, direction, approval, objection or other instrument of such Holder, unless the provider of such insurance is in default with respect to its obligations with respect to such insurance. So long as the Policy with respect to the Series 2006 Bonds is in effect, the Holders of the Series 2006 Bonds shall be deemed to have delegated to the Insurer their respective right to give direction, approval or objections to the Trustee, and the requests, directions, approvals or objections from the Insurer shall be in lieu of and substitution for any from Holders of the Series 2006 Bonds.

Special Obligation Bonds and Special Facility Agreements

The Authority may issue Special Obligation Bonds and enter into Special Facility Agreements, as described above under “THE SENIOR LIEN BOND RESOLUTION – Special Obligation Bonds and Special Facility Agreements.”

Payment and Defeasance

The obligations of the Authority under the Subordinate Lien Bond Resolution, including all Supplemental Subordinate Lien Resolutions, and the liens, pledges, charges, trusts, assignments, covenants and agreements of the Authority therein made or provided for, shall be fully discharged and satisfied as to any Subordinate Lien Bond and such Subordinate Lien Bond shall no longer be deemed to be outstanding thereunder,

(i) when such Subordinate Lien Bond shall have been cancelled, or shall have been purchased by the Authority from monies in the Subordinate Lien Bond Fund, or

(ii) as to any Subordinate Lien Bond not cancelled or so purchased, when payment of the principal of and the applicable redemption premium, if any, on such Subordinate Lien Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or other-wise), either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided by irrevocably depositing with a Paying Agent for such Subordinate Lien Bond, in trust and irrevocably appropriated and set aside exclusively for such payment, (1) monies sufficient to make such payment, (2) Governmental Obligations, or (3) any combination thereof maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient monies to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agents pertaining to the Subordinate Lien Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of said Paying Agents.

At such time as a Subordinate Lien Bond shall be deemed to be no longer outstanding, as aforesaid, such Subordinate Lien Bond shall cease to draw interest from the due date thereof (whether such due date be by reason of maturity, or upon redemption or prepayment or by declaration as aforesaid, or otherwise) and, except for the purposes of any such payment from such monies or Governmental Obligations, shall no longer be secured by or entitled to the benefits of the Subordinate Lien Bond Resolution, including all Supplemental Subordinate Lien Resolutions.

Notwithstanding the foregoing, in the case of the Subordinate Lien Bonds which by their terms may be redeemed or otherwise prepaid prior to their stated maturities from the monies or securities deposited in accordance with the Subordinate Lien Bond Resolution, no deposit under clause (b) of subparagraph (ii) above shall constitute such payment, discharge and satisfaction as aforesaid, (A) as to any such Subordinate Lien Bonds as are not at the time of the making of such deposit immediately redeemable or prepayable in accordance with the provisions of the Supplemental Subordinate Lien Resolution providing for their issuance and of such Subordinate Lien Bonds, until either (1) such Subordinate Lien Bonds

shall have been irrevocably called or designated for redemption or prepayment on the first date thereafter such Subordinate Lien Bonds may be redeemed or prepaid in accordance with the provisions of the Supplemental Subordinate Lien Resolution providing for their issuance and of such Subordinate Lien Bonds, or (2) until 90 days prior to the respective stated maturities of such Subordinate Lien Bonds; (B) as to any such Subordinate Lien Bonds as are at the time of the making of such deposit immediately redeemable or prepayable in accordance with the provisions of the Supplemental Subordinate Lien Resolution providing for their issuance and of such Subordinate Lien Bonds, until (1) 90 days prior to the date fixed for their redemption or prepayment, or (2) 90 days prior to the respective stated maturities of such Subordinate Lien Bonds; and (C) as to all such Subordinate Lien Bonds which are to be redeemed or prepaid prior to their respective stated maturities, until proper notice of such redemption or prepayment shall have been previously given or satisfactory provision shall have been irrevocably made for the giving of such notice.

Notwithstanding the foregoing, the payment of (i) the purchase price of or accrued interest on any Variable Rate Subordinate Lien Bonds tendered for purchase pursuant to the terms of a Supplemental Subordinate Lien Resolution or the Remarketing Agreement, or similar agreement, or (ii) principal of, premium, if any, or interest on any Variable Rate Subordinate Lien Bonds upon redemption, acceleration or when due and payable with a draw, borrowing or payment under a Support Facility shall not be deemed payment; provided, however, that with respect to (ii) above, a reimbursement or other payment by the Authority with respect to a draw, borrowing or payment under a Support Facility for the payment of principal of, premium, if any, or interest on Variable Rate Subordinate Lien Bonds upon redemption, acceleration or when due and payable may be deemed to be payment.

All monies or Governmental Obligations set aside and held in trust for the payment of Subordinate Lien Bonds (including interest and premium thereon, if any) shall be applied to and used solely for the payment of the particular Subordinate Lien Bond (including interest and premium thereon, if any) with respect to which such monies and Governmental Obligations have been so set aside in trust.

If monies or Governmental Obligations have been deposited or set aside with a Paying Agent for the payment of Subordinate Lien Bonds and such Subordinate Lien Bonds shall be deemed to have been paid and be no longer outstanding, but such Subordinate Lien Bonds shall not have in fact been actually paid in full, no amendment to the provisions of the Subordinate Lien Bond Resolution shall be made without the consent of the Holder of each Subordinate Lien Bond affected thereby.

The Trustee

Prior to the occurrence of an Event of Default under the Subordinate Lien Bond Resolution, the Trustee shall have no duties and obligations as trustee thereunder. Upon the occurrence of an Event of Default under the Subordinate Lien Bond Resolution of which the Trustee has actual knowledge, all such estate, properties, rights, powers, trusts, duties and obligations granted to the Trustee in the Subordinate Lien Bond Resolution shall vest in the Trustee unless and until all such Events of Default shall have been cured in accordance with the Subordinate Lien Bond Resolution. The Trustee may be removed at the request of and upon the

affirmative vote of the Holders of a majority of the principal amount of Subordinate Lien Bonds outstanding. In the event of the removal or refusal to act of the Trustee, a successor may be appointed by the Holders of a majority of the principal amount of Subordinate Lien Bonds outstanding. The Trustee or any successor may resign at any time by giving not less than 60 days' notice to the Authority and thereupon the Authority shall, unless an Event of Default shall have occurred and be continuing, appoint a successor Trustee. The Trustee may be removed by the Authority at any time, provided, however, that (i) such removal is subject to revocation by Subordinate Lien Bondholders of not less than 10% of the Subordinate Lien Bonds then outstanding and (ii) such removal may not be effected if (A) an Event of Default has occurred and is continuing, or (B) there is any deficiency in any fund or account held under the Subordinate Lien Bond Resolution or the Senior Lien Bond Resolution.

APPENDIX E

SUMMARY OF CERTAIN TERMS OF THE AIRPORT USE AGREEMENTS

SUMMARY OF THE AIRPORT USE AGREEMENTS

The Use Agreements as signed by each Signatory Airline are substantially similar. The following is a summary of certain provisions of the Use Agreements. The summary does not purport to be complete or to follow the exact language of the Use Agreements and is subject in all respects to the detailed provisions of the Use Agreements, copies of which are available for inspection at the office of the Authority. The capitalization of any word or phrase which is not otherwise defined in this Official Statement or under this caption, or not conventionally capitalized, indicates such word or phrase is defined in the Use Agreements. Terms utilized in the Use Agreements and the Bond Resolutions do not necessarily have the same meaning. As used herein "Airline" refers to a single Signatory Airline which is the party to the Use Agreement, and the terms "Gross Operating Income" and "Operation and Maintenance Expenses" are used in this section as defined in the Use Agreements.

Term

The Use Agreements expire September 30, 2008.

Use of Airport and Facilities

The Airlines are entitled to the use of, in common with others authorized to do so, the Airport and appurtenances, together with all facilities, equipment, improvements and services which have been or may hereafter be provided at or in connection with the Airport for common use, for the sole purpose of the carriage of persons, property, cargo, express and mail by aircraft ("Air Transportation"). Such use shall include, among other things, (i) the repairing, maintaining, conditioning, servicing, testing, parking or storage of aircraft or other equipment, (ii) the training of personnel, (iii) the right to land, take-off, fly, taxi, tow, load, and unload aircraft and other equipment and (iv) the customary fueling and servicing of aircraft.

The Airlines sublease from the Authority designated space in the Airport terminal building for exclusive use (for offices and for the sale of Air Transportation, handling, ticketing, billing and manifesting of passengers, baggage, cargo, property, express and mail) and also sublease from the Authority designated holdroom/gate areas, aircraft parking positions and taxiing, servicing, loading, and unloading facilities for their preferential but non-exclusive use, in common with others.

Rentals

Each Airline is required to pay the Authority (i) specified annual rentals for the space subleased exclusively to such Airline, based on square feet rented, payable in advance in equal monthly installments, (ii) a monthly charge for the use in common with others of all passenger

holdroom areas, which amount is a specified charge per each preferential aircraft parking position, (iii) a monthly charge for the use in common with others of all baggage claiming areas, computed on a square foot basis and allocated among the Airlines in part on the basis of the number of scheduled air transportation companies having the right to use the area and in part on the basis of the number of passengers of such Airline enplaning, (iv) a monthly charge for the preferential use of aircraft parking positions and (v) charges for the storage of aircraft at the rates fixed by the Authority.

Landing Fees

Prior to the close of each fiscal year, the Authority estimates its income requirement from the Airport System in the next fiscal year (the "Airport System Income Requirement") and Gross Operating Income excluding Landing Fees of the Airlines, expected to be received during such next fiscal year. The Authority's Airport System Income Requirement consists of the following: (i) amounts necessary to pay 1.25 times Debt Service (as defined below) due in the next fiscal year; (ii) Operation and Maintenance Expense (as defined below); (iii) a sum equal to the aggregate of deficiencies in any of the special funds created by the Bond Resolutions which should be made up in such fiscal year; (iv) a sum equal to 52% of the Authority's net income from the industrial areas of the Airport actually received and estimated to be received in the current fiscal year; and (v) a sum equal to the investment income to be derived in the current fiscal year from moneys and securities in the Special Reserve Fund.

"Gross Operating Income" means the total of all income and revenue from all sources collected or received by Authority in connection with the Airport System, including all rates, charges, rentals, fees and any other compensation, regardless of form, investment income earned by the Authority, except as hereinafter provided to the contrary, that amount on deposit in the Airline Reserve Fund which, by action of a numerical majority of Airlines which shall have landed more than 50% of the total landed weight at the Airport in the latest 12 months (a "Majority-In-Interest"), is designated to be applied by the Authority to reduce Landing Fees, and the proceeds of any special tax or fee that may hereafter be levied (whether on the use of the Airport System, or transportation, or otherwise) which are received and retained by the Authority. "Gross Operating Income" shall not include: (i) Proceeds from bonds issued by the Authority or proceeds from loans obtained by the Authority; (ii) Condemnation proceeds or insurance proceeds except any received from rental insurance or from business interruption insurance; (iii) Revenues, other than ground rent, from properties and facilities, the construction and acquisition of which under the Use Agreements requires the approval of a Majority-In-Interest and for which such approval has not been given or deemed given; (iv) Revenues derived from any self-liquidating facility which are assigned as security to liquidate indebtedness incurred to finance such Facility; (v) Grants-in-aid or similar payments received from public agencies provided that (1) the application of such moneys are restricted to a specific purpose, or (2) such grant or payment constitutes a reimbursement to the Authority for expenditures previously made from its Special Reserve Fund; (vi) Moneys received by the Authority as gifts or grants, the use of which is restricted by the donor or grantor; (vii) Investment income derived from moneys or securities on deposit in a construction fund and investment income derived from any moneys or securities which may be placed in escrow or trust to defease bonds of the Authority, including the Senior Lien Bonds and Subordinate Senior Lien Bonds.

“Debt Service” as defined in the Use Agreements means the total as of any particular date of computation and for any particular period or year, of the amounts required pursuant to the Bond Resolutions to be deposited during such period for, among other things, the payment of principal of and interest or premium, if any, on the Senior Lien Bonds, the Subordinate Lien Bonds and any Junior Subordinate Obligations.

“Operation and Maintenance Expense” as defined in the Use Agreements means all necessary and reasonable expenses to be incurred in the maintenance, operation and administration of the Airport System, including, but not limited to, (i) salaries, wages and costs of customary fringe benefits (such as employee pension or retirement plans and health insurance), provided the cost of such fringe benefits shall not materially exceed those offered employees of municipal or county governments in the State, (ii) costs of equipment, materials, supplies, utilities and contract services, and (iii) professional fees and other expenditures that are not covered by the capital project provisions of the Use Agreements.

After the Authority estimates its Airport System Income Requirement, the Airlines estimate their Total Landed Weight to be landed at the Airport in the next fiscal year. The Airport System Income Requirement for the next fiscal year is reduced by the Gross Operating Income, excluding the Landing Fees of the Airlines, as such data may be adjusted by mutual agreement. The landing fee rate for the next fiscal year is then computed by dividing such net Airport System Income Requirement by the Total Landed Weight of the Airlines, as adjusted by mutual agreement.

Not later than 120 days after the start of each fiscal year, the Authority reviews the Landing Fees in light of actual experience and revised estimates for the current fiscal year. The Authority and a Majority-In-Interest may then agree to adjust the Landing Fee retroactive to the commencement of such fiscal year so as to minimize the prospect of incurring either a deficiency or an excess of Gross Operating Income in such fiscal year.

If at any time the amount in the Operation and Maintenance Reserve Account created by the Senior Lien Bond Resolution falls below one-twelfth of the amount budgeted for Operation and Maintenance Expense for the current fiscal year, the Airlines are to promptly adjust the landing fee rate or authorize an appropriation from the Airline Reserve Fund so as to remedy any such deficiency by the end of the current fiscal year.

The Airlines are required to furnish to the Authority the data necessary to calculate the Airline's Landing Fees for each month.

If the Authority finds at the end of a fiscal year that it has failed to meet its actual Airport System Income Requirement for such year, the Authority is to immediately notify the Airlines of the total amount necessary to remedy the deficiency and the proportionate share of such amount which must be borne by each Airline (based on the Landing Fees payable by each for such fiscal year). Immediately upon receipt of such notice, the Airlines are required to remit their proportionate share of the deficiency. If the Authority finds at the end of a fiscal year that it exceeded its Airport System Income Requirement for such fiscal year, the Authority is to immediately notify the Airlines of the existence of such surplus. A Majority-In-Interest

thereupon is immediately required to direct the Authority to (i) revise the current landing fee rate by recalculating the net Airport System Income Requirement for the current fiscal year using such surplus as additional Gross Operating Income, or (ii) deposit such surplus to the credit of the Airline Reserve Fund or (iii) make any combination of the foregoing.

Capital Projects

The Authority may initiate a capital project, prosecute it to completion and finance the same through the use of any funds lawfully available provided that the Authority must first obtain the approval of a Majority-In-Interest except as summarized in the following paragraphs:

1. The Authority and Signatory Airlines have already agreed upon the capital improvement program for the Airport for the periods of October 1, 2006 through September 30, 2007, and October 1, 2007 through September 30, 2008.

2. The Authority may undertake the following capital projects without Majority-In-Interest approval: (i) projects to improve public safety when required by the FAA or similar governmental authority having jurisdiction, (ii) judgments against the Authority, provided that all reasonable appeal procedures have been exhausted, (iii) casualty damage to Airport System property which exceeds the proceeds of applicable insurance, provided that reconstruction or replacement is required to fulfill a contractual obligation of or to maintain a source of revenue to the Authority, and provided further that any such expenditure shall be limited to the amount by which the cost of reconstruction or replacement exceeds the insurance proceeds available for such purpose, (iv) a self-liquidating facility which an Airline or a third party has agreed to net lease from the Authority or to pay rentals to the Authority that shall be fully self-liquidating, including all maintenance and operating costs associated with such project, (v) capital projects whose acquisition, purchase or construction cost shall be paid from the Authority's Special Reserve Fund, (vi) certain land acquisitions, and (vii) other capital projects, the portion of the total cost of which to be borne by the Authority does not exceed \$100,000, provided that the total cost of such capital projects to be so borne by the Authority does not exceed \$285,000 in any fiscal year, such dollar limits to be adjusted annually to reflect substantial changes in building and construction costs.

Bonds

The Authority is given a right under the Use Agreements to issue additional bonds on a parity with the outstanding bonds at such times as are appropriate to provide the Authority with the moneys necessary to complete Capital Projects or to refund in whole or in part any bonds issued pursuant to the Senior Lien Bond Resolution or the Subordinate Lien Bond Resolution. The Authority may also issue bonds, notes, or other evidences of indebtedness which constitute a charge junior and inferior to the charge of the bonds. The debt service requirement on such subordinate obligations may not be included in the term Debt Service unless such bonds are issued (i) to finance a capital project as described under "Capital Projects" previously in this section or (ii) to meet casual deficits in Gross Operating Income for temporary periods.

Maintenance and Operation

The Authority is required to operate, maintain and keep in good repair, or arrange for the operation, maintenance and good repair of, the Airport System, including but not limited to the terminal building (including all public areas), vehicular parking areas, runways, roadways and all appurtenances, facilities and services now or hereafter connected with the foregoing, including but not limited to all field lighting and other appurtenances, facilities and services which meet the requirements of the FAA and all other appropriate regulatory authorities having jurisdiction over the Airline's present and future operation.

Damage or Destruction; Insurance; Indemnity

Should any portion of the premises used by an Airline be damaged by fire or other casualty, and if the damage is repairable within a reasonable time from the date of the occurrence, the Authority is required to repair such premises and in the meantime the allocable rental therefor shall be abated. If any portion of such premises is completely destroyed by fire or other casualty or cannot, in the opinion of the Authority, be repaired within a reasonable time, the Authority shall have the option to terminate the Use Agreement with such Airline to the extent that the damage shall apply to such premises. If the Authority does not elect such termination, the Authority is required to restore or repair such premises, and in the meantime the allocable rental therefor shall be abated.

The Authority is required to insure or cause to be insured at all times with a responsible insurance company, companies or carriers authorized and qualified under the laws of the State to the extent insurable, all of the Authority's buildings, structures, fixtures and equipment on the Airport (unless such are insured by others under the terms of other agreements) against direct physical damage or loss from fire and against the hazards and risks covered under the so-called extended coverage in an amount not less than 90% of the replacement value of the property so insured; provided that if at any time the Authority shall be unable to obtain insurance to the extent summarized above, the Authority is to maintain insurance to the extent reasonably obtainable.

Each Airline agrees fully to indemnify and save and hold harmless the Authority from and against all claims and actions, and all expenses incidental to the investigation and defense thereof, based upon or arising out of damages, injuries or death to third persons on any such person's property caused by the fault or negligence of the Airline, its agents or employees, in the use or occupancy of the premises subleased by the Airline. Each Airline is to obtain and maintain insurance covering all of its activities on the airport premises. Such insurance policy or policies shall be no more restrictive than the standard form in use in the State of Arizona at the time, providing for the protection of the Authority and its officers, agents, servants and employees, and insuring said parties against: (i) general liability for damages for bodily injury, personal injury or death or damage to property with limits of no less than \$10,000,000; (ii) automobile liability, with combined single limits of no less than \$2,000,000 per occurrence; and (iii) aircraft liability, of no less than \$30,000,000 combined single limit, per occurrence, for personal injury or death or damage to property.

Assignment or Sublease

Each Airline is not to assign its Use Agreement or any part thereof, nor sublet all or any portion of its subleased premises to any party other than a wholly-owned subsidiary without written approval of the Authority, provided that the foregoing shall not prevent the assignment of such Use Agreement to any corporation with which such Airline may merge or consolidate, or which may succeed to the business of such Airline.

Defaults

In the event of the failure of an Airline to keep any of the covenants and agreements set forth in its Use Agreement to be kept and performed, the Authority may elect to terminate such Airline's rights under such Use Agreement and re-enter and take possession of the premises; provided that prior to any such termination, the Authority is to give the Airline advance written notice stating the nature of the default in order to permit such default to be remedied by the Airline within 30 days, or such other period as may be agreed upon between the Authority and the Airline, after such written notice has been sent or delivered to the Airline; provided, however, that no notice of termination, as above provided, shall be of any force or effect if the Airline shall have remedied the default prior to receipt of such notice, or shall have begun and be continuing in a course of action to remedy the default within a reasonable period of time.

Covenant Not to Grant More Favorable Terms

The Authority is not to enter into any lease, contract or any other agreement with any other certificated air carrier containing more favorable terms than the Use Agreements, or to grant to any certificated air carrier rights, privileges or concessions with respect to the Airport which are not accorded the Airlines under the Use Agreements, unless the same rights, terms and privileges are concurrently made available to the Airlines, provided that this covenant shall not extend to certain commuter and foreign carriers.

In the event that any aircraft operator undertakes any operations at the Airport System for the carriage of passengers, cargo or mail by air, the Authority is to require, to the extent legally permissible, such other aircraft operator to execute and deliver an agreement, lease or contract with the Authority providing for: (i) the payment of landing fees at rates and on such other terms and conditions as are not less than those rates or terms and conditions currently in effect for the Airlines; (ii) the payment of rentals, for any space leased from the Authority in the terminal building at rates not less than those rates then payable by the Airlines for similar space, or, if space has been constructed by the Authority for such operator, then at rates that will fully compensate the Authority for the cost of providing, maintaining, operating and administering such space over the term of the agreement with such operator; and (iii) the payment for use by such aircraft operator of all jointly leased areas and operating costs of all baggage handling, public address, porter service or other passenger service systems, calculated and billed to such operator as in the case of the Airlines.

Termination by an Airline

An Airline may terminate its Use Agreement with the Authority at any time that the Airline is not in default in its payments to the Authority by giving the Authority 30 days advance written notice, upon or after the happening of anyone of the following events: (i) the termination of the Airline' s obligation or right (imposed by contract or otherwise) to the federal government for the carriage of United States airmail to, from or through the Pima County area or its environs, for the receiving and dispatching of United States airmail; (ii) the issuance by any court of competent jurisdiction of any injunction preventing or restraining the use of the Airport for Airport Purposes to the extent that it is not practicable to use the Airport for commercial air transport purposes and the remaining in force of such injunction for a period of at least thirty (30) days; (iii) any lawful action of the FAA refusing to permit the Airline to operate into, from or through the Airport such aircraft as the Airline may reasonably need to operate thereon; (iv) the inability of the Airline to use said premises and facilities continuing for a period exceeding 30 days due to any deficiency of the Airport or unsafe condition for operating at the Airport of the type of aircraft then being flown by the Airline, or due to any law, order, rule or regulation of any appropriate governmental authority having jurisdiction over the operations of the Airline or due to war or other casualty; (v) the assumption by the federal government or any authorized agency thereof of control of the Airport; or (vi) the erection of any obstacle on or in the vicinity of the Airport which would occasion a modification of the Airline' s air carrier operating certificate or similar authorization establishing minimum safety standards for the operation of the Airline.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$32,110,000
TUCSON AIRPORT AUTHORITY, INC.
SUBORDINATE LIEN AIRPORT REVENUE BONDS
SERIES 2006

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is executed and delivered by Tucson Airport Authority, Inc. (the “Authority”), in connection with the issuance and sale of the \$32,110,000 aggregate principal amount of the Authority’s Subordinate Lien Airport Revenue Bonds, Series 2006 (the “Bonds”).

In connection with the Bonds, the Authority covenants and agrees as follows:

1. Purpose of this Undertaking. This Undertaking is executed and delivered by the Authority as of the date set forth below, for the benefit of the beneficial owners of the Bonds and in order to assist the Underwriter in complying with the requirements of the Rule (as defined below).

2. Definitions. The terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires.

“Annual Information” means the financial information and operating data set forth in Exhibit I.

“Annual Information Disclosure” means the dissemination of disclosure concerning Annual Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

“Audited Financial Statements” means the general purpose audited financial statements of the Authority prepared pursuant to the standards and as described in Exhibit I.

“Bond Resolution” means the 2006 Subordinate Lien Supplemental Resolution adopted by the Board of Directors of the Authority on November 28, 2006 authorizing the issuance and sale of the Bonds.

“Commission” means the Securities and Exchange Commission.

“Dissemination Agent” means any agent designated as such in writing by the Authority and which has filed with the Authority a written acceptance of such designation, and such agent’s successors and assigns.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Material Event” means the occurrence of any of the events with respect to the Bonds set forth in Exhibit II that is material, as materiality is interpreted under the Exchange Act.

“MSRB” means the Municipal Securities Rulemaking Board.

“NRMSIRs” means, as of any date, any Nationally Recognized Municipal Securities Information Repository then recognized by the Commission for purposes of the Rule. As of the date of this Undertaking, the NRMSIRs are:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpccdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999; 800-689-8466
Fax: (212) 771-7390
E-mail: NRMSIR@interactivedata.com

Standard & Poor’s Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

The names and addresses of all current NRMSIRs should be verified each time information is delivered pursuant to this Undertaking.

“Rule” means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

“SID” means any public or private repository designated by the State as the state repository and recognized as such by the Commission for purposes of the Rule. As of the date of this Undertaking, no SID exists within the State. The name and address of the SID, if any, should be verified each time information is delivered pursuant to this Undertaking.

“State” means the State of Arizona.

“Undertaking” means the obligations at the Authority pursuant to Sections 4, 5, 6 and 7 hereof.

“Underwriter” includes each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Bonds.

3. CUSIP Number/Final Official Statement. The base CUSIP Number of the Bonds is 898728. The Final Official Statement relating to the Bonds is dated December 6, 2006.

4. Annual Information Disclosure. Subject to Section 10 of this Undertaking, the Authority shall disseminate its Annual Information and its Audited Financial Statements, if any (in the form and by the dates set forth in Exhibit I), to all NRMSIRs and to the SID, if any. The Authority is required to deliver such information in such manner and by such time so that such entities receive the information on the date specified.

If any part of the Annual Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Authority will disseminate a statement to such effect as part of its Annual Information for the year in which such event first occurs.

If any amendment is made to this Undertaking, the Annual Information for the year in which such amendment is made shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. Material Events Disclosure. Subject to Section 9 of this Undertaking, the Authority hereby covenants that it will disseminate in a timely manner notice of occurrence of a Material Event to each NRMSIR, or to the MSRB and to the SID, if any.

6. Duty to Update NRMSIRs/SID. The Authority shall determine, in the manner it deems appropriate, the names and addresses of the then existing NRMSIRs and SID each time it is required to file information with such entities.

7. Consequences of Failure of the Authority to Provide Information. The Authority shall give notice in a timely manner to each NRMSIR, or to the MSRB and to the SID, if any, of any failure to provide Annual Information Disclosure when the same is due hereunder.

In the event of a failure of the Authority to comply with any provision of this Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the Authority to comply with its obligations under this Undertaking. A default under this Undertaking shall not be an Event of Default on the Bonds. The sole remedy under this Undertaking in the event of any failure of the Authority to comply with this Undertaking shall be an action to compel performance.

8. Alternate Means of Disclosure. Notwithstanding the provisions of Sections 4, 5 and 7 requiring that the Authority file its Annual Information Disclosure, notice of any Material Event and notice of any failure to comply with this Undertaking with each of the NRMSIRS and

any SID, the Authority may instead comply with the provisions of this Undertaking by filing the required information with an entity then recognized by the Commission as eligible to receive and submit such filings to the NRMSIRS and any SID for purposes of the Rule (a “Central Post Office”). As of the date of this Undertaking, the Central Post Office that has been so recognized by the Commission is:

DisclosureUSA
P.O. Box 684667
Austin, Texas 78768-4667
Fax: (512) 476-6403
<http://www.disclosureUSA.org>

9. Amendments; Waiver. Notwithstanding any provision of this Undertaking, the Authority by certified resolutions authorizing each amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

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

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

(c) The amendment does not materially impair the interests of the beneficial owners of the Bonds, as determined by an independent counsel or other entity unaffiliated with the Authority.

10. Termination of Undertaking. The Undertaking of the Authority shall be terminated hereunder when the Authority no longer has liability for any obligation relating to repayment of the Bonds or the Rule no longer applies to the Bonds. The Authority shall give notice in a timely manner if this Section is applicable to each NRMSIR, or to the MSRB, and to the SID, if any.

11. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

12. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Authority from disseminating any other information using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Information Disclosure or notice of occurrence of a Material Event, in addition to that which is required by this Undertaking. If the Authority chooses to include any information from any document or notice of occurrence of Material Event in addition to that which is specifically required by this Undertaking, the Authority shall have no obligation under

this Undertaking to update such information or include it in any future disclosure or notice of occurrence of a Material Event.

13. Beneficiaries. This Undertaking has been executed in order to assist the Underwriter in complying with the Rule; however, this Undertaking shall inure solely to the benefit of the Authority, the Dissemination Agent, if any, and the beneficial owners of the Bonds, and shall create no rights in any other person or entity.

14. Recordkeeping. The Authority shall maintain records of all Annual Information Disclosure and notices of occurrence of Material Events including the content of such disclosure or notices, the names of the entities with whom such disclosure or notices were filed and the date of filing such disclosure or notices.

15. Assignment. The Authority shall not transfer its obligations under the Bond Resolution unless the transferee agrees to assume all obligation of the Authority under this Undertaking or to execute an Undertaking under the Rule.

16. Governing Law. This Undertaking shall be governed by the laws of the State.

TUCSON AIRPORT AUTHORITY, INC.

By: _____
President and CEO

Date: December 20, 2006

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EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND AUDITED FINANCIAL STATEMENTS

“Annual Financial Information” means, collectively, (i) the financial information and operating data with respect to the Authority for each fiscal year of the Authority (a) of the type included in the Official Statement of the Authority in the tables under the heading “SUMMARY OF FINANCIAL OPERATING INFORMATION”, and (b) landed weights, and total cargo (freight and mail) of airlines serving Tucson International Airport; (ii) the market shares of airlines serving Tucson International Airport (where such individual market shares and such individual airlines are deemed significant) in terms of enplaned passengers, landed weights, and total cargo (freight and mail), (iii) the collection and application of receipts of any Passenger Facility Charge imposed and collected by the Authority, and (iv) the information regarding amendments to this Undertaking required pursuant to Section 9 of this Undertaking. Audited Financial Statements, if available, or Unaudited Financial Statements shall be included in the Annual Financial Information as described in this Undertaking.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted to each NRMSIR and to the SID, if any, or filed with the Commission. If the information included by reference is contained in a Final Official Statement, the Final Official Statement must be available from the MSRB; the Final Official Statement need not be available from each NRMSIR, the SID or the Commission. The Authority shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, no later than eight months after the end of each fiscal year, commencing May 31, 2007. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by Audited Financial Statements when available.

Audited Financial Statements will be prepared according to generally accepted accounting principles (“GAAP”), as applied to governmental units as modified by State law, Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, at the same time as Annual Financial Information is filed, or if not available when such Annual Financial Information is filed, within 30 days after availability to the Authority.

If any change is made to the Annual Financial Information as permitted by Section 4 of this Undertaking, the Authority will disseminate a notice of such change as required by Section 4, including changes in Fiscal Year or GAAP.

EXHIBIT II

EVENTS FOR WHICH NOTICE OF OCCURRENCE OF MATERIAL EVENTS IS REQUIRED

1. Principal and interest payment delinquencies
2. Non-payment related defaults
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of creditor liquidity providers, or their failure to perform
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds
7. Modifications to the rights of holders of the Bonds
8. Bond calls
9. Defeasances
10. Release, substitution or sale of property securing repayment of the Bonds
11. Rating changes

APPENDIX G

SPECIMEN OF FINANCIAL GUARANTY INSURANCE POLICY

FINANCIAL GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]

[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such

Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest: _____
Assistant Secretary

SPECIMEN

APPENDIX H

FORM OF BOND COUNSEL OPINION

December 20, 2006

To: Tucson Airport Authority, Inc.
Tucson, Arizona

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Tucson Airport Authority, Inc., an Arizona nonprofit corporation (the "Authority"), of its \$32,110,000 Subordinate Lien Airport Revenue Bonds, Series 2006, dated as of the date hereof (the "Bonds"). The Bonds are being issued pursuant to an Amended and Restated Subordinate Lien Airport Revenue Bond Resolution, adopted by the Board of Directors of the Authority on November 28, 2006, as supplemented to date, including by a Subordinate Lien Supplemental Resolution adopted by the Board of Directors of the Authority on November 28, 2006 and a Certificate of Determination, dated December 6, 2006 signed by the Designated Financial Officer of the Authority pursuant to such resolutions (collectively, the "Resolutions"). The documents in the Transcript include a certified copy of the Resolutions. All capitalized terms not defined herein shall have the meanings set forth in the Resolutions.

Based on this examination, we are of the opinion that, under existing law:

1. The Bonds are valid, legal and binding special obligations of the Authority and which, together with other bonds heretofore and hereafter issued on a parity herewith and subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion, are payable solely from, and secured by a pledge of, Net Revenues (as defined in the Resolutions) of the Authority junior and inferior to the pledge of and lien on such Net Revenues in favor of the Senior Lien Bonds heretofore and hereafter issued pursuant to the Senior Lien Bond Resolution. The Bonds are also payable from and additionally secured by a pledge of and lien upon, PFC Revenues to the extent received and pledged for such purpose in the Resolutions, which shall be the amounts of PFC Revenues determined to be eligible to pay a portion of debt service on the Bonds, but in no event exceeding such portion of debt service on the Bonds coming due each Fiscal Year. Such pledge and lien of PFC Revenues is on a parity with the pledge and lien previously made by the Authority in favor of the Subordinate Lien Revenue Bonds, Series 2001, and any future pledges of PFC Revenues made as provided in the Resolutions. The Bonds shall not in any manner or to any extent constitute or be a charge upon any monies or property of the Authority not specifically pledged thereto by the Resolutions, or constitute or be an obligation of the City of Tucson or of any municipality or political subdivision of the State of Arizona other than the Authority.

2. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the “Code”), except interest on any Bond for any period during which it is held by a “substantial user” or a “related person,” as those terms are used in Section 147(a) of the Code. Interest on the Bonds is an item of tax preference under Section 57 of the Code and therefore may be subject to the alternative minimum tax imposed by the Code on individuals and corporations. Further, so long as the interest on the Bonds is excluded from gross income for federal income tax purposes, it is exempt from Arizona state income taxes. We express no opinion as to any other tax consequences regarding the Bonds.

In giving the foregoing opinions, we have assumed and relied upon continuing compliance with the covenants of the Authority and the accuracy, which we have not independently verified, of the representations and certifications of the Authority contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Authority with certain of those covenants may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes and for certain of the other tax effects stated above. Failure to comply with certain of these covenants subsequent to issuance of the Bonds could cause interest thereon to be included in gross income for federal tax purposes retroactively to the date of issuance of the Bonds.

Respectfully submitted,

SQUIRE, SANDERS & DEMPSEY L.L.P.

APPENDIX I

BOOK-ENTRY ONLY SYSTEM

DTC will act as securities depository for the Series 2006 Bonds. The Series 2006 Bonds will be issued as fully registered bonds in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2006 Bond will be issued for each maturity of Series 2006 Bonds as set forth on the inside cover page of this Official Statement, 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 2 million issues of U.S. and non-U.S., equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to other such as both U.S. and non-U.S., securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating AAA. The DTC Rules applicable to its Direct Participants and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchase of the Series 2006 Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2006 Bond ("Beneficial Owner") is in turn to be recorded on the Direct Participant's and Indirect Participant's 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 Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Series 2006

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 interest in the Series 2006 Bonds, except in the event that use of the book-entry system for the Series 2006 Bonds is discontinued.

To facilitate subsequent transfers, all the Series 2006 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 the Series 2006 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 2006 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2006 Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices of the Series 2006 Bonds shall be sent to DTC. If less than all of the Series 2006 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2006 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal of and interest on the Series 2006 Bonds, and the redemption price of any Series 2006 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 and information funds and corresponding detail information from the Bond Registrar and Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants 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 Participants and Indirect Participants and not of DTC (or its nominee) or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest on the Series 2006 Bonds, and the redemption price of any Series 2006 Bonds will be made to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, disbursement of such payments to Direct Participants will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2006 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor depository is not obtained, physical Series 2006 Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Series 2006 Bonds will be printed and delivered.

Under DTC's rules, DTC now advises that upon receipt of a withdrawal request from an issuer, such as the Authority, DTC will take the following actions: (1) DTC will issue an Important Notice notifying its participants of the receipt of a withdrawal request from the issuer reminding participants that they may utilize DTC's withdrawal procedures if they wish to withdraw their securities from DTC; and (2) DTC will process withdrawal requests submitted by participants in the ordinary course of business, but will not effectuate withdrawals based upon a request from the issuer.

