

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2005 Bond for any period during which such Series 2005 Bond is held by a “substantial user” of the facilities financed and refinanced by the Series 2005 Bonds or a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is further of the opinion that interest on the Series 2005 Bonds is a specific preference item for purposes of the federal alternative minimum tax. Under existing laws, regulations, rulings and judicial decisions, Bond Counsel is further of the opinion that interest on the Series 2005 Bonds is exempt from State of California (the “State”) personal income taxes. For a more complete description, see “TAX MATTERS” herein.



\$56,270,000
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AIRPORT REVENUE REFUNDING BONDS
SERIES 2005
(AMT)

Dated: Date of Delivery**Due: July 1 as shown on the inside cover**

The San Diego County Regional Airport Authority Airport Revenue Refunding Bonds, Series 2005 (the “Series 2005 Bonds”), are being issued by the San Diego County Regional Airport Authority (the “Authority”), in accordance with certain provisions of Sections 170000 *et seq.* of the Public Utilities Code (collectively, the “Act”) of the State of California; a resolution adopted by the board of directors of the Authority on September 26, 2005 (the “Resolution”); a Master Trust Indenture, dated as of November 1, 2005 (the “Master Indenture”), by and between the Authority and The Bank of New York Trust Company, N.A. as trustee (the “Trustee”), and a First Supplemental Trust Indenture, dated as of November 1, 2005 (the “First Supplemental Indenture,” and collectively with the Master Indenture, the “Indenture”), by and between the Authority and the Trustee. See “DESCRIPTION OF THE SERIES 2005 BONDS” herein.

The proceeds of the Series 2005 Bonds, along with certain other available moneys, will be used to (i) current refund \$58,125,000 aggregate principal amount of the outstanding California Maritime Infrastructure Authority’s Airport Revenue Bonds (San Diego Unified Port District Airport Project – Lindbergh Field), Series 1995 (the “Refunded Bonds”); (ii) fund a reserve fund and (iii) pay certain costs of issuance of the Series 2005 Bonds.

The Series 2005 Bonds are limited obligations of the Authority payable solely from and secured by (i) a pledge of Net Revenues (as defined herein) which include certain income and revenue received by the Authority from the operation of the Airport System (as defined herein) and (ii) certain limited funds and accounts held by the Trustee under the Indenture. Additionally, future parity obligations may be issued by the Authority as described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS – Additional Bonds” herein.

Interest on the Series 2005 Bonds will be payable on each January 1 and July 1, commencing on January 1, 2006. The Series 2005 Bonds will mature in the years and in the amounts set forth on the inside cover page hereof. The Series 2005 Bonds will be executed and delivered only as fully registered bonds without coupons in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”) and will be available to ultimate purchasers in integral multiples of \$5,000. The Series 2005 Bonds will be initially issued and delivered in book-entry form only and no physical delivery of the Series 2005 Bonds will be made to purchasers. So long as Cede & Co. is the registered owner of the Series 2005 Bonds, payments of principal, premium, if any, and interest on the Series 2005 Bonds are expected to be made to beneficial owners by DTC through its participants. See “APPENDIX D – BOOK-ENTRY ONLY SYSTEM.”

The Series 2005 Bonds are not subject to redemption prior to maturity.

THE SERIES 2005 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF NET REVENUES DERIVED BY THE AUTHORITY FROM THE OPERATIONS OF THE AIRPORT SYSTEM AND CERTAIN LIMITED FUNDS AND ACCOUNTS HELD BY THE TRUSTEE UNDER THE INDENTURE. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM ARE SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2005 BONDS, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OF SAN DIEGO OR THE COUNTY OF SAN DIEGO, THE STATE OR ANY POLITICAL SUBDIVISION OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2005 BONDS. SEE “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS.”

Payment of the principal and interest on the Series 2005 Bonds when due will be insured by a financial guaranty insurance policy, to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Series 2005 Bonds. See “THE FINANCIAL GUARANTY INSURANCE POLICY AND THE INSURER.”

Ambac

The purchase and ownership of Series 2005 Bonds involve investment risk and may not be suitable for all investors. This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Series 2005 Bonds. Investors are advised to read the entire Official Statement, including any portion hereof included by reference, to obtain information essential to the making of an informed decision.

The Series 2005 Bonds are offered, when, as and if issued by the Authority, subject to the approval of legality by Kutak Rock LLP, Denver, Colorado, Bond Counsel. Certain matters will be passed upon for the Authority by its General Counsel. Quateman & Zidell LLP, Los Angeles, California, served as Disclosure Counsel to the Authority. Robinson & Pearman LLP, Los Angeles, California, served as Underwriters’ Counsel. Frasca & Associates, L.L.C. served as Financial Advisor to the Authority. It is expected that the delivery of the Series 2005 Bonds will be made through the facilities of DTC on or about November 9, 2005.

Merrill Lynch & Co.

Backstrom McCarley Berry & Co., LLC

Siebert Brandford Shank & Co., LLC

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

\$56,270,000
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AIRPORT REVENUE REFUNDING BONDS
SERIES 2005
(AMT)

<u>Due</u> <u>July 1</u>	<u>Principal Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> [†]
2006	\$ 3,515,000	4.500%	3.020%	79739GAA4
2007	2,670,000	5.000	3.180	79739GAB2
2008	2,805,000	5.000	3.360	79739GAC0
2009	2,950,000	5.000	3.560	79739GAD8
2010	3,105,000	5.000	3.700	79739GAE6
2011	3,265,000	5.000	3.850	79739GAF3
2012	3,430,000	5.000	3.970	79739GAG1
2013	3,610,000	5.000	4.060	79739GAH9
2014	3,790,000	5.000	4.150	79739GAJ5
2015	3,985,000	4.250	4.250	79739GAK2
2016	4,160,000	5.250	4.280	79739GAL0
2017	4,380,000	5.250	4.340	79739GAM8
2018	4,615,000	5.250	4.380	79739GAN6
2019	4,865,000	5.250	4.410	79739GAP1
2020	5,125,000	5.250	4.440	79739GAQ9

[†] Copyright 2005, American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the Authority nor the Underwriters takes any responsibility for the accuracy of such CUSIP numbers. CUSIP numbers are provided only for the convenience of the reader.

No dealer, broker, salesperson or other person has been authorized by the Authority to give any information or to make any representations other than as set forth herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the Series 2005 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2005 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. See "FORWARD-LOOKING STATEMENTS" herein.

The order and placement of information in this Official Statement, including the appendices, are not an indication of relevance, materiality or relative importance, and this Official Statement, including the appendices, must be read in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provision or section in this Official Statement.

A wide variety of other information concerning the Authority, including financial information, is available from Authority publications, its website and from other publications and websites. No such information is part of or incorporated into this Official Statement, except as expressly noted herein. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their 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 WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2005 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2005 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED THEREIN, AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE SERIES 2005 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY COMMISSION. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY BOARD

Joseph Craver (Chairman)*
Xema Jacobson*
William D. Lynch*
Robert L. Maxwell
Paul Nieto (Vice Chairman)
Paul Peterson
Mayor Mary Sessom
Mayor Morris Vance
Anthony Young

* Member of the Executive Committee

SAN DIEGO INTERNATIONAL AIRPORT MANAGEMENT

Thella F. Bowens, *President and CEO/Executive Director*
Bryan Enarson, *Vice President Development*
Vernon Evans, *Vice President Finance/Treasurer*
Angela Shafer-Payne, *Vice President Strategic Planning*
Ted Sexton, *Vice President Operations*
Robert R. Wigington, *Acting Vice President Marketing and Communications*
Jeffrey Woodson, *Vice President Administration*
Breton K. Lobner, *General Counsel*

TRUSTEE

The Bank of New York Trust Company, N.A.

BOND COUNSEL

Kutak Rock LLP

DISCLOSURE COUNSEL

Quateman & Zidell LLP

FINANCIAL ADVISOR

Frasca & Associates, L.L.C.

VERIFICATION AGENT

Samuel Klein and Company

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OFFICIAL STATEMENT

\$56,270,000
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AIRPORT REVENUE REFUNDING BONDS
SERIES 2005
(AMT)

INTRODUCTION

This introduction contains a summary of the offering and certain documents. Investors must read the Official Statement in its entirety. See “CERTAIN INVESTMENT CONSIDERATIONS.”

General

The purpose of this Official Statement, which includes the cover page, table of contents and appendices, is to provide certain information concerning the sale and delivery by the San Diego County Regional Airport Authority (the “Authority”) of its \$56,270,000 aggregate principal amount of San Diego County Regional Airport Authority, Airport Revenue Refunding Bonds, Series 2005 (the “Series 2005 Bonds”). Capitalized terms used but not defined herein have the meanings ascribed to them in “APPENDIX B – SUMMARIES OF THE MASTER INDENTURE AND THE FIRST SUPPLEMENTAL INDENTURE.”

The Authority

The Authority is a local government entity of regional government, with jurisdiction extending throughout the County of San Diego (the “County”). The Authority was organized and exists pursuant to the provisions of the Constitution of the State of California (the “State”) and Section 170000 *et seq.* of the California Public Utilities Code (the “Act”). The Authority was formed for the purposes of: (a) operating the Airport System (as hereinafter defined), (b) planning and operating any future airport that could be developed as a supplement or replacement to San Diego International Airport (Lindbergh Field) (“SDIA” or the “Airport”), (c) developing a comprehensive land use plan as it may relate to the Airport System for the entire County and (d) serving as the region’s airport land use commission.

The Airport

SDIA was owned and operated by the San Diego Unified Port District (the “Port District”) until January 2003 at which time SDIA was transferred by long term lease to the Authority (the “Transfer”). The Transfer included all obligations associated with SDIA, including bonds and commercial paper notes issued for the improvement of SDIA. SDIA is the busiest single-runway commercial airport in the world and is classified as a large air traffic hub by the Federal Aviation Administration (the “FAA”). According to data reported by Airport Council International (“ACI”), SDIA was ranked as the 30th busiest airport in North America for the calendar year ended December 31, 2004, based on total passengers. SDIA enplaned approximately 8.4 million passengers for the fiscal year ended June 30, 2005 (“Fiscal Year 2005”). In Fiscal Year 2005, approximately 94% of enplanements at SDIA represented domestic origination and destination (“O&D”) passengers. See “THE AUTHORITY” and “SAN DIEGO INTERNATIONAL AIRPORT” herein.

Bond Insurance

Ambac Assurance Corporation (the “Insurer”) has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) with respect to the Series 2005 Bonds, a specimen copy of which is attached as Appendix F. The Financial Guaranty Insurance Policy is not a source of payment for and does not provide security for any bonds other than the Series 2005 Bonds. See “THE FINANCIAL GUARANTY INSURANCE POLICY AND THE INSURER.” Owners of the Series 2005 Bonds should be aware that issuance of the Financial Guaranty Insurance Policy gives the Insurer certain rights, including the sole right to direct remedies with respect to the Series 2005 Bonds in the Event of Default and the right (subject to certain exceptions) to consent to amendments to the Indenture. See “APPENDIX B – SUMMARIES OF THE MASTER

INDENTURE AND THE FIRST SUPPLEMENTAL INDENTURE – FIRST SUPPLEMENTAL INDENTURE – Certain Provisions Relating to the Insurer.”

The Series 2005 Bonds

The Series 2005 Bonds are being issued pursuant to a Master Trust Indenture, dated as of November 1, 2005, (the “Master Indenture”), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the “Trustee”) and a First Supplemental Trust Indenture, dated as of November 1, 2005 (the “First Supplemental Indenture,” and together with the Master Indenture, the “Indenture”), by and between the Authority and the Trustee; a resolution adopted by the board of directors of the Authority (the “Board”) on September 26, 2005 (the “Resolution”), authorizing the issuance of the Series 2005 Bonds (i) under and in accordance with the Act and the Revenue Bond Law of 1941 (Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 of the California Government Code), excluding Article 3 (commencing with Section 54380) of Chapter 6 of Part 1 of Division 2 of Title 5 of the California Government Code which shall not apply to the issuance and sale of bonds pursuant to the Act and (ii) under and in accordance with certain other provisions of State law (including Section 53580 *et seq.* of the California Government Code).

The Series 2005 Bonds are secured by a pledge of and first lien on Net Revenues (as defined herein), which include certain income and revenue received by the Authority from the operation of the Airport System. Net Revenues are available for the equal and proportionate benefit of all parity obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS” and “OTHER OBLIGATIONS OF THE AUTHORITY – Other Obligations.”

THE SERIES 2005 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF NET REVENUES DERIVED BY THE AUTHORITY FROM THE OPERATIONS OF THE AIRPORT SYSTEM AND CERTAIN LIMITED FUNDS AND ACCOUNTS HELD BY THE TRUSTEE UNDER THE INDENTURE. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM ARE SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE 2005 BONDS, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OF SAN DIEGO (THE “CITY”), THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2005 BONDS. SEE “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS.”

Purpose of the 2005 Bonds

The proceeds of Series 2005 Bonds, along with certain other available moneys, will be used to (i) current refund the Refunded Bonds (as defined below); (ii) fund a reserve fund and (iii) pay certain costs of issuance of the Series 2005 Bonds, all as further described herein. See “PLAN OF REFUNDING AND APPLICATION OF SERIES 2005 BOND PROCEEDS” and “DESCRIPTION OF THE SERIES 2005 BONDS.”

Investment Considerations

The purchase and ownership of the Series 2005 Bonds involve investment risks. Prospective purchasers of the Series 2005 Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the Series 2005 Bonds, see “CERTAIN INVESTMENT CONSIDERATIONS.”

Security for the 2005 Bonds

The Series 2005 Bonds are secured by a pledge of and lien on Net Revenues on a parity with any additional bonds (“Additional Bonds”) issued on a parity with the Series 2005 Bonds under the terms and provisions of the Master Indenture and any other obligations incurred by the Authority secured by a parity lien on Net Revenues pursuant to the Master Indenture. For purposes of this Official Statement “Bonds” means the Series 2005 Bonds and any Additional Bonds or other obligations issued pursuant to the Master Indenture secured by a lien on Net Revenues on parity with the Series 2005 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS.”

Reserve Fund

The First Supplemental Indenture provides for the establishment and maintenance of a debt service reserve fund (the “Reserve Fund”). Amounts in the Reserve Fund will be withdrawn solely for the purpose of paying the principal of and interest on the Series 2005 Bonds and any Additional Bonds participating in the Reserve Fund in the event moneys in the principal account and interest account of the applicable debt service funds are insufficient therefor. At the time of delivery of the Series 2005 Bonds, the Reserve Fund will be funded in an amount equal to the Reserve Fund Requirement. See “PLAN OF REFUNDING AND APPLICATION OF SERIES 2005 BOND PROCEEDS – Estimated Sources And Uses” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS – Debt Service Reserve Fund.”

Outstanding Obligations

In December 1995 the California Maritime Infrastructure Authority (the “CMIA”) issued \$76,690,000 of its Airport Revenue Bonds (San Diego Unified Port District Airport Project – Lindbergh Field), Series 1995 (the “1995 Bonds”) to assist the Port District in financing the construction of Terminal 2. As of the date of this Official Statement, there is \$60,605,000 aggregate principal amount of 1995 Bonds outstanding (including the Refunded Bonds). In connection with the issuance of the 1995 Bonds, the Port District entered into an Installment Sale Agreement dated as of December 1, 1995 (the “Installment Sale Agreement”) with CMIA for the purchase of Terminal 2. Payments made by the Port District under the Installment Sale Agreement (the “Installment Sale Payments”) were pledged to the repayment of the 1995 Bonds. As part of the Transfer, the obligation of the Port District to make Installment Sale Payments became the obligation of the Authority. See “PLAN OF REFUNDING AND APPLICATION OF SERIES 2005 BOND PROCEEDS – Refunding Plan.”

Pursuant to a Subordinate Indenture dated as of October 1, 1997 by and between the Authority (as successor to the Port District) and Deutsche Bank Trust Company Americas (as successor to Bankers Trust Company of California, N.A.), as trustee (the “Subordinate Commercial Paper Notes Indenture”), the Authority, as successor to the Port District, authorized the issuance, from time to time, of not to exceed \$100,000,000 aggregate principal amount of Commercial Paper Notes (the “Subordinate Commercial Paper Notes”). As of the date of this Official Statement, there is \$51,694,000 aggregate principal amount of Subordinate Commercial Paper Notes outstanding. See “OTHER OBLIGATIONS OF THE AUTHORITY – Commercial Paper.”

Continuing Disclosure

The Authority will covenant for the benefit of the owners of the Series 2005 Bonds to provide annually certain financial information and operating data concerning the Authority to each Nationally Recognized Municipal Securities Information Repository certified by the Securities and Exchange Commission (each, a “NRMSIR”) and to provide notice to the Municipal Securities Rulemaking Board or to the NRMSIRs of certain enumerated events, pursuant to the requirements of Rule 15c2-12 of the Securities and Exchange Commission. See “CONTINUING DISCLOSURE” and “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE” for the form of the Continuing Disclosure Certificate.

Book-Entry Only System

The Series 2005 Bonds will be issued in minimum denominations of \$5,000 and any integral multiple thereof in fully registered form, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). So long as Cede & Co. is the registered owner of the Series 2005 Bonds, references herein to the owners or registered owners will mean Cede & Co., and not the beneficial owners of the Series 2005 Bonds. See “APPENDIX D – BOOK-ENTRY ONLY SYSTEM” herein.

Additional Information

Brief descriptions of the Series 2005 Bonds, the Indenture and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, laws, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, law, report or other instrument. Information contained herein has been obtained from officers, employees and records of the Authority and from other sources believed to be reliable. The information herein is subject to change without notice, and

neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority since the date hereof. This Official Statement is not to be construed as a contract or agreement between the Authority and purchasers or owners of any of the Series 2005 Bonds.

PLAN OF REFUNDING AND APPLICATION OF SERIES 2005 BOND PROCEEDS

Refunding Plan

The 1995 Bonds were issued pursuant to a Trust Agreement, dated as of December 1, 1995 (the “1995 Trust Agreement”), by and between CMIA and The Bank of New York Trust Company, N.A., as successor to First Interstate Bank of California, as trustee (the “1995 Trustee”). The Authority will use a portion of the proceeds of the Series 2005 Bonds, along with certain other moneys held by the 1995 Trustee and certain moneys to be contributed by the Authority to prepay all of the Installment Sale Payments due after November 1, 2005 and through and including November 1, 2020. The Authority will cause CMIA and the 1995 Trustee to simultaneously use such prepayments, to current refund and defease \$58,125,000 aggregate principal amount of the outstanding 1995 Bonds (the “Refunded Bonds”). The remaining \$2,480,000 of outstanding 1995 Bonds maturing on November 1, 2005 will be paid from funds accumulated in the Debt Service Fund under the 1995 Trust Agreement.

The Refunded Bonds are set forth in the following table:

<u>Maturity Date (November 1)</u>	<u>Principal</u>	<u>Redemption Price⁽¹⁾</u>	<u>CUSIP⁽²⁾</u>
2006	\$ 2,615,000	102 %	130406AK7
2007	2,755,000	102	130406AL5
2008	2,900,000	102	130406AM3
2009	3,060,000	102	130406AN1
2012	10,235,000	102	130406AR2
2015	12,000,000	102	130406AU5
2020	24,560,000	102	130406AV3

⁽¹⁾ Plus accrued interest to, but not including, November 11, 2005.

⁽²⁾ Copyright 2005, American Bankers Association. CUSIP data herein is provided by Standard and Poor’s CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the Authority nor the Underwriters takes any responsibility for the accuracy of such CUSIP. CUSIP numbers are provided only for the convenience of the reader.

The net proceeds of the Series 2005 Bonds, together with other available moneys released from the funds and accounts held under the 1995 Trust Agreement, and moneys contributed by the Authority, will be deposited with The Bank of New York Trust Company, N.A. as escrow agent (the “Escrow Agent”) and held in the Escrow Fund (the “Escrow Fund”) created under the terms of an Escrow Agreement, to be dated as of November 9, 2005 (the “Escrow Agreement”) among CMIA, the Authority, the 1995 Trustee and the Escrow Agent. Moneys deposited into the Escrow Fund will be held uninvested as cash deposits and such amounts will be used to pay the principal of the Refunded Bonds on November 11, 2005, plus accrued interest and premium due on such redemption date.

Samuel Klein and Company (the “Verification Agent”) will verify that the cash on deposit in the Escrow Fund will be sufficient to pay all principal, redemption premium and interest due on the Refunded Bonds on November 11, 2005. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

Use of Proceeds of the 1995 Bonds

The proceeds of the 1995 Bonds were used to finance the costs of construction of Terminal 2.

Estimated Sources and Uses

The following table sets forth the estimated sources and uses of funds with respect to the Series 2005 Bonds and certain other funds:

Sources:	
Principal Amount	\$ 56,270,000.00
Original Issue Premium	3,333,300.65
Release of funds from 1995 Reserve Fund	5,560,460.55
Contribution from Authority	411,482.15
TOTAL:	\$ 65,575,243.35
Uses:	
Deposit to Escrow Fund	\$ 59,370,914.76
Costs of Issuance ⁽¹⁾	810,266.09
Deposit to Reserve Fund	5,394,062.50
TOTAL:	\$ 65,575,243.35

⁽¹⁾ Includes legal fees, underwriters' discount, trustee fees, financial advisory fees, premium for the Financial Guaranty Insurance Policy, escrow agent fees, verification agent fees, rating agencies' fees, printing costs and other costs of issuance.

DESCRIPTION OF THE SERIES 2005 BONDS

General

The Series 2005 Bonds will bear interest at the rates and mature on the dates set forth on the inside cover page of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Series 2005 Bonds will be dated their date of delivery, and will bear interest from that date, payable semi-annually on January 1 and July 1 of each year (each an "Interest Payment Date"), commencing on January 1, 2006. Interest due and payable on the Series 2005 Bonds on any Interest Payment Date will be paid to the registered owner as of the Record Date. Each Series 2005 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless such date of authentication is an Interest Payment Date, in which event such Series 2005 Bond will bear interest from such date of authentication, or unless such date of authentication is after a Record Date and before the next succeeding Interest Payment Date, in which event such Series 2005 Bond will bear interest from such succeeding Interest Payment Date, or unless such date of authentication is prior to December 15, 2005, in which event such Series 2005 Bond will bear interest from its date of delivery. If interest on the Series 2005 Bonds is in default, Series 2005 Bonds issued in exchange for Series 2005 Bonds surrendered for transfer or exchange will bear interest from the Interest Payment Date to which interest has been paid in full on the Series 2005 Bonds surrendered.

The Series 2005 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The Series 2005 Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Series 2005 Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2005 Bonds purchased. So long as Cede & Co., as a nominee of DTC, is the registered owner of the Series 2005 Bonds, references herein to the Bondholders or registered owners means Cede & Co. and does not mean the Beneficial Owners of the Series 2005 Bonds.

So long as Cede & Co. is the registered owner of the Series 2005 Bonds, principal of and interest on the Series 2005 Bonds are payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which is required, in turn, to remit such amounts to the DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See "APPENDIX D – BOOK-ENTRY ONLY SYSTEM."

See APPENDIX B for a summary of certain provisions of the Indenture, including, without limitation, certain covenants of the Authority, the rights and duties of the Trustee, the rights and remedies of the Trustee and the Bondholders upon an event of default under the Indenture, provisions relating to amendments of the Indenture and procedures for defeasance of the Series 2005 Bonds.

No Redemption

The Series 2005 Bonds are not subject to redemption prior to maturity.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS

Following is a summary of certain provisions of the Indenture, including, among other things, sections of the Indenture detailing the pledge of Net Revenues, the rate covenant for the Bonds, the funding and utilization of the Reserve Fund and the issuance of Additional Bonds. These summaries are not comprehensive or definitive. See APPENDIX B for a more complete description of these provisions of the Indenture.

Pledge of Net Revenues

The Series 2005 Bonds are limited obligations of the Authority payable solely from and secured by a pledge of Net Revenues, and from limited amounts held in certain funds and accounts held by the Trustee under the Indenture, as further described herein.

“Net Revenues” is defined in the Master Indenture to mean, Revenues (as defined below), for such period, less Operation and Maintenance Expenses of the Airport System (as defined below) for such period.

“Revenues” is defined in the Master Indenture to mean, except to the extent specifically excluded therefrom, all income, receipts, earnings and revenues received by the Authority from the operation and ownership of the Airport System, as determined in accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to: (a) rates, tolls, fees, rentals, charges and other payments made to or owed to the Authority for the use or availability of the Airport System; and (b) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Authority, including, rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Authority or any successor thereto from the possession, management, charge, superintendence and control of the Airport System and its related facilities or activities and undertakings related thereto or from any other facilities wherever located with respect to which the Authority receives payments which are attributable to the Airport System or activities or undertakings related thereto. Revenues also include amounts received from tenants representing the principal portion of payments received pursuant to certain self-liquidating lease agreements, all income, receipts and earnings (except any earnings allowed to be pledged by the terms of a Supplemental Indenture to fund a Construction Fund) from the investment of amounts held in the Revenue Account, any Construction Fund, any Debt Service Fund (except Capitalized Interest on deposit therein) and such additional revenues, if any, allowed to be pledged by the terms of a Supplemental Indenture and the Reserve Fund. Passenger Facility Charges (“PFCs”) and Capitalized Interest among other things, are specifically excluded from Revenues unless otherwise designated as Revenues pursuant to a certificate of the Authority or a Supplemental Indenture. The Authority has not designated, pursuant to a certificate or a Supplemental Indenture, PFCs, Capitalized Interest grants or any additional amounts, as Revenues. Additionally, federal and State grants, and the earnings thereon, are excluded from the definition of Revenues, unless, (a) such grants are not restricted by their terms from paying debt service on the Bonds, and (b) the Authority has designated such grants as Revenues. The Authority has not designated any federal or State grants as Revenues.

“Operations and Maintenance Expenses of the Airport System” is defined in the Master Indenture to mean, for any given period, the total operation and maintenance expenses of the Airport System as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of the Airport System payable from moneys other than Revenues.

“Airport System” is defined in the Master Indenture to mean all airports, airport sites and all equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce under the jurisdiction and control of the Authority, including SDIA, and any successor entities thereto, including all facilities and property related thereto, real or personal, under the jurisdiction or control of the Authority or in which the Authority has other rights or from which the Authority derives revenues at such location; and including or excluding, as the case may be, such property as the Authority may either acquire or which shall be placed under its control, or divest or have removed from its control.

THE SERIES 2005 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF NET REVENUES DERIVED BY THE AUTHORITY FROM THE OPERATIONS OF THE AIRPORT SYSTEM AND CERTAIN LIMITED FUNDS AND ACCOUNTS HELD BY THE TRUSTEE UNDER THE INDENTURE. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM ARE SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE 2005 BONDS, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY, THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2005 BONDS.

Rate Covenant

Under the Master Indenture, the Authority will covenant that while any of the Bonds remain Outstanding (but subject to all prior existing contracts and legal obligations of the Authority), it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that Net Revenues in each period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other similar period as the Authority designates as its fiscal year (a "Fiscal Year") will be at least equal to the following amounts:

- (a) the Aggregate Annual Debt Service on any Outstanding Bonds required to be funded by the Authority in such Fiscal Year as required by the Master Indenture or any Supplemental Indenture with respect to the Outstanding Bonds;
- (b) the required deposits to any Debt Service Reserve Fund which may be established by a Supplemental Indenture;
- (c) the reimbursement owed to any Credit Provider or Liquidity Provider as required by a Supplemental Indenture;
- (d) the interest on and principal of any indebtedness required to be funded during such Fiscal Year other than for Outstanding Bonds, but including Subordinate Obligations; and
- (e) payments of any reserve requirement for debt service for any indebtedness other than Outstanding Bonds, but including Subordinate Obligations.

The Authority will further agree that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues will be equal to at least 125% of Aggregate Annual Debt Service on the Outstanding Bonds.

The Authority will covenant that if Net Revenues in any Fiscal Year are less than the amounts described above, the Authority will retain and direct a consultant, consulting firm, accountant or accounting firm, financial advisory or investment banking firm, or other expert recognized to be well-qualified consultant, who does not have any direct financial interest or any material indirect financial interest in the operations of the Authority, other than the payment to be received under a contract for services to be performed and is not connected with the Authority as an official, officer or employee (a "Consultant") to make recommendations as to the revision of the Authority's business operations and its schedule of rentals, rates, fees and charges for the use of the Airport System and for services rendered by the Authority in connection with the Airport System, and after receiving such recommendations or giving reasonable opportunity for such recommendations to be made the Authority will take all lawful measures to revise the schedule of rentals, rates, fees and charges as may be necessary to produce Net Revenues as described above in the next succeeding Fiscal Year.

In the event that Net Revenues for any Fiscal Year are less than the amounts described above, but the Authority promptly has taken prior to or during the next succeeding Fiscal Year all lawful measures to revise the schedule of rentals, rates, fees and charges as described in the preceding paragraph, such deficiency in Net Revenues will not constitute an Event of Default under the Master Indenture. However, if after taking the measures described

in the preceding paragraph to revise the schedule of rentals, rates, fees and charges, Net Revenues in the next succeeding Fiscal Year (as evidenced by the audited financial statements of the Authority for such Fiscal Year) are less than the amounts described above, such deficiency in Net Revenues will constitute an Event of Default under the Master Indenture.

Flow of Funds

Pursuant to the Master Indenture, the Authority will covenant to establish and maintain an account designated as the "Revenue Account" within the Revenue Fund and to deposit all Revenues, when and as received, in the Revenue Account.

Pursuant to the Master Indenture, as long as there are any Outstanding Bonds, all Revenues will be deposited in the Revenue Account and will be set aside for the payment of the following amounts or deposited or transferred to the following funds and subaccounts in the order listed:

FIRST, on or prior to the twentieth (20th) day of each month, the Authority will deposit in the Operation and Maintenance Subaccount an amount equal to one-twelfth (1/12th) of the estimated Operation and Maintenance Expenses of the Airport System for the then current Fiscal Year as set forth in the budget of the Authority for such Fiscal Year as finally approved by the Authority. In the event that the balance in the Operation and Maintenance Subaccount at any time is insufficient to make any required payments therefrom, additional amounts at least sufficient to make such payments will immediately be deposited in the Operation and Maintenance Subaccount from the Revenue Account, and such additional amounts will be credited against the next succeeding monthly deposit from the Revenue Account.

SECOND, a sufficient amount of Revenues will be transferred by the Authority, without priority and on an equal basis, except as to timing of payment, to the Trustee in the amounts, at the times and in the manner provided for in the Master Indenture, to provide for the payment of principal and interest to become due on the Outstanding Bonds. Additionally, if provided for in a Supplemental Indenture, Regularly Scheduled Swap Payments on a Qualified Swap may be payable from Net Revenues on a parity basis with the Outstanding Bonds.

THIRD, a sufficient amount of Revenues will be transferred by the Authority, without priority and on an equal basis, except as to timing of payment to the Trustee for deposit into the respective debt service reserve funds established pursuant to the Indenture, if any, such amounts as required to be used to pay or replenish such debt service reserve funds or reimburse a credit provider of a debt service reserve fund surety.

FOURTH, on or prior to the twentieth (20th) day of each month, a sufficient amount of Revenues will be transferred by the Authority, as is necessary to make all payments and deposits required to be made during the following month on all Subordinate Obligations, if any, but only to the extent a specific pledge of Net Revenues has been made in writing to the payment of debt service on such indebtedness.

FIFTH, on or prior to the twentieth (20th) day of each month, upon any deficiency in any debt service reserve fund established by or for the benefit of the Authority in connection with an Subordinate Obligations, the Authority will deposit in such debt service reserve fund an amount equal to: (A) one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such debt service reserve fund; and (B) the full amount of any deficiency in such debt service reserve fund due to any required valuations of the investments in such debt service reserve fund until the balance in such debt service reserve fund is at least equal to the debt service reserve requirement with respect to such Subordinate Obligations, but only to the extent a specific pledge of Net Revenues has been made in writing to the payment of any such debt service reserve requirement on such indebtedness.

SIXTH, on or prior to the twentieth (20th) day of each month, to the payment of the amounts required to be deposited in the Operation and Maintenance Reserve Subaccount which are payable from Net Revenues as specified in the Master Indenture.

SEVENTH, on or prior to the twentieth (20th) day of each month, to the payment of the amounts required to be deposited in the Renewal and Replacement Subaccount as specified in the Master Indenture.

All moneys and investments on deposit in the Revenue Account and not on deposit in any of the funds or subaccounts provided for as described in First through Seventh above, are required under the Master Indenture, on the last Business Day of each Fiscal Year, to be transferred from the Revenue Account to the Revenue Fund, unless and to the extent the Authority directs otherwise.

Debt Service Deposits

The Master Indenture provides that the Authority will transfer from Revenues amounts needed to pay debt service on Outstanding Bonds to the Trustee five (5) Business Days prior to each Payment Date with respect to a Series of Bonds.

Debt Service Reserve Fund

Pursuant to the First Supplemental Indenture, upon the issuance of the Series 2005 Bonds, a Debt Service Reserve Fund (the "Reserve Fund") will be established and maintained by the Trustee in an amount equal to the Reserve Requirement. The Reserve Requirement is equal to the lesser of (a) Maximum Aggregate Annual Debt Service For Reserve Requirement for all Series of Bonds participating in the Reserve Fund, (b) 10% of the principal amount of the Bonds that have been issued and are participating in the Reserve Fund, less the amount of original issue discount with respect to such Bonds if such original issue discount exceeded 2% on such Bonds at the time of their original sale and (c) 125% of the average Aggregate Annual Debt Service For Reserve Requirement for all Bonds participating in the Reserve Fund. Upon the issuance of the Series 2005 Bonds, the Reserve Requirement will be met by depositing a portion of the proceeds of the Series 2005 Bonds into the Reserve Fund. The Reserve Requirement with respect to the Reserve Fund upon the issuance of the Series 2005 Bonds, will be equal to \$5,394,062.50.

At the option of the Authority, at the time of issuance of any Additional Bonds, the Authority may elect to have such Additional Bonds also participate in the Reserve Fund. In the event the Authority issues any Additional Bonds pursuant to a Supplemental Indenture under which the Authority elects to have such Additional Bonds participate in the Reserve Fund, the Authority is required to deposit an amount in the Reserve Fund sufficient to cause the amount on deposit in the Reserve Fund to equal the Reserve Requirement for the Series 2005 Bonds and the Additional Bonds participating in the Reserve Fund. Such deposit to the Reserve Fund can be made at the time of issuance of the Additional Bonds participating in the Reserve Fund or over 12 months following the date of issuance of the Additional Bonds participating in the Reserve Fund.

Moneys or investments held in the Reserve Fund may only be used to pay principal and interest on the Series 2005 Bonds and any Additional Bonds participating in the Reserve Fund. Moneys and investments held in the Reserve Fund are not available to pay debt service on any Subordinate Obligations or any Additional Bonds for which the Authority has decided will not participate in the Reserve Fund. The Reserve Fund may be drawn upon if the amounts in the respective Debt Service Funds for the Series 2005 Bonds or any Additional Bonds participating in the Reserve Fund are insufficient to pay in full any principal or interest then due on such Bonds. In the event any amounts are required to be withdrawn from the Reserve Fund, such amounts will be withdrawn and deposited pro rata to meet the funding requirements of the Debt Service Funds for the Series 2005 Bonds or any Additional Bonds participating in the Reserve Fund.

The Authority may fund all or a portion of the Reserve Requirement with respect to the Reserve Fund with a Reserve Fund Insurance Policy. A Reserve Fund Insurance Policy may be an insurance policy, letter of credit or surety bond deposited in the Reserve Fund in lieu of or in partial substitution for cash or securities. Any such Reserve Fund Insurance Policy must either extend to the final maturity of the Series of Bonds for which the Reserve Fund Insurance Policy was issued or the Authority must agree, by Supplemental Indenture, that it will replace such Reserve Fund Insurance Policy prior to its expiration with another Reserve Fund Insurance Policy, or with cash, and the face amount of the Reserve Fund Insurance Policy, together with amounts on deposit in the Reserve Fund, including the face amount of any other Reserve Fund Insurance Policy, are at least equal to the Reserve Requirement with respect to the Reserve Fund. Any such Reserve Fund Insurance Policy deposited to the Reserve Fund must, together with other funds available in the Reserve Fund, secure all of the Bonds participating in the Reserve Fund.

Additional Bonds

Additional Bonds may be issued under the Master Indenture on a parity with the Series 2005 Bonds, provided, among other things, that there is delivered to the Trustee either:

(a) a certificate, dated as of a date between the date of pricing of the Bonds being issued and the date of delivery of such Bonds (both dates inclusive), prepared by an Authorized Authority Representative showing the Net Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Bonds or preceding the first issuance of the proposed Program Bonds were at least equal to 125% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Bonds, Unissued Program Bonds and the proposed Series of Bonds, calculated as if the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds (as applicable) were then Outstanding; or

(b) a certificate dated as of a date between the date of pricing of the Bonds being issued and the date of delivery of such Bonds (both dates inclusive), prepared by a Consultant showing that:

(i) the Net Revenues for the last audited Fiscal Year or for any 12 months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Bonds or the establishment of a Program, were at least equal to 125% of the sum of Aggregate Annual Debt Service due and payable with respect to all Outstanding Bonds for such applicable period;

(ii) for the period, if any, from and including the first full Fiscal Year following the issuance of such proposed Series of Bonds through and including the last Fiscal Year during any part of which interest on such Series of Bonds is expected to be paid from the proceeds thereof, the Consultant estimates that the Authority will be in compliance with the rate covenant under the Indenture; and

(iii) for the period from and including the first full Fiscal Year following the issuance of such proposed Series of Bonds during which no interest on such Series of Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Series of Bonds, or (B) the third full Fiscal Year during which no interest on such Series of Bonds is expected to be paid from the proceeds thereof, the estimated Net Revenues for each such Fiscal Year, will be at least equal to 125% of the Aggregate Annual Debt Service for each such Fiscal Year with respect to all Outstanding Bonds, Unissued Program Bonds and calculated as if the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds (as applicable) were then Outstanding.

For purposes of subsections (b)(ii) and (iii) above, in estimating Net Revenues, the Consultant may take into account (1) Revenues from Projects or Airport Facilities reasonably expected to become available during the period for which the estimates are provided, (2) any increase in fees, rates, charges, rentals or other sources of Revenues which have been approved by the Authority and will be in effect during the period for which the estimates are provided, (3) any other increases in Revenues which the Consultant believes to be a reasonable assumption for such period. With respect to Operation and Maintenance Expenses of the Airport System, the Consultant may use such assumptions as the Consultant believes to be reasonable, taking into account: (i) historical Operation and Maintenance Expenses of the Airport System, (ii) Operation and Maintenance Expenses of the Airport System

associated with the Projects and any other new Airport Facilities, and (iii) such other factors, including inflation and changing operations or policies of the Authority, as the Consultant believes to be appropriate. The Consultant will include in the certificate or in a separate accompanying report a description of the assumptions used and the calculations made in determining the estimated Net Revenues, and will also set forth the calculations of Aggregate Annual Debt Service, which calculations may be based upon information provided by another Consultant.

For purposes of preparing the certificate or certificates described above, the Consultant or Consultants or the Authorized Authority Representative may rely upon financial statements prepared by the Authority which have not been subject to audit by an independent certified public accountant if audited financial statements for the Fiscal Year or period are not available; provided, however, that an Authorized Authority Representative will certify as to their accuracy and that such financial statements were prepared substantially in accordance with generally accepted accounting principles, subject to year-end adjustments.

Neither of the certificates described above in (a) or (b) will be required if:

(A) the Bonds being issued are for the purpose of refunding then Outstanding Bonds and there is delivered to the Trustee, instead, a certificate of an Authorized Authority Representative showing that Aggregate Annual Debt Service after the issuance of the Refunding Bonds will not exceed the Aggregate Annual Debt Service prior to the issuance of such Refunding Bonds for each Fiscal Year;

(B) the Bonds being issued constitute Notes and there is delivered to the Trustee, instead, a certificate prepared by an Authorized Authority Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then Outstanding, does not exceed 10% of the Net Revenues for any 12 consecutive months out of the most recent 24 months immediately preceding the issuance of the proposed Notes and there is delivered to the Trustee a certificate of an Authorized Authority Representative setting forth calculations showing that for each of the Fiscal Years during which the Notes will be Outstanding, and taking into account the debt service becoming due on such Notes, the Authority will be in compliance with the rate covenant under the Indenture; or

(C) if the Bonds being issued are to pay costs of completing a Project for which Bonds have previously been issued and the principal amount of such Bonds being issued for completion purposes does not exceed an amount equal to 15% of the principal amount of the Bonds originally issued for such Project and reasonably allocable to the Project to be completed as shown in a written certificate of an Authorized Authority Representative and there is delivered to the Trustee (1) a Consultant's certificate stating that the nature and purpose of such Project has not materially changed and (2) a certificate of an Authorized Authority Representative to the effect that (y) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Project) of the original Bonds issued to finance such Project have been or will be used to pay Costs of the Project and (z) the then estimated Costs of the Project exceed the sum of the Costs of the Project already paid plus moneys available in the Construction Fund established for the Project (including unspent proceeds of Bonds previously issued for such purpose).

Permitted Investments

Moneys held by the Authority and/or Trustee under the Indenture, including moneys in the Debt Service Fund (and the accounts therein) and in the Reserve Fund, may be invested as directed by the Authority in Permitted Investments, subject to the restrictions set forth in the Indenture and subject to restrictions imposed upon the Authority. See "APPENDIX B – SUMMARIES OF THE MASTER INDENTURE AND THE FIRST SUPPLEMENTAL INDENTURE" and "FINANCIAL INFORMATION – Summary of Financial Operations – Investment Practices."

Events of Default and Remedies; No Acceleration

Events of Default under the Indenture and related remedies are described in the summary of certain provisions of the Indenture attached as APPENDIX B. The occurrence of an Event of Default does not grant any right to accelerate payment of the Series 2005 Bonds to either the Trustee or the holders of the Series 2005 Bonds. The Trustee is authorized to take certain actions upon the occurrence of an Event of Default, including proceedings to enforce the obligations of the Authority under the Indenture.

THE FINANCIAL GUARANTY INSURANCE POLICY AND THE INSURER

The following information has been furnished by the Insurer for use in this Official Statement. The Authority makes no representation as to the accuracy or completeness of such information or as to the absence of material adverse changes to such information. Reference is made to Appendix F for a specimen of the Insurer's Financial Guaranty Insurance Policy.

The Financial Guaranty Insurance Policy

The Insurer has made a commitment to issue a Financial Guaranty Insurance Policy relating to the Series 2005 Bonds effective as of the date of issuance of the Series 2005 Bonds. Under the terms of the Financial Guaranty Insurance Policy, the Insurer will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2005 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Financial Guaranty Insurance Policy). The Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series 2005 Bonds and, once issued, cannot be canceled by the Insurer.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates, in the case of principal, and on stated dates for payment, in the case of interest. In the event of any acceleration of the principal of the Series 2005 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Series 2005 Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of any advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; or
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Series 2005 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2005 Bonds to be registered in the name of the Insurer to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to the Insurer.

Upon payment of the insurance benefits, the Insurer will become the owner of the Series 2005 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2005 Bond and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that the Insurer were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

The Insurer

The Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of

Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,720,000,000 (unaudited) and statutory capital of approximately \$5,287,000,000 (unaudited) as of June 30, 2005. Statutory capital consists of the Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to the Insurer.

The Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of Series 2005 Bonds by the Insurer will not affect the treatment for federal income tax purposes of interest on such Series 2005 Bonds and that insurance proceeds representing maturing interest paid by the Insurer under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Authority of the Series 2005 Bonds.

The Insurer makes no representation regarding the Series 2005 Bonds or the advisability of investing in the Series 2005 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by the Insurer and presented under the heading "THE FINANCIAL GUARANTY INSURANCE POLICY AND THE INSURER."

Available Information

The parent company of the Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of the Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Insurer. The address of the Insurer's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;
 2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;
 3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;
 4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;
 5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005;
 6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005;
 7. The Company's Current Report on Form 8-K dated July 28, 2005 and filed on August 2, 2005;
- and
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2005 and filed on August 9, 2005.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in “ – Available Information.”

DEBT SERVICE SCHEDULE

Series 2005 Bonds

The debt service requirements for the Series 2005 Bonds are as follows:

<u>Year Ended July 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,515,000.00	\$ 1,819,846.67	\$ 5,334,846.67
2007	2,670,000.00	2,665,725.00	5,335,725.00
2008	2,805,000.00	2,532,225.00	5,337,225.00
2009	2,950,000.00	2,391,975.00	5,341,975.00
2010	3,105,000.00	2,244,475.00	5,349,475.00
2011	3,265,000.00	2,089,225.00	5,354,225.00
2012	3,430,000.00	1,925,975.00	5,355,975.00
2013	3,610,000.00	1,754,475.00	5,364,475.00
2014	3,790,000.00	1,573,975.00	5,363,975.00
2015	3,985,000.00	1,384,475.00	5,369,475.00
2016	4,160,000.00	1,215,112.50	5,375,112.50
2017	4,380,000.00	996,712.50	5,376,712.50
2018	4,615,000.00	766,762.50	5,381,762.50
2019	4,865,000.00	524,475.00	5,389,475.00
2020	5,125,000.00	269,062.50	5,394,062.50
	\$ 56,270,000.00	\$ 24,154,496.67	\$ 80,424,496.67

OTHER OBLIGATIONS OF THE AUTHORITY

Commercial Paper

The Subordinate Commercial Paper Notes Indenture contains provisions authorizing the issuance, from time to time, of not to exceed \$100,000,000 aggregate principal amount of Subordinate Commercial Paper Notes. As of the date of this Official Statement, there is \$51,694,000 aggregate principal amount of Subordinate Commercial Paper Notes outstanding. In connection with the issuance of the Subordinate Commercial Paper Notes, the Authority (as successor to the Port District) entered into a Reimbursement Agreement dated as of September 1, 2002 (the “CP Reimbursement Agreement”) with BNP Paribas, San Francisco Branch (the “Bank”), pursuant to which the Bank issued two direct-pay letters of credit (the “CP Letters of Credit”) to secure the timely payment of the principal of and interest on the Subordinate Commercial Paper Notes. Any repayment obligations of the Authority incurred pursuant to the CP Reimbursement Agreement and the CP Letters of Credit have a lien on Net Revenues on a subordinate basis to the Series 2005 Bonds and any Additional Bonds issued pursuant to the Indenture.

Other Obligations

Repayment Obligations

Under certain circumstances, the obligation of the Authority, pursuant to a written agreement, to reimburse the provider of a Credit Facility or a Liquidity Facility (a “Repayment Obligation”) may be secured by a pledge of and lien on Net Revenues on a parity with the Bonds. If a Credit Provider or Liquidity Provider advances funds to pay principal of interest on or purchase Bonds, all or a portion of the Authority’s Repayment Obligation may be afforded the status of a Bond under the Master Indenture. The Authority currently does not have any Repayment Obligations outstanding with respect to the Bonds. See “APPENDIX B – SUMMARIES OF THE MASTER INDENTURE AND THE FIRST SUPPLEMENTAL INDENTURE.”

Lease Commitments

In connection with the Transfer, the Authority entered into or is in the process of entering into several leases with the Port District. The Authority is leasing from the Port District the land used by SDIA for \$1 per year, for 66 years, through December 31, 2068 (the "Port District/SDIA Lease"). In addition, the Authority is required, by the Act, to lease from the Port District 89.75 acres of the former General Dynamics property on Pacific Highway adjacent to SDIA for 66 years commencing January 1, 2003 (the "General Dynamics Lease"). As of the date of this Official Statement, the General Dynamics Lease has not yet been executed. The General Dynamics Lease will provide for predetermined rent through December 31, 2005, with future rent based upon a market rate to be established in late 2005 by an appraisal (or arbitration). Commencing January 1, 2006, the fair market rent for the General Dynamics Lease will not (by agreement) exceed \$7.5 million annually. The Authority and the Port District have entered into a lease for 46.88 acres on North Harbor Drive, commencing January 1, 2005 and expiring December 31, 2068 with \$3 million annual rent (the "Teledyne Ryan Lease" and together with the General Dynamics Lease, the "Port District Leases"). Under current law, in the event SDIA is relocated, and the current location is no longer used by SDIA for airport purposes, the Port District Leases and the Port District/SDIA Lease would terminate and the right to use the property subject to those leases would revert to the Port District.

The Authority leases four additional properties from the Port District that are adjacent to SDIA. One of these leases is for parking lots which are leased from the Port District through December 31, 2005 (the "Parking Lease"). The Parking Lease provides for monthly rental during calendar year 2005 of \$65,472 and requires SDIA to collect minimum parking fees from the users of such parking lots, or the use of such parking lots will revert to the Port District. The Authority expects to renegotiate the Parking Lease prior to its expiration. The other three leases require monthly rentals of \$86,083, \$12,521 and \$4,151, respectively, and expire in December 2007, December 2007 and April 2012, respectively. The Authority intends to negotiate the renewal of these leases prior to their expiration dates.

Lease payments pursuant to the above-described leases constitute Operations and Maintenance Expenses of the Airport System, and thus payment thereof is senior in priority to payment of the Series 2005 Bonds and any Additional Bonds. All such leases are treated as operating leases.

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As of July 1, 2005, the Authority estimated future rental commitments under the Authority's lease agreements to be as follows:

TABLE 1
SAN DIEGO INTERNATIONAL AIRPORT
FUTURE RENTAL COMMITMENTS*

<u>Fiscal Year Ending</u>	
2006	\$ 12,589,000
2007	11,913,000
2008	11,231,000
2009	10,550,000
2010	10,550,000
	<u>\$ 56,833,000</u>
<u>Five (5) Fiscal Year Periods</u>	
2011-2015	\$ 52,591,000
2015-2020	52,500,000
2021-2025	52,500,000
2026-2030	52,500,000
2031-2035	52,500,000
2036-2040	52,500,000
2041-2045	52,500,000
2046-2050	52,500,000
2051-2055	52,500,000
2056-2060	52,500,000
2061-2065	52,500,000
2066-2069	36,750,000
	<u>614,341,000</u>
	<u>\$ 671,174,000</u>

* Assumes payment of the maximum rental (\$7.5 million) under the General Dynamics Lease.
Source: San Diego County Regional Airport Authority.

Special Facility Obligations

The Authority may, in the future, designate an existing facility or a planned facility as a "Special Facility" and may incur indebtedness in order to acquire, construct, renovate or improve such facility or to finance the acquisition, construction, renovation or improvement thereof by a third party. Additionally, the Authority may provide that all contractual payments derived by the Authority from such Special Facility, together with other income and revenues available therefrom (but only to the extent such payments, income and revenue are necessary to make the payments of principal of and interest on such Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such Special Facility not paid for by the operator thereof or by a party other than the Authority and all sinking fund, reserve or other payments required by the resolution authorizing the Special Facility Obligations as the same become due), will constitute "Special Facilities Revenue" and will not be included in Revenues. Such indebtedness will constitute a "Special Facility Obligation" and will be payable solely from the Special Facilities Revenue. Special Facility Obligations would be payable solely from Special Facilities Revenue, which would include contractual payments derived by the Authority from a contract relating to the Special Facility between the Authority and the entity operating the Special Facility.

No Special Facility Obligations shall be issued by the Authority unless there shall have been filed with the Trustee a certificate of an Authorized Authority Representative stating that: (i) the estimated Special Facilities Revenue pledged to the payment of obligations relating to the Special Facility will be at least sufficient to pay the principal of and interest on such Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such Special Facility not paid for by the operator thereof or by a party other than the Authority and all sinking fund, reserve or other payments required by the resolution authorizing the Special

Facility Obligations as the same become due; and (ii) with respect to the designation of any separately identifiable existing Airport Facilities or Airport Facility as a “Special Facility” or “Special Facilities,” the estimated Net Revenues, calculated without including the new Special Facilities Revenue and without including any operation and maintenance expenses of the Special Facility as Operation and Maintenance Expenses of the Airport System, will be sufficient so that the Authority will be in compliance with the Rate Covenant and (iii) no Event of Default then exists under the Indenture.

The Authority does not have outstanding any Special Facility Obligations, and although such obligations may be issued in the future, the Authority does not currently plan to issue Special Facility Obligations or to designate a facility, existing or planned, as a Special Facility.

THE AUTHORITY

General

The Port District operated SDIA from 1963 until December 31, 2002. Pursuant to the Act, the California Legislature created the Authority and transferred by long-term lease the operations of SDIA to the Authority effective January 1, 2003.

The Authority was formed for the purposes of: (a) operating the Airport System, (b) planning and operating any future airport that could be developed as a supplement or replacement to SDIA, (c) developing a comprehensive land use plan as it may relate to the Airport System for the entire County, and (d) serving as the region’s airport land use commission.

The Authority also serves as the County’s Airport Land Use Commission, responsible for protecting public health and safety surrounding airports. It accomplishes this by promoting the orderly development of airports and the adoption of land use plans that minimize the public’s exposure to excessive noise and safety hazards around airports.

Board of Directors

The Authority is governed by a nine-member board of directors (the “Board”). Board members serve terms varying from 4 years to 6 years. Three members of the Board serve as the Executive Committee with a term of four years. Pursuant to the Act, one Executive Committee member is appointed by the Governor and confirmed by the State Senate, one is appointed by the Sheriff of the County and confirmed by the County Board of Supervisors; and the final Executive Committee member is appointed by the Mayor of the City and confirmed by the City Council of the City. Pursuant to the California Public Utilities Code the members of the Executive Committee receive a base salary commensurate with superior court judges in the County.

The remaining six members of the Board are selected in accordance with the California Public Utilities Code, which provides that: one member will be the Mayor of the City or an alternate member of the City Council chosen by the Mayor; one member, with a four year term, will be a private citizen chosen by the Mayor of the City; one member, with a four year term, will alternate by term between a mayor of a north coastal city (Carlsbad, Del Mar, Encinitas, Oceanside, San Marcos and Solana Beach) and a private citizen of a north coastal city; one member, with a four year term, will alternate by term between a mayor of a north inland area city (Poway, Escondido, Vista and San Marcos) and a private citizen of a north inland area city; one member, with a six year term, will alternate by term between a mayor of a south area city (Coronado, Imperial Beach, Chula Vista and National City) and a private citizen of a south area city, except that after the first term this member will serve a four year term; and one member, with a four year term, will alternate by term between a mayor of an east area city (El Cajon, Lemon Grove, La Mesa and Santee) and a private citizen of an east area city. The current members of the Board are set forth below:

<u>Executive Committee</u>	<u>Occupation</u>	<u>Appointing Authority</u>	<u>Current Term Expires</u>
Joseph W. Craver (Chairman)	President/CEO, Galaxie Management, Inc.	Mayor, City of San Diego	December 31, 2006
Xema Jacobson	Community Leader	Governor, State of California	December 4, 2006
William D. Lynch	Philanthropist, Businessman, Children's Advocate	Sheriff, County of San Diego	December 4, 2006

General Members

Robert (Bob) L. Maxwell	President, Bob Maxwell & Associates	North Coastal Area City Mayor	December 4, 2006
Paul Nieto (Vice Chairman)	Partner, TMG Partners	South Area City Mayor	December 1, 2008
Paul A. Peterson	Partner, Peterson & Price	Mayor, City of San Diego	December 1, 2008
Mary Sessom	Mayor, Lemon Grove	East Area City Mayor	December 4, 2006*
Morris Vance	Mayor, Vista	North Inland Area Mayor	December 1, 2008*
Anthony Young	Member, San Diego City Council	Mayor, City of San Diego	Serves at pleasure of Mayor

* Subject to retaining office in such Mayoral capacity.

The fundamental powers and functions of the Authority are established by the Act. The Act empowers the Board to adopt more specific rules to guide the conduct of the Board, officers and employees of the Authority, and those persons and entities that interact with the Authority or utilize the premises and property of the Authority. The Board has exercised that power by adopting codes that govern and regulate the conduct of persons, organizations and other third parties that use the facilities under the Authority's jurisdiction; and policies that address the Authority's internal operations and governance.

Pursuant to its policies, the Board has established the following standing committees with the following functions:

Airport Operations and Facilities Committee. The Airport Operations and Facilities Committee is established to oversee the facilities and operations of airports under the jurisdiction of the Authority.

Budget and Finance Committee. The Budget and Finance Committee is established to oversee the financial performance and condition of the Authority and review the operating and capital budget and financial plan, and major financial policies or actions of the Authority.

Strategic Planning Committee. The Strategic Planning Committee is established to oversee the Authority's short-and long-term planning to meet the region's air transportation needs, and its implementation, including (i) planning for physical, financial and service improvements at SDIA, (ii) airport system planning for the region's existing civilian airports, including airport land use and comprehensive land use plans and (iii) investigation and evaluation of the physical/functional, financial, environmental and community aspects of possible alternative or additional airport sites; and the inter-governmental coordination and public communication and participation related to those strategic planning activities.

Audit and Performance Monitoring Committee. The Audit and Performance Monitoring Committee is established to (i) review regularly the Authority's accounting, audit and performance monitoring processes; (ii) recommend to the Executive Committee and the full Board on an annual basis its nomination for external auditor and compensation thereof, (iii) give prior advice to the Executive Committee and the Board regarding the selection of the Auditor; (iv) be responsible for oversight and monitoring of internal and external audit functions, and monitoring performance of, and internal compliance with, Authority policies and procedures; (v) be responsible for overseeing the annual audit by the external auditors and the joint audit required under the Act; and (vi) make recommendations to the full Board with regard to all of the foregoing.

Executive Committee. The Executive Committee is responsible for overseeing the implementation of the administrative policy of the Authority. The Executive Committee members may not be included in the direct operation of the facilities and the airports under the jurisdiction of the Authority, nor may they be included in the chain of command for purposes of emergency procedures. The Executive Committee is required to conduct monthly meetings with the Executive Director and his or her staff to review the operations of the Authority. Any policy recommendation from the Executive Committee must be forwarded to the Board for consideration at a public meeting of the Board. The members of the Executive Committee are appointed as described above.

Each committee is required to include stipend members of the Board. All committee appointments are for two-year terms. The Board may establish or maintain additional Board committees from time to time as necessary or appropriate in accordance with the Authority's policies.

Executive Management

Thella F. Bowens, *President and CEO/Executive Director.* In March 2003, Thella F. Bowens was appointed President and CEO/Executive Director of the Authority. As President and CEO/Executive Director, Ms. Bowens is responsible for management oversight of the Authority, the Authority's \$113.8 million annual budget and its 300 employees. Prior to 2003, when the Port District operated SDIA, Ms. Bowens was the Port District's Senior Director of Aviation for seven years. She simultaneously served as Interim Executive Director/President of the Authority from September 2001 through December 2002 as required by the legislation, planning the transfer of SDIA. Prior to coming to San Diego, she managed Kansas City International Airport along with two general aviation airports. She previously served as Budget Administrator of the Dallas/Fort Worth International Airport ("DFW") in Texas. She has 28 years of experience in public administration, with the last 16 years in the aviation field. Ms. Bowens holds a Bachelor of Arts degree from Barnard College of Columbia University and has done graduate work at the University of North Texas and University of Missouri-Kansas City. She is also a graduate of the Executive Leadership Program for Black Administrators. In addition to her professional associations, Ms. Bowens is a member of the boards of the National Conflict Resolution Center, the San Diego World Trade Center and the San Diego Regional Economic Development Corporation. Previously, she was a member of the San Diego United Way board and the San Diego Symphony board.

Bryan Enarson, *Vice President Development.* Bryan Enarson is the Vice President of Development at the Authority. Mr. Enarson is responsible for facility planning and construction, airport real estate and concession operations, rental car operations and small business development. Mr. Enarson's 32 years' experience in the aviation industry includes work in government affairs, commercial development, airline and airport operations and management. He initially joined the Port District in 1997 as Director of Operations and later served as Director Commercial Development for SDIA. He served in that capacity until he was promoted to his current position in November 2002. Mr. Enarson's airline experience, includes functioning as Director of Operations, Director of Real Estate and Facilities, and Director of Public and Governmental Affairs with both Pacific Southwest Airlines and US Airways. Mr. Enarson is a member of numerous professional and community organizations. He is a member of the American Association of Airport Executives ("AAAE") and an executive member of the Southwest chapter of the

AAAE. He has also received the United Way Chad Award and an appreciation award from the Los Angeles Airlines Airport Affairs Committee, which he chaired from 1992 to 1996. Mr. Enarson has served as President and Vice President/Treasurer of the Terminal 1 Fuel Corporation at Los Angeles International Airport. Mr. Enarson holds an associate's degree from Solano College in Vallejo, California and attended Cal Poly Pomona University. He served in the United States Air Force from 1966 to 1970.

Vernon Evans, Vice President Finance/Treasurer. In March 2003, Vernon Evans joined the Authority as Vice President, Finance/Treasurer. Prior to joining the Authority, Mr. Evans served as Executive Vice President of Finance and Chief Financial Officer for the DFW Airport Board. Mr. Evans served in various positions at DFW from 1986 to 2003, where he was responsible for the Airport Board's finance and budget, human resources, procurement and materials management and information and technology departments. Mr. Evans was responsible for providing all of DFW's financing activities including the financing of the \$2.6 billion Capital Development Program.

Before joining DFW, Mr. Evans was Chief Internal Auditor for the Fort Worth Independent School District ("FWISD") and a manager with the firm of Ernst & Whinney Certified Public Accountants, where he obtained extensive experience in finance and banking; insurance and health care; local government; wholesale and retail merchandising and sales; government contracting; real estate construction; and food and beverage operations. In addition to being a CPA, he is also a Certified Internal Auditor (CIA), Certified Management Accountant (CMA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM). Between 1978 and 1979, he served as Chapter president of the National Association of Black Accountants D/FW Chapter, and the national president of the National Association of Black Accountants, Inc. from 1981-83.

Mr. Evans serves on the accounting advisory boards with the University of North Texas and Tarrant County College. Recently, Mr. Evans was inducted in the AICPA Business and Industry Hall of Fame. Mr. Evans graduated from the University of North Texas (formerly North Texas State University) with both his bachelor and master degree in accounting in 1972.

Angela Shafer-Payne, Vice President Strategic Planning. Angela Shafer-Payne is the Vice President of Strategic Planning for the Authority. As Vice President of Strategic Planning, Ms. Shafer-Payne oversees the development of Airport System, including the consideration of site alternatives for a new, expanded international airport for the region. Ms. Shafer-Payne also coordinates the Authority's responsibility as the Airport Land Use Commission and the Authority's business planning efforts. Ms. Shafer-Payne has worked at SDIA since 1995. When SDIA was part of the Port District, she served as Business Analyst and, most recently, Director of Airport Business. In this capacity, she was responsible for the development and implementation of organizational change initiatives within the Port District's Aviation Division. Ms. Shafer-Payne is a member of the American Association of Airport Executives. In 1993, she became a Certified Flight Instructor. Ms. Shafer-Payne holds a Bachelor of Business Administration degree with a concentration in Aeronautical Studies and Meteorology from the University of North Dakota.

Theodore (Ted) Sexton, Vice President Operations. Theodore Sexton is Vice President of Operations for the Authority. In his capacity as Vice President of Operations, Mr. Sexton oversees day-to-day airport operations including airport security, environmental services, facilities maintenance, airside and landside operations and noise information management. Mr. Sexton has been with SDIA since 1995 when the Airport was part of the Port District. At that time he was assigned to the Airport Master Plan Team, a group charged with developing the first-ever Master Plan for SDIA. For the past three years he served as Director of Airport Operations until his appointment to Vice President in December 2002. Prior to joining the Port District, Mr. Sexton had an extensive career with the U.S. Navy where he was an aviator with over 4,000 flight hours and 500 carrier arrested landings. He ended his career in the Navy as Commanding Officer for the North Island Naval Air Station. Mr. Sexton received a Bachelor of Arts degree from the University of South Florida and a Bachelor of Science from Southern Illinois University. He graduated with distinction from the Naval War College in Newport, Rhode Island.

Robert R. Wigington, Acting Vice President for Marketing & Communications. Robert R. Wigington was appointed Acting Vice President for Marketing & Communications for the Authority in March 2005. He oversees the Authority's marketing, advertising, air service development, public and community relations, intergovernmental relations and customer service programs. Mr. Wigington joined the Authority in May 2003 as Director of Marketing & Route Service Development. Mr. Wigington leads the Authority's air service development program which has attracted new domestic and international nonstop flights and new airlines, including jetBlue, Aloha Airlines, Independence Air, Westjet and Air Canada. Prior to joining the Authority, Mr. Wigington led the airport and aviation/transportation consulting practice for Fleishman Hillard/GPC in Washington, D.C. He served previously as Senior Associate in the Airport Financial and Management Consulting Group for Booz Allen Hamilton in Reston, Virginia. From 1985-1999 Mr. Wigington served as Executive Vice President and in other positions with ACI representing ACI before the U.S. Congress, the DOT, the FAA and other federal agencies. He directed ACI's activities regarding government relations, public affairs, legal affairs, airport economics, finance, environmental affairs, security, technical affairs and conferences. Mr. Wigington began his career with the Port Authority of New York and New Jersey (the "NY/NJ Port Authority"), where he handled public and community relations and intergovernmental affairs for JFK International, Newark International and LaGuardia Airports, and the NY/NJ Port Authority's seaports, tunnels & bridges, world trade and economic development facilities and programs. Mr. Wigington is past chairman and a current Board member of Travelers Aid International, and serves on the Board of the Travelers Aid Society of San Diego. He is a board member of the British-American Business Council of San Diego. Mr. Wigington received his B.A. degree in government from Pomona College, and Master's degree in Public Administration from the University of Southern California.

Jeffrey Woodson, Vice President Administration. Jeffrey A. Woodson is the Vice President of Administration for the Authority, and is responsible for all administrative operations, including information technology, human resources, procurement and corporate services. Most recently, Mr. Woodson worked for the cities of Portsmouth, Virginia and Dayton, Ohio as Assistant City Manager and Director of Management and Budget, respectively. In addition to his budgeting responsibilities, he has led performance measures initiatives, internal auditing, capital budget planning, long-range financial planning, strategic planning, legislative coordination and business process re-engineering. Mr. Woodson is a member of the Government Finance Officers Association, the International City & County Management Association and the National Forum for Black Public Administrators. In addition, he has been on the Trustee Board of the Dayton Philharmonic Orchestra and a member of the Maymont Foundation Board. He has received the Virginia Municipal League Effective Government Award twice. Mr. Woodson holds a master's in Public Administration from Virginia Commonwealth University and has completed the Management Excellence Program at Cooper Center for Public Service, University of Virginia.

Bret K. Lobner, General Counsel. Bret Lobner is General Counsel for the Authority. Prior to his current position, Mr. Lobner served as Sr. Assistant City Attorney and General Counsel for Los Angeles World Airports, the owner and operator of Los Angeles International, Ontario International, Van Nuys and Palmdale Regional Airports. He served in a variety of capacities within the office of the City Attorney of the City of Los Angeles from 1976 to 2003. For the past 30 years, Mr. Lobner's practice has specialized on airport matters dealing with aircraft noise, transportation, the environment, eminent domain, airport contracts and concessions, revenue diversion and real property. He drafted and successfully defended in federal court one of only two new airport noise laws in the United States adopted since the passage of the Airport Noise and Capacity Act of 1990 ("ANCA"). Mr. Lobner was graduated from the University of California at Davis and received his Juris Doctor degree from the University of Pacific, McGeorge School of Law, where he was a member of Law Review and the Traynor Honor Society. He is admitted to practice in the State of California and before the United States Supreme Court.

Employees and Labor Relations

The Authority employs approximately 300 full-time employees. Approximately 90 of these employees (primarily maintenance workers, airport traffic officers and certain supervisors) are organized. Labor relations with respect to those 90 employees are governed by a labor agreement between the Authority and Teamsters Local 911 (the "Labor Agreement") which will expire on September 30, 2005. Under its provisions, until a new labor agreement is entered into, the terms of the expired Labor Agreement govern labor relations. The Authority is in the process of renegotiating a new labor agreement.

Approximately 60 of the Authority's 300 employees are members of a classified service group. Labor relations with respect to these employees is governed by State law applicable to classified service employees. The remaining employees are not subject to any collective bargaining agreement.

The Authority has never experienced any disruption in its operations due to labor related matters.

Pension and Retirement Plans

The Authority's defined benefit pension plan (the "Authority Pension Plan"), administered by the San Diego City Employees' Retirement System ("SDCERS"), provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. SDCERS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City, the Port District and the Authority, and is administered by the Retirement Board of Administration (the "Retirement Board"). Each of the City, the Authority and the Port District has a separate plan and each employer's contributions are held in trust although all contributions to SDCERS are pooled for investment purposes, managed and invested by the Retirement Board.

The Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for SDCERS. The most recent financial report may be obtained by writing to the San Diego City Employees' Retirement System, 401 B Street, Suite 400, San Diego, California 92101 and is available on the SDCERS website, www.sdcers.org. No information contained on such website is incorporated into this Official Statement.

The most recent actuarial valuation of the Authority Pension Plan, as of June 30, 2004, was performed by Gabriel, Roeder, Smith & Company (the "Actuary"). The actuarial valuation of the Authority Pension Plan assets on June 30, 2004 was approximately \$16,224,000. The June 30, 2004 actuarial valuation of the Authority Pension Plan reflected an Unfunded Actuarial Accrued Liability ("UAAL") of approximately \$7,354,000 and a funding ratio of approximately 68.8%. The UAAL is the difference between the actuarial value of assets in the Authority Pension Plan and the accrued actuarial liabilities of the Authority Pension Plan (\$23,578,000). Subsequent to June 30, 2004, the Authority made additional employer contributions to the Authority Pension Plan from unrestricted reserve funds of \$4,900,000 to increase the funded ratio, based on the June 30, 2004 valuation, to 90%. The Authority estimates that the UAAL for the Authority Pension Plan as of June 30, 2005 was \$2,453,000, based on unaudited results and the calculations contained in the June 30, 2004 actuarial valuation.

The actuarial assumptions used by the Actuary in its valuation of the Authority Pension Plan as of June 30, 2004 included (a) an 8% investment rate of return and (b) projected salary increases of 4.75%. Both (a) and (b) included an inflation component of 4.25%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period. Any UAAL would be funded at a level percentage of projected payroll over a closed 30-year period.

The City Municipal Code requires member contributions to be actuarially determined to provide a specific level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the Authority to pay a portion of the employees' contributions. For Fiscal Year 2006, member contribution rates (weighted average) expressed as a percentage of salary are 10.31% and the Authority's contributions, at an actuarially determined rate, expressed as a percentage of covered payroll, are approximately 15.41%. The contribution requirements of the Authority are established and may be amended by the Retirement Board.

Investors are cautioned that, in considering the amount of the UAAL as reported by the Authority and the resulting required contributions by the Authority, this is "forward looking" information in that it reflects the judgment of the Retirement Board and the Actuary as to the amount of assets which the Authority will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees and existing retired employees. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future, and will change with the future experience of the Authority. Further, there is a delay between the date on which the actuarial valuation is completed and the date that the contribution rates calculated in the valuation take effect.

On January 27, 2004, the City submitted a Voluntary Report of Information (the “Report”) to the Municipal Securities Rulemaking Board (“MSRB”) and each nationally recognized municipal securities information repository (the “Repositories”) regarding errors in the City’s audited financial statements relating to the City’s pension plan. The City’s pension plan was and continues to be under-funded. As noted above, each of the City, the Authority and the Port District has a separate plan and each employer’s contributions are held in trust although all contributions to SDCERS are managed and invested by the Retirement Board. As such, the statements in the Report pertaining to the City’s pension plan and certain 2002 financial statement errors do not pertain to the Authority Pension Plan or the Authority’s financial statements. See “APPENDIX A – AUDITED FINANCIAL STATEMENTS OF SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY FOR THE FISCAL YEAR ENDED JUNE 30, 2004” including but not limited to Note 7 therein. The City reportedly is being investigated by numerous governmental entities, including the Securities and Exchange Commission, the San Diego District Attorney and the Federal Bureau of Investigation with respect to the City’s pension plan and the City’s financial reporting and disclosures pertaining to the City’s pension plan. Six former members of the Retirement Board have been indicted by the San Diego District Attorney for alleged violations of state conflict of interest laws with respect to the City’s pension plan. Additionally, various claims and lawsuits are pending against SDCERS, members of the Retirement Board, SDCERS employees and others. SDCERS has informed the Authority, and the Authority believes, that none of such claims and lawsuits pertain to the Authority Pension Plan, and such claims and lawsuits are not expected to have a material adverse impact on SDCERS’ financial statements. The Authority is not aware of any claims, lawsuits, investigations or allegations with respect to the Authority Pension Plan or any employees of the Authority or directors of the Board in connection with the Authority Pension Plan.

The Authority believes that its contributions to SDCERS as well as any of the Authority’s employees’ contributions to SDCERS are held in trust and therefore constitute separate property and are probably not subject to invasion by creditors of the City or SDCERS in the event of a bankruptcy by either entity under State law or federal bankruptcy law.

SAN DIEGO INTERNATIONAL AIRPORT

Introduction

SDIA is located three miles northwest of downtown San Diego and is bound by San Diego Bay, military facilities, and residential areas. SDIA is the nation’s busiest single runway commercial airport and handles air transportation for more than 20 major and commuter airlines. According to data reported by ACI, SDIA was ranked as the 30th busiest airport in North America for the calendar year ended December 31, 2004, based on total passengers.

Dedicated on August 16, 1928, SDIA was originally named “San Diego Municipal Airport - Lindbergh Field.” SDIA gained international airport status in 1934 when it became the first federally certified airfield to serve all aircraft types, including seaplanes. World War II brought significant change to the airfield when the U.S. Army Air Corps took it over in 1942 to support the war effort. The infrastructure of SDIA was improved to handle the heavy bombers being manufactured in the region during the war. This transformation, including an 8,750 foot runway (now 9,400 feet), made SDIA jet-ready long before jet passenger planes came into widespread service. Terminal 1 was opened on March 5, 1967 followed by Terminal 2 on July 11, 1979. Additionally, Terminal 2 was later expanded by 300,000 square feet in 1998. A third terminal, called the Commuter Terminal, opened on July 23, 1996.

SDIA includes a total of 41 gates in Terminals 1 and 2. The Commuter Terminal has 10 commuter plane parking positions. SDIA’s cargo facilities include approximately 88,300 square feet of building and 701,800 square feet of land area.

SDIA has approximately 2,750 on-airport parking spaces and approximately 1,675 parking spaces in remote lots. It also provides access to public transportation and to rental cars, which are available at off-airport lots.

Service Region

The region served by SDIA extends north to the southern portions of Orange, Riverside and San Bernardino Counties, east to the eastern portions of the County and south to the northern portions of Mexico. The nearest airport that could be considered a competitor is John Wayne Airport (SNA) located 89 miles to the north of SDIA in Orange County. Other airports in adjacent regions include Long Beach Airport (LGB), 109 miles to the north in Los Angeles County; Ontario International Airport (ONT), 112 miles to the northeast in western San Bernardino County; Los Angeles International Airport (LAX), 128 miles to the north in Los Angeles County; Bob Hope Airport (BUR) (formerly named Burbank Glendale Pasadena Airport) 137 miles to the north in Los Angeles County; and Palm Springs International Airport (PSP), 140 miles to the north in Riverside County.

Tijuana Rodriguez International Airport, which serves the domestic market in Mexico as well as international destinations, is located approximately 15 miles to the south in Tijuana, Mexico.

According to the United States Department of Transportation, SDIA carries approximately 21% of all domestic origin-destination traffic within 250 miles of the Airport. The region served by SDIA is expected to continue to grow steadily. The population in the County is forecasted by the San Diego Regional Chamber of Commerce to grow to 3,855,085 persons by 2030, a 37% increase over its population in 2000. The region served by SDIA is economically diverse but is driven primarily by technology. Prominent employers in the region include the military and entities engaged in businesses such as: aerospace/defense, biotechnology, telecommunications, electronics and software. In addition, the region is a major tourist and convention destination. The region's average unemployment is lower and per capita income is higher, as compared with national and State averages.

The San Diego Convention Center hosts in excess of 60 conventions each year, with 30-60% of attendees from outside of the region. The region is home to various tourist attractions including, Sea World, San Diego Zoo, San Diego Wild Animal Park, Balboa Park, Hotel del Coronado, Del Mar Thoroughbred Club and Mission Bay. More than 26 million tourists and business travelers visit the region annually and spend approximately \$5 billion. In 2003, over 500,000 cruise passengers, 63% of whom travel to the region by air, passed through the Port of San Diego.

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Air Carriers Serving SDIA

The following table sets forth the air carriers currently serving SDIA. Also see “CERTAIN INVESTMENT CONSIDERATIONS – Effect of Airline Bankruptcies.”

TABLE 2
SAN DIEGO INTERNATIONAL AIRPORT
AIR CARRIERS SERVING
SAN DIEGO INTERNATIONAL AIRPORT
AS OF JUNE 30, 2005

<u>Scheduled U.S. Carriers (19)</u>	<u>Foreign Flag Carriers (2)</u>	<u>All-Cargo Carriers (7)</u>
Alaska Airlines	Aeromexico	Airborne Express
Aloha Airlines	West Jet Airways ⁽⁵⁾	BAX Global
America West Airlines ⁽¹⁾		Astar Air Cargo, Inc. ⁽⁶⁾
American Airlines		UPS Supply Chain Solutions ⁽⁷⁾
American Eagle		Federal Express
Atlantic Southeast Airlines ⁽²⁾		United Parcel Service
Continental Airlines		West Air, Inc.
Delta Air Lines		
Frontier		
Hawaiian Airlines		
Independence Air ⁽³⁾		
jetBlue Airways		
Mesa		
MN Airlines ⁽⁴⁾		
Northwest Airlines		
SkyWest		
Southwest Airlines		
United Airlines		
US Airways ⁽¹⁾		

⁽¹⁾ America West Airlines and US Airways merged on September 27, 2005.

⁽²⁾ Doing business as Delta Connection.

⁽³⁾ Scheduled to cease seasonal service as of October 31, 2005.

⁽⁴⁾ Doing business as Sun Country Airlines.

⁽⁵⁾ Scheduled to cease service as of October 11, 2005.

⁽⁶⁾ Formerly DHL Airways.

⁽⁷⁾ Formerly known as Emery Worldwide and Menlo Worldwide Forwarding.

Source: San Diego County Regional Airport Authority.

Midwest Airlines and Air Canada Jazz have announced their intention to commence service at SDIA on October 31, 2005 and December 17, 2005, respectively. Prior to commencing service, each airline will be required to enter into Airline Operating Agreements with the Authority. Kitty Hawk commenced air cargo service in August 2005.

Aviation Activity

SDIA is classified as a large air traffic hub by the FAA. In calendar year 2004, it was the 30th busiest airport in North America in terms of passengers, and the busiest single-runway commercial service airport in the nation. As of June 20, 2005, SDIA's passenger and cargo airlines operated close to 300 departures daily.

In Fiscal Year 2005, annual passengers reached an all-time high, surpassing 16 million for the first time in SDIA's history. That represented a 6.3% increase over the 15.9 million passengers SDIA served in Fiscal Year 2004. Domestic origin-destination traffic accounts for nearly 94% of enplaned passengers. Total operations, landings and take-offs, increased by approximately 3.4% from 206,410 in Fiscal Year 2004 to 213,476 in Fiscal Year 2005.

The following table presents total operations and total enplaned and deplaned passengers at SDIA for Fiscal Years 2001 through 2005.

**TABLE 3
SAN DIEGO INTERNATIONAL AIRPORT
AIR TRAFFIC DATA
FISCAL YEARS 2001-2005**

<u>Fiscal Year</u>	<u>Total Operations⁽¹⁾</u>	<u>Operations Growth</u>	<u>Total Passengers⁽²⁾</u>	<u>Passenger Growth</u>
2001	\$ 212,291		15,972,825	
2002	199,539	-6.0 %	14,580,659	-8.7 %
2003	206,729	3.6	14,991,814	2.8
2004	206,410	-0.2	15,880,137	5.9
2005	213,476	3.4	16,875,804	6.3

⁽¹⁾ For revenue-related departures and arrivals.

⁽²⁾ International passenger traffic has historically accounted for less than 1% of total passenger traffic.

Sources: San Diego Unified Port District (for Fiscal Years 2001 and 2002 and first six months of Fiscal Year 2003) and San Diego County Regional Airport Authority.

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Passenger Enplanements and Airline Market Shares

The following table presents total enplanements for each carrier serving SDIA for the last five Fiscal Years. While Southwest has historically enplaned about one third of the passengers at SDIA, no single carrier dominates the market. Southwest accounted for approximately 32% of the Authority's landed weight and 10% of the Authority's revenues in Fiscal Year 2005.

TABLE 4
SAN DIEGO INTERNATIONAL AIRPORT
HISTORICAL AIRLINE ENPLANEMENTS
FY 2001-2005

	2001	2002	2003	2004	2004 Percent Share	2005	2005 Percent Share
Air Carrier							
Aeromexico	42,014	35,773	43,154	47,533	0.6%	49,488	0.6%
Alaska	436,516	422,628	419,644	439,430	5.5%	476,395	5.6%
Aloha	--	--	--	--	--	29,051	0.3%
America West	408,139	379,434	369,279	450,256	5.7%	466,615	5.5%
American	880,523	859,409	860,889	831,823	10.5%	879,144	10.4%
British Airways	47,026	57,383	59,937	16,756	0.2%	--	--
Continental	332,050	314,023	319,737	354,114	4.5%	401,803	4.8%
Delta	672,925	631,055	711,123	674,570	8.5%	713,872	8.4%
Frontier	83,587	84,912	99,325	140,846	1.8%	152,917	1.8%
Hawaiian	4,414	78,610	81,393	101,847	1.3%	108,798	1.3%
jetBlue	--	--	706	119,517	1.5%	118,762	1.4%
Mesa	--	5,718	51,090	42,235	0.5%	114,010	1.3%
Northwest	315,001	286,270	303,878	310,795	3.9%	319,790	3.8%
Southwest	2,643,920	2,445,634	2,613,353	2,741,470	34.5%	2,866,405	33.9%
Sun Country	17,431	11,179	12,864	21,515	0.3%	27,339	0.3%
United	1,171,911	955,910	890,984	939,722	11.8%	982,535	11.6%
US Airways	334,271	311,569	237,094	241,167	3.0%	251,629	3.0%
Other	204,840	89,371	24,555	--	--	8,439	0.1%
Total Air Carrier	7,594,568	6,968,878	7,099,005	7,473,596	94.0%	7,966,992	94.3%
Commuter							
American Eagle	237,810	187,314	216,014	276,485	3.5%	288,843	3.4%
Sky West	171,800	139,475	182,545	197,359	2.5%	193,272	2.3%
Other	--	3,844	8,141	--	--	--	--
Total Commuter	409,610	330,633	406,700	473,844	6.0%	482,115	5.7%
Charters	--	--	--	--	--	--	--
Total Enplanements	8,004,178	7,299,511	7,505,705	7,947,440	100.0%	8,449,107	100.0%

Source: San Diego Unified Port District (for Fiscal Years 2001 and 2002 and the first six months of Fiscal Year 2003) and San Diego County Regional Airport Authority.

Air Cargo

The following table provides information concerning cargo traffic over the last five Fiscal Years.

TABLE 5
SAN DIEGO INTERNATIONAL AIRPORT
HISTORICAL MAIL, FREIGHT AND EXPRESS AIR CARGO
2001-2005
(expressed in tons)

<u>Fiscal Year</u>	<u>Freight</u>	<u>Annual Percentage Change</u>	<u>U.S. Mail</u>	<u>Annual Percentage Change</u>	<u>Total</u>	<u>Annual Percentage Change</u>
2001	112,763	--	36,502	--	149,265	--
2002	127,940	13.5%	30,753	(15.7%)	158,693	6.3%
2003	127,079	(0.7%)	31,483	2.4%	158,562	(0.1%)
2004	121,889	(4.1%)	29,342	(6.8%)	151,231	(4.6%)
2005	143,069	17.4%	32,681	11.4%	175,749	16.2%

Average Annual Growth Rates

2001-2005	5.4%	(2.1%)	3.5%
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Source: San Diego Unified Port District (for Fiscal Years 2001 and 2002 and the first six months of Fiscal Year 2003) and San Diego County Regional Airport Authority.

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Landed Weight

The following table presents the total revenue landed weight for the 15 largest air and cargo carriers serving SDIA for the previous five Fiscal Years, ranked on Fiscal Year 2005 results.

TABLE 6
SAN DIEGO INTERNATIONAL AIRPORT
TOTAL REVENUE LANDED WEIGHT
(TOP 15 RANKED ON FISCAL YEAR 2005 RESULTS)
(IN THOUSANDS OF LBS.)

	<u>Airline</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Percentage</u> <u>Total</u>
1.	Southwest	3,211,567	3,128,635	3,286,030	3,418,786	3,570,052	31.9%
2.	United	1,517,050	1,294,795	1,234,404	1,192,898	1,278,347	11.4%
3.	American	1,192,778	1,257,128	1,231,431	1,045,382	1,009,498	9.0%
4.	Delta	976,869	997,061	1,051,990	963,140	927,763	8.3%
5.	America West	598,551	504,567	500,867	587,754	628,594	5.6%
6.	Alaska	587,451	570,659	568,499	574,698	605,435	5.4%
7.	Continental	420,365	401,283	423,145	441,702	454,189	4.1%
8.	Federal Express	250,906	301,457	341,374	343,931	384,702	3.4%
9.	Northwest	405,496	350,966	385,725	352,928	363,268	3.2%
10.	US Airways	447,146	425,417	307,783	307,919	298,983	2.7%
11.	American Eagle	318,164	252,448	271,184	341,205	335,439	3.0%
12.	Sky West	216,685	178,431	233,991	239,521	247,215	2.2%
13.	Frontier	111,024	117,535	127,679	142,867	194,758	1.7%
14.	Hawaiian	6,576	128,759	117,934	135,040	145,920	1.3%
15.	Mesa	-	7,191	69,207	53,856	144,353	1.3%
	Subtotal	10,260,628	9,916,332	10,151,243	10,141,627	10,588,516	94.5%
	Others	1,014,608	710,087	689,898	574,109	611,689	5.5%
	TOTAL	11,275,236	10,626,419	10,841,141	10,715,736	11,200,205	100.0%
	Annual % Change		-5.8%	2.0%	-1.2%	4.5%	

Source: San Diego Unified Port District (for Fiscal Years 2001 and 2002 and the first six months of Fiscal Year 2003) and San Diego County Regional Airport Authority.

The following table presents the ten largest O&D domestic passenger markets served from the Airport for the year ended December 31, 2004:

TABLE 7
SAN DIEGO INTERNATIONAL AIRPORT
TOP TEN O&D PASSENGER METRO MARKETS SERVED FROM
SAN DIEGO INTERNATIONAL AIRPORT
(FOR THE YEAR ENDED DECEMBER 31, 2004)

<u>Rank</u>	<u>Market</u>	<u>Airports</u>	<u>Total Number of O&D Passengers</u>
1.	San Francisco Metropolitan	SFO, SJC, OAK	2,166,640
2.	New York Metropolitan	JFK, LGA, EWR	817,600
3.	Sacramento, California	SMF	791,320
4.	Phoenix, Arizona	PHX	765,770
5.	Las Vegas, Nevada	LAS	755,550
6.	Chicago Metropolitan	ORD, MDW	640,210
7.	Washington/Baltimore Metropolitan	BWI, DCA, IAD	589,110
8.	Seattle, Washington	SEA	577,430
9.	Denver, Colorado	DEN	397,120
10.	Boston Metropolitan	BOS, PVD, MHT	376,680

Source: San Diego County Regional Airport Authority.

In addition to the O&D markets described in the table above, the passenger airlines serving the Airport also provide service to the following major hub airports throughout the country: Atlanta, Charlotte, Cincinnati, Cleveland, Dallas/Ft. Worth, Houston, Salt Lake City, Detroit, St. Louis, Philadelphia and Minneapolis.

Agreements for the Use of Facilities

The Authority has entered into, and receives payments under, different permits and agreements with various airlines and other parties, including operating permits relating to landing fees, leases with various airlines for the leasing of space in terminal buildings, other building and miscellaneous leases regarding the leasing of cargo and hangar facilities, concession agreements relating to the sale of goods and services at SDIA and capital leases relating to the construction of buildings and facilities for specific tenants.

Airline Operating Agreements

The Authority has entered into separate, but substantially similar Airline Operating Agreements granting each airline operating at SDIA the right to use SDIA's facilities in exchange for a building rental/fee or landing fee set by the Authority, and which allocates to each airline a pro-rata portion of the Authority's costs for maintenance, operation, and capital recovery. Those airlines operating at SDIA prior to 2002 entered into Airline Operating Agreements which were five year agreements ending on June 30, 2002, but which have been continued, pursuant to their terms, on a month to month basis through December 31, 2005 and can be terminated by either party on 30 days' notice. Those airlines commencing operations at SDIA since 2002 have entered into substantially similar Airline Operating Agreements on a month to month basis. The Authority is currently negotiating new fixed term agreements with the airlines under terms and conditions that are expected to be substantially similar to the existing Airline Operating Agreements. In addition to exercising its contractual rights, the Authority may establish rates and charges by ordinance.

Under the Airline Operating Agreements, each airline receives the exclusive right to use “Operating Areas” which consist of ticketing, cargo handling, mail, baggage, curbside baggage handling tunnels (where available) and other operations areas. The airlines also receive the non-exclusive right to use “Joint-Use Terminal Areas,” which include baggage claim areas and passenger holdroom; passenger loading bridges; and “Landing Areas,” which include runways, taxiways, apron areas, roadways and other areas provided for takeoff, handling, servicing, loading and unloading, and other operations of aircraft.

The charge for use of the Airport’s airfield area (the “Airfield”), referred to as the “Landing Fee,” is the greater of (i) total costs of the Airfield as a whole (these costs include the total of: operation and maintenance expenses, debt service requirements attributable to the Airfield, amortization charges and other funding requirements under the Indenture less certain revenues attributable to the Airfield) divided by the total landed weight of aircraft as designated by the FAA as approved maximum landing weight or (ii) a set minimum landing fee.

The rental rate charged for Airport terminal areas (“Terminal Rental Rate”) is the total costs of the Airport’s terminal buildings (which include: Terminal 1, Terminal 2 and the Commuter Terminal) (the “Terminal Buildings”) as a whole (these costs include the total of: Operations and Maintenance Expenses of the Airport System, debt service requirements attributable to the Terminal Buildings, amortization charges and other funding requirements under the Indenture) divided by total useable space in the Terminal Buildings. Airline rent for exclusive use areas is calculated by taking the area under lease multiplied by the Terminal Rental Rate.

The terminal rent charged for use of the Joint-Use Terminal Areas and passenger loading bridges is an amount equal to the Terminal Rental Rate multiplied by the area designated as Joint-Use Terminal Areas. The total cost is allocated to the airline based on the following formula: (i) 20% to a *pro-rata* share split equally among airlines in that terminal; and (ii) 80% to each airline’s use of the Joint-Use Terminal Areas as determined by the number of passengers using the airline in comparison to passengers using the area from other airlines in that terminal. Landing Fees and terminal rent may be adjusted every January and July based on these formulas.

Under the Airline Operating Agreements the Authority must provide estimates of its costs for each year, including the Landing Fee, by May 1 of the preceding year. In the sole discretion of the President and CEO, the Authority may make a mid-period adjustment to the Terminal Rental rates and/or the landing fee, retroactively, effective the first day in January. At the end of each Fiscal Year, the fees charged for the use of Operating Areas, Joint Use Terminal Areas and Landing Fees are adjusted to reflect the actual expenses incurred by the Authority and as necessary to satisfy the rate covenant set forth in the Indenture. Overpayments will be remitted directly to the airlines and underpayments are due and collectable within 30 days of formal written notification to the airlines.

Airport Concessionaires; Parking Revenues; Rental Car Agreements

Airport Concessionaires

The Authority has entered into two lease agreements with HMS Host Corporation (“Host”), one with respect to all food and beverage and another for gift and news concession retail space at the Airport. Both lease agreements expire on November 30, 2007 and include an option for Host to extend the lease agreements to November 30, 2012. The lease agreements provide for rental payments equal to the greater of a minimum annual guarantee (“MAG”) or a percentage of the gross income from concessions.

Parking Revenues

The Authority has entered into an agreement with Lindbergh Parking, Inc. (“Lindbergh”) for the management of certain parking facilities at SDIA. The current agreement will expire on January 31, 2009. The agreement requires Lindbergh to remit the gross revenues from the parking facilities it operates, on a daily basis, to the Authority. The Authority compensates Lindbergh for certain expenses incurred in the management and operation of the parking facilities and provides additional incentives when Lindbergh exceeds certain target revenues.

Rental Car Agreements

The Authority has agreements with several rental car companies for the operation of car rentals and uses a standard agreement with these companies. The rental car agreements vary in term but are terminable at 30 days notice by either party. The rental car agreements require the rental car companies to pay the Authority the greater of a MAG or a percentage of such rental car company's gross revenues. Under the rental car agreements the percentage of gross revenues payable to the Authority increases as the applicable rental car company's gross revenues increase. In addition to the MAG or percentage of gross revenues, rental car companies are required to pay the Authority an annual airport usage fee.

The Authority is negotiating new agreements with the rental car companies which will have a term of five years but will be terminable upon six months' notice by either party. The new rental car agreements will require the rental car companies to pay the Authority a greater percentage of gross revenues than provided in the prior rental car agreements, however, there will be no provision for payment of a MAG. Rental car companies will continue to be required to pay an annual airport usage fee.

Emergency Preparedness

The Authority has in place an Airport Emergency Plan as required under FAA regulations.

The Authority has also prepared a Business Continuity Plan ("BCP") to assist the organization in managing a serious disruptive crisis in a controlled and structured manner. The plan contains information on emergency contact details, strategies to mitigate impact, procedures to be implemented and communication processes to be followed in response to a serious disruptive event. The BCP will be initiated at the outset of a disruptive event and includes operating the Airport during the emergency situation and business recovery steps to return the operation back over to regular management after the BCP leader deems the recovery to be complete.

The BCP, and all its components, will be reviewed annually and a tabletop exercise conducted to test the readiness of the plan. Every two to three years, the BCP will be subject to a full test during the execution of the testing of the Airport Emergency Plan.

All employees of the Authority are responsible for maintaining the continuous operation of the organization in the event of a disaster. The BCP includes a recommended schedule to ensure that all employees undergo ongoing training. While the BCP does not include recovery activities that are part of the Airport Emergency Plan, it is the intent of management that both plans work in tandem with each other during an emergency incident.

The Authority cannot predict whether SDIA would need to cease operations in the event of an emergency or what types of emergencies would cause SDIA to cease operating. The Authority is not able to predict for how long the Airport would be closed and whether the Authority's reserves would be adequate to return SDIA to full operation in the event of a cessation of operations due to an emergency.

DEVELOPMENT OF THE AIRPORT SYSTEM

The Authority is undertaking both short term and long range planning to address the future air transportation needs of the region. The Capital Improvement Program described below is a rolling five year plan intended to address critical improvements and asset preservation of SDIA. The Authority is in the process of preparing an environmental impact report for a Master Plan (discussed below) in an effort to improve air service and accommodate passenger growth at SDIA through 2015. As discussed below, an aviation activity forecast indicates that the projected growth in annual aircraft operations (arrivals and departures) will increase such that between 2015 and 2022 runway congestion and delays on the single runway at SDIA will begin to constrain growth. In an effort to plan for that contingency, and to comply with provisions of the Act, the Authority has undertaken its site selection program described herein. The Authority believes that if a supplemental, replacement or expanded airport is approved by the voters, any resulting additional capacity will not be available until 2015 at the earliest.

Capital Program

The Authority has established a Capital Improvement Program (“CIP”) and a CIP policy in order to provide for the orderly development of SDIA. Pursuant to the CIP Policy, each year the Authority’s Executive Director, currently the President and CEO, (the “Executive Director”) is required to submit to the Board a development program of desirable capital improvements that are within the Authority’s financial funding capability.

The program includes projects that address federal security requirements, airfield safety and enhanced revenue potential. CIP projects must meet specific needs and may not conflict with proposed development alternatives under consideration in the Airport Master Plan process. See “ – The Master Plan.”

Potential funding sources for the projects include Airport Improvement Program (“AIP”) grants (See “ – Federal Grants”), which typically provide funding up to 80.59% of eligible project costs; PFCs (See “ – Passenger Facility Charges”); airport operating revenues and short-term borrowing using commercial paper. The Authority has been authorized to charge a PFC of \$4.50 per passenger, and to collect up to \$83,075,730 through March 1, 2006. The Authority filed a new PFC application with the FAA on July 18, 2005, requesting authority to collect an additional \$110 million of PFCs. This fourth application, along with PFC revenues either collected or to be collected under currently approved applications will comprise the PFC funding requirement of \$149 million outlined in the CIP and presented in Table 8 below. During Fiscal Year 2005, the Authority received \$14 million in AIP grants, including funding for the Quieter Home Program, security improvements and airfield improvements.

Following is a summary of the Authority’s current CIP:

**TABLE 8
SAN DIEGO INTERNATIONAL AIRPORT
SUMMARY OF CAPITAL IMPROVEMENT PROGRAM**

FY 2005 Capital Improvement Program	\$ 258,478,625
FY 2005 Closed Projects	(82,730,162)
FY 2005 Capital Improvement Program (Open)	175,748,463
Capital Projects Allowance	4,000,000
Adopted New FY 2006 Projects	94,175,000
Adopted FY 2006 Capital Improvements Program	\$ 274,923,463
<u>Source of Funds:</u>	
AIP Grants ⁽¹⁾	\$ 59,427,944
PFC Revenues	149,638,197
Legal Settlements/Other	7,400,000
Other Airport Funds	<u>58,457,322</u>
Total Source of Funds	<u>\$ 274,923,463</u>
<u>Use of Funds:</u>	
Airside Projects	\$ 100,450,807
Terminal Projects	92,914,343
Landside Projects	22,203,200
Residential Sound Attenuation	36,866,701
Administrative Projects	<u>22,488,412</u>
Total Use of Funds:	<u>\$ 274,923,463</u>

⁽¹⁾ AIP grants include \$15.7 million of grants awarded prior to Fiscal Year 2006, \$24.8 million of grants anticipated to be received in Fiscal Year 2006, and \$18.9 million of grants anticipated to be received in future Fiscal Years.

The estimated costs of, and the projected schedule for, the proposed CIP and the Authority's other capital projects are subject to a number of uncertainties. The ability of the Authority to complete the CIP and the Authority's other capital projects may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation (xi) environmental issues and (xii) actual receipt of estimated sources. 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 obligations and may result in increased costs per enplaned passenger to the airlines.

FAA Regulations

The Airport and Airways Improvement Act of 1982, as amended ("AIA"), provides that all airports accepting grants from the Federal Aviation Administration (the "FAA") must use revenues generated by the airport for the capital or operating costs of the airport, the local airport system or other local facilities which are owned or operated by the owner or operator of the airport and directly and substantially relate to the air transportation of passengers or property. The policies of the FAA prohibit an airport from making direct or indirect payments that exceed the fair and reasonable value of the respective services and facilities provided to the airport. The Port District provides certain services to the Authority and leases several parcels of land to the Authority. If the FAA were to rule that the Authority's payments to the Port District for the services provided by the Port District and/or for the lease of the several parcels of land to the Authority violate the policies of the FAA, the Authority would be solely responsible for correcting any such violations. If the Authority violates the policies of the FAA, the FAA may withhold payment of AIP grants or rescind the Authority's ability to collect PFCs until the Authority corrects such violation. The Authority is not aware of any challenges by the FAA to the payments being made by the Authority to the Port District.

Federal Grants

The Airport and Airway Improvement Act of 1982 created the Airport Improvement Program ("AIP"), which is administered by the FAA and funded by the Airport and Airway Trust Fund. Under AIP, the FAA awards grant moneys to airports around the country for capital improvement projects. The Airport and Airway Trust Fund is financed by federal aviation user taxes. Grants are available to airport operators in the form of "entitlement" funds and "discretionary" funds. Entitlement funds are apportioned based upon enplaned passengers and discretionary funds are available at the discretion of the FAA based upon a national priority system. In addition, pursuant to the PFC Act, an airport's annual federal entitlement grants are reduced by 50% following the imposition of PFCs up to \$3.00 and 75% for PFCs in excess of \$3.00. Before federal approval of any AIP grants can be given, eligible airports must provide written assurances that they will comply with a variety of statutorily specified conditions.

The Authority anticipates receiving both FAA entitlement and discretionary grants to fund a portion of certain capital projects at SDIA. In Fiscal Year 2005, the Authority was awarded \$4.9 million of entitlement grants to fund rehabilitation of commercial service aprons and \$2.8 million for the evaluation of potential new Airport sites. In 2001, the Port District agreed to enhance the Residential Sound Attenuation Program ("RSAP") funding to \$10 million per year for three years based on obtaining \$8 million of FAA AIP discretionary funds or \$3 million annually if FAA AIP grants are not received. The Authority received an \$8 million AIP noise discretionary grant in 2004. See "AIRPORT ENVIRONMENTAL MATTERS – Noise Standards."

No assurance can be given that federal grants-in-aid will actually be received in the amount or at the time contemplated by the Authority. In addition, the current AIP program expires on September 30, 2006, and will require federal reauthorization to continue. No assurance can be given that such reauthorization will occur or at what levels the program may be funded in the future.

Passenger Facility Charges

The Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508) (the “Expansion Act”) and the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) (“AIR 21,” and collectively with the Expansion Act, the “PFC Acts”) permit public agencies controlling commercial service airports to impose a PFC of \$1.00, \$2.00, \$3.00, \$4.00 or \$4.50 on each passenger of an air carrier enplaned at the airport, subject to certain limitations. Public agencies wishing to impose and use these PFCs must apply to the FAA for such authority and satisfy the requirements of the PFC Acts. PFCs are available to airports to finance certain projects that (i) preserve or enhance capacity, safety or security of the national air transportation system, (ii) reduce noise resulting from an airport, or (iii) furnish opportunities for enhanced competition among air carriers. With respect to a PFC of \$4.00 or \$4.50, the fee should also 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.

The Port District initially received approval from the FAA to impose a \$3.00 PFC at SDIA. The approval for the PFC was transferred by the FAA to the Authority, effective January 1, 2003. On May 20, 2003, the FAA approved the Authority’s PFC application to increase the charge per enplaned passenger from \$3.00 to \$4.50 beginning August 1, 2003, with an estimated expiration date of March 1, 2006. The total approved PFC program was increased to \$238,945,300 to fund eligible capital project costs.

In accordance with the program, PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2005, accrued PFC revenues totaled \$215,855,823, of which \$31,758,877 of PFCs collected, and interest earnings thereon, has not yet been spent on approved projects.

On July 18, 2005, the Authority submitted its fourth application in the amount of \$110.1 million. (See “ – Capital Program”). Subject to approval by the FAA, this application will increase the total approved PFC program to \$349.0 million. Projects to be funded by the application include rehabilitation of and improvements to runways and taxiways, noise mitigation, security improvements, construction of a consolidated baggage distribution facility and installation of Airport-wide communication infrastructure.

The FAA may terminate the Authority’s ability to impose the PFC, subject to informal and formal procedural safeguards, if (a) PFC revenues are not being used for approved projects in accordance with the FAA’s approval, the PFC Acts or the regulations promulgated thereunder, or (b) the Authority otherwise violates the PFC Acts or regulations. The Authority’s authority to impose the PFC may also be terminated if the Authority violates certain provisions of ANCA and its implementing regulations. The regulations under ANCA also contain procedural safeguards to ensure that the Authority’s authority to impose a PFC would not be summarily terminated. No assurance can be given that the Authority’s authority to impose the PFC will not be terminated by Congress or the FAA, that the PFC program will not be modified or restricted by Congress or the FAA so as to reduce PFC revenues available to the Authority or that the Authority will not seek to decrease the amount of the PFC to be collected. In the event the FAA or Congress reduced or terminated the Authority’s ability to collect PFCs, the Authority may need to find other sources of funding, including issuing Additional Bonds, to finance the projects currently being paid for with PFC revenues.

In addition, no assurance can be given that PFCs will actually be received in the amount or at the time contemplated by the Authority. The actual amount of PFC revenues received each Fiscal Year will vary depending on the number of qualifying passenger enplanements at SDIA.

PFC revenues are not included in the definition of Revenues and therefore are not pledged to the payment of Bonds, including the Series 2005 Bonds. However, pursuant to the Master Indenture, the Authority has the ability to provide for the inclusion of PFC revenues in the definition of Revenues. The Authority does not have any current plans to include PFC revenues in the definition of Revenues.

The Master Plan

The Authority is preparing a Master Plan for the Airport (the “Master Plan”) with the primary goal of improving air service and customer service. The Master Plan is intended to improve airfield and terminal efficiency and capacity, improve tenant facilities, improve Airport access, utilize developable properties, improve the regional economy, meet the Authority’s financial goals and address stakeholder and community input.

The Master Plan comprises four components of the Airport: airfield, terminal, ground transportation and Airport support. The airfield component includes aircraft movement areas such as runway, taxiways and aircraft parking apron. The terminal component includes passenger processing areas including ticket counters, security facilities, hold rooms and baggage claim. The ground transportation component includes the roadway/transit circulation system and parking areas. The Airport support component includes Airport/airline maintenance, cargo and general aviation facilities.

The five primary steps of the Master Plan process are: (i) preparation of an aviation forecast; (ii) development of facility requirements and draft preliminary concepts; (iii) preparation of the Master Plan (including development of concepts for Airport facilities, coordination of Airport tenants and airlines, development of an off-Airport transit plan); (iv) preparation of a preliminary financial analysis, including development of a cost estimate on preliminary concept and the financial feasibility on major project components, and (v) State/federal environmental and State coastal permitting.

Based on the Aviation Forecast, the Authority developed facility requirements for the Airport to accommodate forecasted growth in passenger traffic and aircraft operations. The development of facilities requirements and draft preliminary concepts were completed by the Authority in June 2005. The facility requirements identified a need for expanded terminal areas, including adding 10 gates to the existing 41 gates in order to accommodate passenger traffic growth through 2015. The Board authorized staff to initiate the State and federal environmental review of the preliminary concept of the addition of 10 gates to the existing Terminal 2. The environmental review and State coastal permitting process is estimated to be completed in 2006.

The estimated costs of the Master Plan range from \$500-\$600 million. The Master Plan is expected to be funded through a combination of cash, Federal grants-in-aid, PFCs and Additional Bonds. No determination has been made as to the exact amount of future debt that will be needed to fund a portion of the Master Plan costs.

Airport Land Use Commission

State law requires counties in which there is a commercial and/or a general aviation airport to have an airport land use commission. Pursuant to the Act, the Authority is vested with responsibility, among other things, to serve as the region’s Airport Land Use Commission (“ALUC”). The purpose of the ALUC is to protect public health, safety and welfare by ensuring the orderly development of airports and the adoption of land use measures that minimize the public’s exposure to excessive noise and safety hazards within areas around public airports, to the extent that these areas are not already devoted to incompatible uses. The ALUC prepares and adopts airport land use compatibility plans and reviews certain local agency land use actions and airport plans for consistency with the compatibility plans.

The ALUC is preparing a new San Diego County Airport Land Use Compatibility Plan (“ALUCP”) for the 16 public-use and military facilities in the County. The State mandated that this work be complete by June 30, 2005. The Authority updated the 9 existing plans in October 2004, but continues to work on further revisions and in the instance of 7, entirely new plans. The ALUCP is based on a plan that reflects anticipated growth during at least the next 20 years. The ALUCP contains compatibility criteria and ALUC review procedures for identified Airport Influence Areas (“AIA”) and addresses land use compatibility around airports in terms of noise, overflight, safety and airspace protection for each public-use and military airport in the county. The ALUCP is not a plan for airport development and does not require any changes to existing land uses. State law requires future land use development near airports to be consistent with compatibility criteria included in an ALUCP. Land use actions including adoption or amendment of general plans, specific plans, zoning ordinances and building regulations affecting land within an AIA must be referred to the ALUC for review. Referral and review by the ALUC of other local actions, primarily individual development projects, is required in some instances, but voluntary in others.

Future Use of Teledyne Ryan Lease Area

The Authority has designated the 46.88 acres on North Harbor (subject to the Teledyne Ryan Lease) as a future planning area within the Master Plan and is evaluating possible redevelopment options. This site includes approximately 55 vacant buildings and other facilities. The Authority is currently evaluating the condition of the buildings including a review of environmental conditions and an evaluation of whether the buildings should be renovated to a usable revenue producing condition or face comprehensive demolition. The site has subsurface ground contamination and hazardous materials including asbestos and lead within the building structures. As part of the evaluation, the Authority is considering whether it is cost effective to demolish or renovate the structures and remediate the site starting in 2006. If this work is completed, it is the Authority's intent to create compatible uses in the near term, such as additional surface parking, until completion of a comprehensive long term plan. The preliminary cost estimate for demolition and renovation of structures and remediation of the site ranges from \$50 to \$75 million, depending on the redevelopment option chosen. Responsibility for funding this work is the subject of litigation, and has not been determined at this time. Pursuant to the settlement agreement between the Port District and the Authority (described under "LITIGATION – Teledyne Ryan Industries, Inc. (TDY)/Allegheny Technologies Inc. and San Diego Unified Port District") following the application of litigation and insurance recoveries, the Port District and the Authority have agreed to share equally all remediation and recovery costs.

Site Selection for New Airport

The preparation of an aviation forecast by SH&E International Air Transport Consultancy (the "Aviation Forecast"), was completed in June 2004 to estimate Airport activity relating to passengers, cargo and aircraft operations and to estimate when the Airport will reach capacity. The Aviation Forecast predicts that the current facilities of SDIA will be insufficient to meet air transportation demands as early as 2015. See "CERTAIN INVESTMENT CONSIDERATIONS – Restrictions on Airport Facilities and Operations." The Authority has worked since its inception to identify and assess sites for a potential new regional airport to meet increased demand and to accommodate expansion in the coming decades as the San Diego region continues to grow.

The Authority's Airport Site Selection Program (the "Site Selection Program"), as mandated by the Act, originally identified nine potential sites (having previously eliminated 25 others) for a new airport, including expansion of SDIA at its current location. The Site Selection Program's mandated objective is to submit an airport site recommendation for an advisory countywide vote in November 2006. Funding for the Site Selection Program is provided by a combination of federal grants and Authority revenues.

In Phase I of the Site Selection Program, a public working group was convened to establish criteria and thresholds for potential airport sites. The public working group includes regional representation with individuals representing aviation, airlines, transit, the environmental community, the United States Department of Defense ("DOD") and business interest groups. The public working group reduced the list of potential airport sites to seven sites including SDIA in the fall of 2003.

In November 2003, under the direction of the Authority, Phase II of the Site Selection Program began, which entailed detailed analysis and study of each potential replacement site. Using Geographic Information System ("GIS") analysis, two additional sites near Campo and Borrego Springs were identified. The Authority recently concluded a second phase of the GIS study which looked at protected lands, including state parks, national forests and Indian lands at the request of the DOD. No additional sites were added as a result of the second phase of GIS analysis. When the results of the Phase II analysis are completed in the spring of 2006, the Board will determine the best possible recommendations for placement on the November 2006 ballot.

In July 2005 the Board asked staff to conduct more extensive studies on three of those sites – one in Campo, one in the Imperial County desert, and one at SDIA. In addition, five military sites on the Authority's list were deferred for consideration until the DOD completes its base-closure process later in 2005.

Staff is charged with analyzing the three sites on a series of issues: airspace requirements, financial feasibility, potential noise, air quality, and social impacts. After reviewing existing infrastructure and expansion needs at each of the sites, the Authority's staff expects to report back to the Board in late 2005 on cost estimates for the three sites. The Borrego Springs site is thought to have so many similarities to the Imperial County desert site that the Board will consider it when the Imperial County desert site is considered.

The Authority is unable at this time to predict the cost of any future relocation of the Airport, however it is not anticipated that the Airport will be relocated while the Series 2005 Bonds are Outstanding.

FINANCIAL INFORMATION

Summary of Financial Operations

Budgeting Process

The Authority operates as an enterprise fund and prepares its budget on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Authority has one fund and is a separate, independent and local government entity operating on a July 1 through a June 30 Fiscal Year.

The budget process begins in January, with staff reviewing the first six months of the then-current Fiscal Year. Each division – Executive, Strategic Planning, Operations, Finance, Development, Administration, and Marketing and Communications - then develops its own operating budget for the upcoming Fiscal Year, reflecting its needs for additional personnel, fixed assets and capital. Staff from the Financial Planning and Budget, Human Resources, Purchasing, and Engineering departments analyze these proposed budget requests and determine cost impacts, where appropriate. Meetings are held with each division to review its operating budget and requests for personnel, fixed assets and capital projects. The Financial Planning and Budget Department then incorporates the budget requests into the rate setting formula to determine projected rates, fees and charges. It also prepares a revenue budget. Budget workshops are held with the Board to review the budget and receive further input and direction.

Internal Controls

The Authority's Vice President Finance/Treasurer establishes a system of internal controls that provides reasonable assurance regarding the achievement of objectives in the following categories: safeguarding assets; ensuring validity of financial records and reports; promoting adherence to policies, procedures, regulations and laws, and; promoting effectiveness and efficiency of operations. A Chief Internal Auditor heads the internal audit department with a staff of six that conducts financial reviews and audits on a periodic basis, and reports directly to the Board. Currently the position is being filled on an interim basis. In addition, the Authority has external auditors who review the annual financial statements of the Authority and express an opinion that the contents present fairly, in all material respects, the financial condition of the Authority.

Investment Practices

It is the policy of the Authority to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the Authority. The investment policies and practices of the Authority are based upon prudent money management and conform to all state and local statutes governing the investment of public funds. The Authority is authorized by California Government Code Section 53600 *et seq.* to invest in investments listed therein. Prohibited investments include but are not limited to, inverse floating rate notes, range notes, interest-only strips that are derived from a pool of mortgages, common stock and long-term corporate notes or bonds. The Authority may not invest any funds in any security that could result in zero interest accrual if held to maturity. Investments that exceed five years to maturity require authorization by the Board at least 90 days prior to purchase.

The following table sets forth a summary of the Authority's investments as of June 30, 2005:

TABLE 9
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
INVESTMENTS
AS OF JUNE 30, 2005

<u>Security Type</u>	Market Value as of June 30, 2005	Percentage of Portfolio
Commercial Paper	\$ 7,899,903	5.7%
Corporate Notes	1,517,121	1.1%
Federal Agency Securities	30,004,202	21.8%
Local Area Investment Fund (LAIF)	36,304,882	26.4%
Money Market Funds	195,255	0.1%
Repurchase Agreements	19,856,761	14.4%
San Diego County Investment Pool	36,028,052	26.2%
US Treasury Notes and Bonds	5,929,540	4.3%
	\$ 137,735,716	100.0%

Source: San Diego County Regional Airport Authority June 30, 2005 Investment Report..

Management's Discussion of Financial Results

Table 10 presents annual revenues and expenses of the Authority. Certain items in these tables have been reclassified to reflect classifications used in the financial statements as of and for the Fiscal Years ended on June 30, 2003, 2004 and 2005. Despite the negative impacts on traffic of the September 11 Events (as defined below), the trend of revenues has been positive over the past five Fiscal Years.

In Fiscal Years 2001 and 2002, the Airport was operated by the Port District. Other operating revenues increased from \$1.87 million in 2001 to \$10.26 million in 2002 due to the receipt of operating grant reimbursements for additional police and security costs in the wake of the September 11 Events. Fiscal Year 2003 results reflect six months of operations under Port District jurisdiction and six months under Authority control.

In Fiscal Year 2004, operating revenues increased 13.2% primarily due to rate increases in both landing and terminal fees. Concessions and parking increased with higher passenger volumes and the addition of parking spaces. Operating expenses increased 14% reflecting, in part, additional costs associated with setting up the Authority.

In Fiscal Year 2005, certain categories of operating revenues increased with traffic, the opening of new parking lots, and enhanced retail amenities. In addition, a security surcharge was imposed to defray some of the costs related to screening equipment and staffing. The increase in operating expenses reflects associated costs of the site selection process, an increase in the cost of police and emergency medical services, costs related to the implementation of an integrated management information system and higher parking management fees.

Summary of Operating Statements

The following table summarizes the financial results from operations for SDIA for the last five Fiscal Years.

TABLE 10
SAN DIEGO INTERNATIONAL AIRPORT
HISTORICAL OPERATING STATEMENTS
(DOLLARS IN THOUSANDS)¹

	2001	2002	2003 ⁽²⁾	2004	2005 ⁽³⁾
Operating revenue:					
Aviation revenue					
Landing fees	\$18,400	\$17,223	\$17,761	\$22,874	\$23,098
Building rentals	15,743	17,132	18,729	19,511	18,278
Security surcharge	--	--	--	--	7,801
Other aviation revenue	3,255	710	2,229	1,812	1,757
Concession revenue	22,180	21,582	23,004	24,571	26,552
Parking revenue	15,409	15,420	16,983	21,335	23,723
Ground rentals	5,067	4,681	4,473	4,269	5,294
Other operating revenue	1,868	10,259	2,152	2,200	2,348
Total operating revenue	81,922	87,006	85,331	96,572	108,851
Operating expenses: ⁽⁴⁾					
Salaries and benefits	--	--	--	21,955	23,716
Contractual services	--	--	--	32,912	41,401
Space rental	--	--	--	8,826	10,174
Utilities	--	--	--	4,914	5,121
Maintenance	--	--	--	5,343	3,977
Material and supplies	--	--	--	1,453	1,148
Insurance	--	--	--	2,518	2,704
Administrative	--	--	--	3,713	3,427
Total operating expenses before depreciation	53,700	72,240	73,117	81,633	91,668
Income before depreciation and amortization	28,222	14,766	12,214	14,939	17,184
Depreciation and amortization	26,797	26,483	27,059	32,993	29,699
Operating income (loss)	1,424	(11,717)	(14,845)	(18,054)	(12,515)
Non-operating revenues (expenses):					
Passenger facility charges	21,624	19,417	19,608	31,241	33,710
Quieter Home Program, net ⁽⁵⁾	--	--	(2,354)	(1,375)	(1,582)
Interest income	2,770	2,170	3,312	3,830	6,413
Interest expense	(5,632)	(4,746)	(4,172)	(4,294)	(4,387)
Other non-operating revenue, net	(445)	38	(451)	5,530	2,386
Net non-operating revenue	18,318	16,879	15,942	34,933	36,540
Income before capital grant contributions	19,742	5,162	1,097	16,878	24,025
Capital grant contributions	3,703	3,925	9,124	5,033	7,522
Extraordinary items	--	--	(3,299)	--	--
Change in net assets	23,445	9,087	6,922	21,911	31,546
Net assets, beginning of year, as restated	306,318	329,763	338,850	345,772	367,684
Net assets, end of year	\$ 329,763	\$ 338,850	\$ 345,772	\$ 367,684	\$ 399,230

⁽¹⁾Totals may not add due to rounding

⁽²⁾Audited Fiscal Year 2003 includes San Diego Unified Port District Audit of six months ended 12/31/2002 as adjusted, and Authority audit of the six months ended 6/30/2003.

⁽³⁾Unaudited results for Fiscal Year 2005.

⁽⁴⁾Financial Statement prepared by the San Diego Unified Port District for Fiscal Year 2001, 2002 and first six months of Fiscal Year 2003 did not provide expense breakdowns by specific expense categories.

⁽⁵⁾Costs of Quieter Home Program for the six months of 2003 ended 12/31/2002 prepared by the San Diego Unified Port District have been reclassified to maintain compatibility with financial statements for the six months ended 6/30/2003 prepared by the Authority.

Source: San Diego Unified Port District (for Fiscal Year 2001 and 2002 and first six months of Fiscal Year 2003) and San Diego County Regional Airport Authority.

Debt Service Coverage

The following table shows historical debt service coverage for Fiscal Years 2001 through 2005.

TABLE 11
SAN DIEGO INTERNATIONAL AIRPORT
HISTORICAL DEBT SERVICE COVERAGE
FISCAL YEARS 2001-2005

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005⁽²⁾</u>
Airport Revenue ⁽¹⁾	\$83,248,186	\$79,984,609	\$87,248,899	\$99,190,423	\$113,233,838
Operating and Maintenance Expenses ⁽¹⁾	52,428,324	63,567,570	74,241,128	82,489,503	91,218,709
Net Revenue Available for Debt Service	30,819,862	16,417,039	13,007,771	16,700,920	22,015,129
Principal	1,950,000	2,035,000	2,135,000	2,245,000	2,355,000
Interest	3,603,711	3,515,024	3,415,861	3,308,606	3,197,029
Total Debt Service	5,553,711	5,550,024	5,550,861	5,553,606	5,552,029
Coverage (x)	5.55	2.96	2.34	3.01	3.97

⁽¹⁾ As defined under 1995 Trust Agreement.

⁽²⁾ Unaudited results for Fiscal Year 2005.

Source: San Diego Unified Port District (for Fiscal Years 2001 and 2002 and the first six months of Fiscal Year 2003) and San Diego County Regional Airport Authority.

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Fiscal Year 2006 Budget

Budgeted revenues for Fiscal Year 2006 are expected to increase 7% over Fiscal Year 2005. Some of this growth can be attributed to forecast passenger growth, which can be expected to generate more landing fee income and parking revenue. The Fiscal Year 2006 budget assumes 8.6 million enplaned passengers, versus 7.8 million in the Fiscal Year 2005 budget. In addition, the Authority is budgeting increased income from terminal building rentals, reflecting a greater percentage of space allocated to and paid for by the airlines rather than the Authority.

Budgeted expenses for Fiscal Year 2006 are projected to run 4.8% higher than Fiscal Year 2005 levels, primarily due to the long term lease of the Teledyne Ryan site, and its related operating costs. This is a budget priority for Fiscal Year 2006, given the parcel's prime location adjacent to the Commuter Terminal and the airfield. Other principal reasons for this increase in budgeted expenses include: costs associated with the pay-for-performance merit pool; increases in the cost of benefits; costs associated with the Airport Resource Planning (a comprehensive information technology system) and its implementation; and increased costs payable to the Port District for police services. Excluding the Teledyne Ryan acquisition, the annual increase in the Authority's expense budget is 2.8%.

Historical Airline Cost Per Enplaned Passenger

The following table presents the historical airline costs (landing fees, terminal building rentals, airport police/security reimbursement fees and fuel and other franchise fees) of operating at SDIA for the past five Fiscal Years.

TABLE 12
SAN DIEGO INTERNATIONAL AIRPORT
AIRLINE DERIVED REVENUE PER PASSENGER
FISCAL YEARS 2001-2005

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005⁽¹⁾</u>
Airline Revenue					
Landing Fees ⁽²⁾	\$18,518,673	\$17,213,268	\$17,699,715	\$22,873,581	\$23,097,658
Terminal Rentals ⁽³⁾	17,416,897	16,181,063	18,872,417	19,510,766	18,277,901
Security Surcharge ⁽⁴⁾	--	--	--	--	7,800,780
Other Aviation Revenue ⁽⁵⁾	3,011,254	1,660,479	1,587,966	1,816,098	1,757,286
Total Airline Revenue	<u>\$38,946,824</u>	<u>\$35,054,810</u>	<u>\$38,160,098</u>	<u>\$44,200,445</u>	<u>\$50,933,624</u>
Enplaned Passengers ⁽⁶⁾	8,004,178	7,299,511	7,505,705	7,947,440	8,449,107
Airline Derived Revenue Per Passenger	\$4.87	\$4.80	\$5.08	\$5.56	\$6.03

⁽¹⁾ Unaudited Results for Fiscal Year 2005.

⁽²⁾ For comparability with other airports, ground rentals for ancillary facilities are not included in this table. The amounts shown in the Annual Reports for prior years were restated accordingly. This amount represents signatory and non-signatory landing fees.

⁽³⁾ Includes revenue received for terminal rentals, loading bridges and tunnel fees.

⁽⁴⁾ In Fiscal Year 2005, costs associated with providing police, guard, access control and fingerprinting services were removed from landing fees and terminal rentals and charged separately to the airlines.

⁽⁵⁾ Represents total enplanements for Fiscal Year.

⁽⁶⁾ Represents total enplanements for fiscal year.

Source: San Diego Unified Port District and San Diego County Regional Airport Authority

Risk Management and Insurance

Pursuant to the Master Indenture the Authority is required to procure and maintain commercial insurance with respect to the facilities constituting the Airport System and public liability insurance in the form of commercial insurance if such insurance is obtainable at reasonable rates and upon reasonable terms and conditions. The

amounts and risks required to be insured under the Master Indenture are subject to the Authority's prudent judgment taking into account, but not being controlled by, the amounts and types of insurance or self-insured programs provided by similar airports. The Authority may satisfy some of these insurance requirements through qualified self-insurance or self-insured retentions.

The Authority maintains airport owners and operators primary general liability insurance with coverage of \$50 million for losses arising out of liability for airport operations. The Authority has also purchased a "War, Hijacking and Other Perils Endorsement" with coverage of up to \$50 million. Coverage under this endorsement may be terminated at any time by the underwriters and terminates automatically upon the outbreak of war (whether there has been a declaration of war or not) between any two of more of the following: France, the People's Republic of China, the Russian Federation, the United Kingdom or the United States, and certain provisions of the endorsement are terminated upon the hostile detonation of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force or matter. The Authority also maintains excess general liability insurance with coverage of \$450 million in excess of the \$50 million primary liability coverage.

Commercial insurance is maintained to cover property losses. The all perils property insurance has coverage of \$1 billion per occurrence with a \$100,000 deductible for property losses, a \$250,000 deductible for flood losses, and a 5% - 10% deductible for earthquake losses. Though not required by the Master Indenture, the Authority maintains earthquake insurance with coverage of \$45 million in excess of \$17.5 million self-insured retention. As a part of the property insurance program, the Authority maintains business interruption insurance with a sublimit of \$10 million. It maintains workers' compensation and employers' liability, and general automobile liability with limits of \$1 million, and excess employers' liability and automobile liability of \$50 million under the above referenced airport owners and operators general liability insurance. The Authority has established an insurance reserve fund to respond to uninsured and under-insured catastrophic losses. As of June 30, 2005, there was approximately \$2 million in this fund, which is maintained pursuant to Board action only; there is no other requirement that it be maintained.

The Authority has an active loss prevention program, staffed by a full-time risk manager, a risk analyst, a safety manager, and a safety analyst. In addition, insurer property and casualty loss control engineers conduct safety surveys on a periodic basis. Employees receive regular safety training and claims are monitored using a web-based claims information system.

AIRPORT ENVIRONMENTAL MATTERS

There are several significant environmental matters which have direct and indirect impacts on the Authority and SDIA, some of which are described below. These include aircraft noise reduction, clean air requirements and hazardous substance cleanup. SDIA is heavily regulated, in part due to its proximity to San Diego Bay. The Authority holds numerous regulatory permits.

Generally, the Authority includes a set of standard terms and conditions in its tenant leases which provides that tenants are responsible for the costs of remediation of hazardous or other regulated material from Authority property and obligates tenants to comply with applicable laws. However, if a tenant does not comply with these lease requirements or the requirements of applicable environmental laws, the Authority could ultimately become responsible for any required environmental cleanup. The ultimate impact of these environmental factors on the Authority and SDIA cannot be determined at this time.

Noise Standards

In 1990, Congress adopted ANCA, which provided, among other things, for a phase-out of Stage 2 aircraft by December 31, 1999, and which also limits the scope of the local airport operator's regulatory discretion for adopting new aircraft operational restrictions for noise purposes. The FAA has subsequently adopted regulations implementing ANCA under Part 161 of the Federal Aviation Regulations ("Part 161"). From 1990 forward, airport proprietors considering the adoption of restrictions or prohibitions on the operation of Stage 2 and Stage 3 aircraft are required to conduct studies which detail the economic costs and benefits of proposed restrictions, as well as publish proposed restrictions and provide notice to potentially affected airlines and conduct any necessary environmental analysis, prior to enacting restrictions on the operations of Stage 2 or Stage 3 aircraft. Proposed restrictions on the operation of Stage 3 aircraft adopted after 1990 also require affirmative approval of the FAA under defined statutory criteria before they may legally be implemented. ANCA and Part 161 make the adoption of many traditional aircraft operating noise regulations by local airport proprietors on the operation of Stage 3 aircraft infeasible without the concurrence of the FAA, the air carriers or other operators affected by the restrictions. Pursuant to Authority regulations, the Authority is required to prohibit the operation at SDIA of any air carrier commercial aircraft not complying with Stage 3 levels. Aircraft noise reduction is a significant federal and local issue which may require substantial capital investments by the airline industry from time to time to meet applicable standards.

Under the Eighth Variance to Title 21 of the California Airport Noise Standards, adopted by the Port District on July 9, 2001, and approved by the State of California, Department of Transportation on August 27, 2001, the Port District agreed to enhance its Residential Sound Attenuation Program ("RSAP"), which began as a result of litigation. Beginning with the Port District's 2001-02 Fiscal Year, the Port District's funding for the RSAP was \$2 million per year for three years with a commitment to use best efforts to obtain matching FAA AIP discretionary funds. From inception to December 31, 2002, the Port District had expended approximately \$14,355,000 on the RSAP. As part of the transfer of airport operations, the State Department of Transportation transferred future commitments under the Eighth Variance Agreement to the Authority, and the Authority assumed those commitments. As of June 30, 2005, the program had cumulatively expended \$35,172,793.

The Eighth Variance expired on August 27, 2004. On June 27, 2004, the Authority submitted an application for a subsequent Ninth variance from the State. The provisions of the Eighth Variance Agreement remain valid until the Ninth Variance application is addressed by the State. This is expected to occur in early 2006.

Hazardous Substances

The Authority leases certain Airport property to Jimsair Aviation Services, Inc. ("Jimsair") for the purpose of providing general aviation facilities including refueling facilities. Underground fuel storage tanks are present on the property occupied by Jimsair and Jimsair has agreed in its lease with the Authority to pay for remediation costs associated with any environmental pollution, including possible leakage of underground fuel storage tanks.

The Authority owns the above-ground tanks that store airline fuel, which is transported to the airfield via underground fuel lines which are also owned by the Authority. The fuel lines that supply fuel to the storage tanks are owned by a third party. Airlines operating at the Airport that use these storage tanks and the fuel lines to the airfield have entered into a lease agreement pursuant to which they are required to indemnify the Authority against any liability associated therewith.

The Authority is aware of the presence of hazardous substances on the TDY Property (as defined below) and adjacent to the TDY Property, including in the Convair Lagoon, and responsibility for remediation costs for this property is the subject of litigation as discussed below under "LITIGATION."

The possible expansion of Terminal 2 described under "DEVELOPMENT OF THE AIRPORT SYSTEM – The Master Plan" is expected to include construction on a former landfill site that has been closed in accordance with applicable environmental laws. Elevated levels of copper have been noted in the naval channel adjacent to that site.

LITIGATION

There is no litigation now pending or, to the best of the Authority's knowledge, threatened which seeks to restrain or enjoin the sale, execution, issuance or delivery of the Series 2005 Bonds or in any way contests the validity of the Series 2005 Bonds or any proceedings of the Board taken with respect to the authorization, sale or issuance of the Series 2005 Bonds, or the pledge or application of any moneys provided for the payment of or security for the Series 2005 Bonds. Further, there is no pending litigation relating to the Airport System or the Authority's operations or business pertaining thereto, except as follows:

Teledyne Ryan Industries, Inc. (TDY)/Allegheny Technologies Inc. and San Diego Unified Port District

During 2004 the Authority initiated litigation against the Port District, entitled San Diego County Regional Airport Authority v. San Diego Unified Port District, and related cross-actions, S.D.S.C. Case No. GIC 821224. The litigation resulted in a comprehensive settlement agreement (the "Settlement Agreement") that specified that the Port District lease the 46.9-acre Teledyne Ryan property (the "TDY Property") to the Authority commencing January 1, 2005. The TDY Property is currently the subject of three pending legal actions:

The first action is litigation, entitled: TDY Industries, Inc. v. San Diego Unified Port District of San Diego v. TDY Industries, Inc. (consolidated), San Diego Superior Court Case No. GIC 779490, that resulted in a judgment in favor of the Port District and an award of damages in the amount of \$21,347,519, of which \$9,770,393 is an award for demolition and environmental abatement costs, but which is now on appeal.

The second action is litigation, entitled: San Diego Unified Port District v. TDY Industries, *et al*, USDC No. 3:03CV1146, a pending federal court action wherein the Port District is seeking to recover cleanup costs and environmental damages from TDY and related cross-actions. TDY has filed a third party complaint against General Dynamics and the Authority wherein TDY is seeking (i) contribution under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), (ii) declaratory relief under Federal and State law, (iii) a judicial declaration that TDY is entitled to reimbursement and indemnification from the Authority and General Dynamics for environmental costs which TDY may incur as a result of release of chemical substances, (iv) compensation for an alleged public nuisance and continued investigation and remediation costs that TDY alleges it will continue to incur due to the release of chemical substances by the Authority and General Dynamics. The Authority has filed counterclaims and cross claims against TDY with respect to claims alleged by the Authority under CERCLA, the Resource Conservation and Recovery Act, public nuisance, nuisance per se, trespass, equitable indemnity seeking injunctive relief, declaratory judgment, cost recovery and contribution.

The third action involves an order by the California Regional Water Quality Control Board, San Diego Region, entitled Cleanup and Abatement Order ("CAO") No. R9-2004-0258, Code No. ICU:02-0381.05 against TDY Industries, Inc., TDY Holdings, LLC, Teledyne Ryan Aeronautical Company and Allegheny Technologies Incorporated, 2701 North Harbor Drive, San Diego, California, dated October 4, 2004, ordering the cleanup and abatement of the TDY Property pursuant to California Water Code Section 13304.

The Settlement Agreement contains, and the proposed General Dynamics Lease will contain when approved, provisions, dictating each party's future responsibility and source of funds for the demolition, abatement and remediation on the TDY Property. As to the first action, the Port District has agreed to remit any funds received for demolition and abatement costs (presently the judgment of \$9,770,393 which is now on appeal) to the Authority to remediate the TDY Property. Should the judgment amount be insufficient to complete the demolition and remediation as contemplated in the lawsuit or required by law, the Port District and Authority agree to equally share the remaining costs. The judgment is considered a gain contingency; therefore, the Authority has not recorded the anticipated remediation funds.

As to the second action, the matter is pending in federal district court and involves a claim for damages for cleanup costs, remediation and environmental damages on the TDY Property. The Port District is seeking monetary damages from TDY Industries. The Authority is seeking monetary damages from TDY for response costs and lost business opportunity. The Port District and the Authority have agreed that the net sum of any judgment in the case, after deduction of litigation costs, shall be available to the Authority for cleanup and remediation costs on the TDY Property. Should the net amount be insufficient to cover the costs, the Port District and Authority shall equally pay any remaining expenses.

As to the third case, an administrative matter pertaining substantially to the same issues as the second case, the Authority is not a party to the proceeding at this time. TDY Industries, Inc., TDY Holdings, LLC, Teledyne Ryan Aeronautical Company and Allegheny Technologies Incorporated (hereinafter, "Allegheny") are named in the California Regional Water Quality Control Board, San Diego Region, cleanup and abatement order that requires the TDY Property to be remediated. Allegheny, however, has petitioned the Water Quality Control Board to add the Authority, the Port District, and General Dynamics Corporation to the CAO.

The Authority's management cannot predict the ultimate outcome of the above cases but believes that ultimate liability resulting from the above cases, if any, will not be material to the Authority's financial condition.

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Series 2005 Bonds involve investment risk. Prospective investors are urged to read this Official Statement in its entirety. The factors set forth below, among others, may affect the security for the Series 2005 Bonds.

2005 Bonds are Special Obligations

The Series 2005 Bonds are special obligations of the Authority, payable solely from and secured by a pledge of Net Revenues derived by the Authority from the operations of the Airport System and certain limited funds and accounts held by the Trustee under the Indenture. None of the properties of the Airport System are subject to any mortgage or other lien for the benefit of the owners of the Series 2005 Bonds, and neither the full faith and credit nor the taxing power of the Authority, the City, the County, the State or any political subdivision or agency of the State is pledged to the payment of the principal of, premium, if any, or interest on the Series 2005 Bonds.

Airline Operating Results and Financial Condition

Key factors that affect the financial condition of the airlines and therefore, the level of Net Revenues, include, among other things: local, regional, national and international economic and political conditions; international hostilities; world health concerns; aviation security concerns; airline service and routes; airline airfares and competition; airline industry economics, including labor relations and costs; availability and price of aviation fuel (including the ability of airlines to hedge fuel costs); capacity of the national air traffic control and airport systems; capacity of the Airport; and business travel substitutes, including teleconferencing, videoconferencing and web-casting.

The airline industry is highly cyclical and is characterized by intense competition, high operating and capital costs and varying demand. Passenger and cargo volumes are highly sensitive to general and localized economic trends, and passenger traffic varies substantially with seasonal travel patterns. The profitability of the airline industry can fluctuate dramatically from quarter to quarter and from year to year, even in the absence of catastrophic events such as the terrorist attacks of September 11, 2001 (the "September 11 Events") and terrorist bombings at transportation centers in Madrid, Spain and London, England (collectively with the September 11 Events, the "Terror Attacks").

The past four years have been particularly difficult for the airline industry due to the convergence of world events – the U.S. economic recession, the Terror Attacks, the wars in Afghanistan and Iraq ("Military Operations"), world health concerns, such as severe acute respiratory syndrome ("SARS") and influenza outbreaks and rising fuel prices. Prior to the September 11 Events, the airline industry already faced weakened air travel demand, particularly from the slowdown in the U.S. economy including in the so-called dot.com and telecom business sectors. In addition, the advent of online airfares and new communication technologies were already transforming the air travel marketplace.

According to the Air Transport Association, collectively, U.S. airlines, as represented by the Air Transport Association members, lost \$8.3 billion in 2001, \$11.3 billion in 2002, \$3.6 billion in 2003 and an estimated \$9.1 billion in 2004.

Faced with an evolving business climate, airlines have accelerated structural changes that had been underway prior to the September 11 Events. Growing competition from low-cost, low-fare carriers (such as jetBlue and Southwest Airlines) has forced legacy carriers (such as United Airlines) to implement route rationalization, including route transfers to regional partners and the reduction, or elimination, of service to unprofitable markets. Many airlines have reduced schedules, simplified fleets, deferred new aircraft delivery, implemented pay cuts and reduced workforces.

According to the Air Transportation Association (“ATA”), fuel is the second largest cost component of airline operations after labor and continues to be an important and uncertain determinate of an air carrier’s operating economics. In September 2005, the price of oil reached \$70 per barrel and is projected to remain at high levels for some time. According to the ATA, a one-dollar increase in the price of oil per barrel equals to approximately \$425 million in annual additional expense for United States airlines. Some United States airlines have attempted to pass the higher fuel costs to consumers by increasing the fuel surcharge or increasing the price of airfares. These attempts have been largely unsuccessful as many airlines, particularly the low-cost carriers, refused to match the increase. Significant and prolonged increases in the cost of aviation fuel are likely to have an adverse impact on air transportation industry profitability and hamper the recovery plans and cost-cutting efforts of certain airlines.

For further information regarding the financial condition and effects on operations of airlines, reference is made to the statements and reports filed periodically by the airlines with the Securities and Exchange Commission. See “– Availability of Information Concerning Individual Airlines.”

Effect of Airline Bankruptcies

In recent years, numerous airlines have sought bankruptcy protection (in the case of US Airways, which recently merged with America West Airlines, more than once). The table below lists the airlines operating at SDIA under the protection of the bankruptcy courts, the date of filing and each airline’s percentage of enplaned passengers at SDIA during the Fiscal Year ended June 30, 2005.

<u>Airline</u>	<u>Date of Filing for Bankruptcy Protection</u>	<u>% of Enplaned Passengers during Fiscal Year 2005</u>
Aloha Airlines	12/30/2004	0.3%
Delta Air Lines	09/14/2005	8.5%
Northwest Airlines	09/14/2005	3.8%
United Airlines	12/09/2002	11.6%
Total		24.2%

Source: San Diego County Regional Airport Authority.

It is not yet known whether any of these airlines under bankruptcy protection will assume or reject their respective affected agreements with SDIA. The Authority is unable to predict how long any airline in bankruptcy protection will continue operating at SDIA or whether any of these airlines will liquidate in the future. As shown in the table, airlines currently operating under bankruptcy protection collectively accounted for approximately 24.2% of enplanements at SDIA in Fiscal Year 2005. Additional bankruptcies, liquidations or major restructurings of other airlines could occur in the future.

Amendments to federal bankruptcy law could affect the ability of airlines operating in bankruptcy to continue routes and flights. Three revisions to the bankruptcy code, which go into effect on October 17, 2005, potentially affect airlines serving SDIA. One new provision shortens the amount of time a bankrupt company has to decide whether to reject certain leases. Whereas under the old Bankruptcy Code a debtor could be granted multiple extensions in order to determine whether to reject a lease, as of the law’s effective date, a lease will automatically be deemed rejected unless the debtor assumes it within 120 days of the date it filed for bankruptcy protection. Furthermore, the court is only allowed to grant one 90-day extension without a landlord’s consent; any further extensions require the landlord’s consent in writing. A second significant change in the bankruptcy code restricts the bonuses a bankrupt company may grant under certain so-called key employee retention programs. A third provision gives management a much shorter time frame within which it has the exclusive right to file a reorganization plan. The new law limits the period to a maximum of eighteen months.

The airlines operating at SDIA under bankruptcy protection all filed for bankruptcy protection under existing law. It is not possible to predict the impact on SDIA of the recent, potential and any future bankruptcies, liquidations or major restructurings of other airlines. However, the Authority does not believe that the amount, if any, of uncollectible pre-petition indebtedness of any of the airlines in bankruptcy will have a material adverse effect on the Authority's finances as further described below.

Under existing federal bankruptcy law which applies to the airlines named in the table above, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the Authority (i) within 60 days or later, if ordered by the court, with respect to its use agreements or leases of non-residential real property, or (ii) prior to the confirmation of a plan or reorganization with respect to any other agreement. In the event of assumption and/or assignment of any agreement to a third party, the airline would be required to cure any pre- and post-petition monetary defaults and to provide adequate assurance of future performance under the applicable agreement. The Authority is unable to predict whether any leases of non-residential real property with any airlines in bankruptcy proceedings may be assigned to third parties in the course of bankruptcy proceedings. Rejection of a use or other agreement or executory contract would give rise to an unsecured claim of the Authority for damages, the amount of which in the case of a use or other agreement is limited by the U.S. Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (1) one year of rent or (2) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of a use or other agreement could be considerably less than the maximum amounts allowed under the U.S. Bankruptcy Code. Except for costs allocated to such airline for post-petition usage and rental of the terminal, concourse and ramps, amounts unpaid as a result of a rejection of a use or other agreement in connection with an airline in bankruptcy, such as airfield costs, would be passed on to the remaining airlines under their respective use agreements, although there can be no assurance that such other airlines would be financially able to absorb the additional costs. Additionally, during the pendency of a bankruptcy proceeding, and until assumption or rejection of the affected agreements, a debtor airline may not, absent a court order, make any payments to the Authority on account of goods and services provided prior to the bankruptcy. Thus, the Authority's stream of payments from a debtor airline might be interrupted to the extent of pre-petition goods and services, including accrued rent and landing fees.

All airlines operating under bankruptcy protection are current in their payments to the Authority. In addition, SDIA is the beneficiary of letters of credit from each affected airline in bankruptcy in amounts that exceed the respective pre-petition indebtedness to SDIA of each affected airline.

Pursuant to the PFC Acts, the FAA has approved the Authority's applications to require the airlines to collect and remit to the Authority a PFC on each enplaning revenue passenger at SDIA. See "DEVELOPMENT OF THE AIRPORT SYSTEM – Passenger Facility Charges." The PFC Acts provide that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (*i.e.*, the 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. The airlines, however, are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFC collections until such PFC collections are remitted. The bankruptcy courts have not fully addressed such trust arrangements. Therefore, the Authority cannot predict how a bankruptcy court might rule on this matter in the event of a bankruptcy filing by one of the airlines operating at SDIA. United Airlines sought and obtained an order of the Bankruptcy Court authorizing the payment of pre-petition PFCs. United Airlines has paid all pre-petition PFCs owed to the Authority. As of the date of this Official Statement, the Authority has not calculated the amount, if any, of pre-petition PFCs of Northwest Airlines and Delta Air Lines. It is possible that the Authority could be held to be an unsecured creditor with respect to unremitted PFCs held by an airline that has filed for bankruptcy protection. Additionally, the Authority cannot predict whether an airline operating at SDIA that files for bankruptcy protection would have properly accounted for the PFCs owed to the Authority or whether the bankruptcy estate would have sufficient moneys to pay the Authority in full for the PFCs owed by such airline. PFCs are not pledged to the repayment of Bonds, including the Series 2005 Bonds.

Federal Law Affecting Airport Rates and Charges

Federal aviation law requires, in general, that airport fees be reasonable and that in order to receive federal grant funding, all airport generated revenues must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner that are directly and substantially related to air transportation of passengers or property. Pursuant to the requirements of the Federal Aviation Administration Authorization Act of 1994 (the "1994 Aviation Act") the DOT and FAA have promulgated

regulations setting forth an expedited hearing process to be followed in determining the reasonableness of the fees charged to airlines and other aeronautical users.

The Authority is not aware of any formal dispute involving the Airport over any existing rates and charges. The Authority believes that the rates and charges methodology it utilizes and the rates and charges it imposes upon air carriers, foreign air carriers and other aeronautical users are reasonable and consistent with applicable law. However, there can be no assurance that a complaint will not be brought against the Authority in the near-term or in the future, challenging such methodology and the rates and charges established by the Authority, and if a judgment is rendered against the Authority, there can be no assurance that rates and charges paid by aeronautical users of the Airport will not be reduced.

Aviation Security Concerns

Intensified security precautions have been instituted by government agencies, airlines and airport operators since the September 11 Events, including, but not limited to, the strengthening of aircraft cockpit doors, the federal program to allow and train U.S. commercial airline pilots to carry firearms during flights, federalization of airport security functions under the Aviation and Transportation Security Act (“ATSA”) and revised procedures and techniques for the screening of passengers and baggage for weapons and explosives. No assurance can be given that these precautions will be successful. Also, the possibility of international hostilities and/or further terrorist attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

ATSA was signed into law by the President on November 19, 2001. ATSA created the Transportation Security Administration (“TSA”) which is part of the Department of Homeland Security. ATSA requires, among other things, that all security screeners at airports be federal employees. Security screeners must undergo background checks and must be U.S. citizens. These federal security screening services are paid for in the current Fiscal Year by a charge to passengers of \$2.50 per departure or connection, not to exceed \$5.00 per trip.

The ATSA also requires that eventually all passenger bags, mail and cargo be screened to prevent the carriage of weapons (including chemical and biological weapons), explosives or incendiary devices; however, no regulations regarding these enhanced security measures have been proposed as of the date of this Official Statement.

In compliance with federal regulations governing Category 1 airports (category based on passenger enplanements that exceed 1% of total U.S. domestic enplanements) and providing both international and domestic commercial air service, SDIA established an Aviation Security Program (ASP) and submitted the program document to the local TSA Federal Security Director for approval this year. The ASP contains, among other measures, operational and facility management procedures that protect the physical security of airport property and act to limit access to controlled areas of the airport proper, as defined in the ASP. The Airport’s access control program features personnel background investigations, criminal history checks, employment verification and other inspections, as required. Airport facilities are patrolled 24/7, with video monitoring, and no intrusions into the secured area occurred that were not immediately detected and the intruder apprehended by airport authorities or law enforcement personnel.

Passenger and passenger property is screened in the secured area by TSA personnel at 22 security checkpoints located throughout the terminal complex. Passenger baggage and checked items (100%) are screened electronically at selected processing stations out of the public areas.

The Authority contracts for all law enforcement services with the Port District Harbor Police Department. The Authority has signed Mutual Aid agreements with the City and County for explosive hazard disposal, infectious disease control and a range of anti-terrorist activities. The Authority contracts for on site, 24/7 emergency medical services (ambulance w/ EMT-Paramedic).

Availability of Information Concerning Individual Airlines

Certain of the airlines or their parent corporations operating at the Airport are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and, as such are required to file periodic reports, including financial and operational data, with the Securities and Exchange Commission. All such reports and statements can be inspected in the Public Reference Room of the Securities and

Exchange Commission at Room 1024, Judiciary Plaza, 100 F Street, NE, Room 1580, Washington, DC 20549, and at the Securities and Exchange Commission's regional offices at the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511 and 233 Broadway, New York, NY 10279. Copies of these reports and statements can also be obtained from the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, NW, Washington, DC 20549, at prescribed rates. The Securities and Exchange Commission maintains a website at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. In addition, each domestic airline is required to file periodic reports of financial and operating statistics with the United States Department of Transportation (the "DOT"). Such reports can be inspected at the following location: Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics, 400 7th Street, SW, Washington, DC 20590, and copies of such reports can be obtained from the DOT 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 Securities and Exchange Commission. Airlines owned by foreign governments, or foreign corporations operating airlines, file limited information only with the DOT.

Neither the Authority nor the Underwriters undertake any responsibility for and make no representations as to the accuracy or completeness of the content of information available from the Securities and Exchange Commission or the DOT as discussed in the preceding paragraph, including, but not limited to, updates of such information or links to other Internet sites accessed through the Securities and Exchange Commission's web site.

Restrictions on Airport Facilities and Operations

There are restrictions on the Authority's ability to expand and develop facilities at the Airport. The length of the runway and the noise contour of the Airport are limited by California law. According to the Aviation Forecast, if SDIA does not expand the current airport location, the Airport will be unable to meet the region's air transportation demands as early as 2015. The Aviation Forecast predicts passenger traffic at SDIA will grow from approximately 16.4 million passengers in calendar year 2004 to between 27.1 million and 32.7 million annual passengers in 2030. Based on the Aviation Forecast, restrictions on airport facilities will begin to constrain the rate of passenger growth once passenger numbers reach approximately 23 million annually.

The Aviation Forecast projects that annual aircraft operations (arrivals and departures) at the Airport will increase from more than 209,000 in calendar year 2004 to 260,000 between calendar years 2015 and 2022. At that point runway congestion and delays will begin to constrain growth.

Current conditions at SDIA make the addition of a runway difficult. Obstacles to Airport and runway expansion include significant geographic obstructions, major land acquisition requirements, extensive infrastructure impacts and increased noise impacts. Geographic obstructions include high terrain to the northeast and southwest of SDIA and manmade obstructions, such as office buildings, to the northeast, east and southeast of SDIA.

The Act requires the Authority to adopt a comprehensive plan regarding the future development of a regional international airport. See "DEVELOPMENT OF THE AIRPORT SYSTEM – Site Selection For New Airport." As part of the Site Selection process, an expansion of SDIA's existing facilities is currently being analyzed. It is expected that such an expansion would significantly impact existing infrastructure including rerouting two major highways. In addition, based on estimated expansion requirements, the noise contour of SDIA would also likely expand, impacting approximately 50,000 people.

In addition to the constraints described above, there are direct restrictions on operations at the Airport, primarily relating to noise abatement. See "AIRPORT ENVIRONMENTAL MATTERS – Noise Standards." The Authority's Code restricts Airport operations between certain hours (the "Curfew"). The Curfew prohibits departures from SDIA between 11:30 p.m. and 6:30 a.m. No airline may schedule or advertise for departure between 11:15 p.m. and 6:15 a.m. These restrictions are subject only to limited exceptions including emergency and mercy flights.

These restrictions on Airport facilities and operations may limit the number of passengers and flights which the Airport can accommodate in the future which, in turn, may limit the amount of Revenues the Authority can generate.

No Acceleration

The occurrence of an Event of Default under the Indenture does not grant any right to accelerate payment of the Series 2005 Bonds to either the Trustee or the holders of the Series 2005 Bonds.

Seismic Risks

Like the rest of southern California, faults capable of producing earthquakes of varying magnitudes underlie the County to such an extent that much of the region is at some risk of property damage due to seismic events. There are a number of major active faults and fault zones in the County. A number of faults also lie offshore.

Since 1984 earthquake activity in the County has doubled over that of the preceding 50 years. The strongest recorded include a magnitude 5.3 earthquake on July 13, 1986 along the Coronado Bank fault zone, 25 miles offshore of Solana Beach, approximately 22 miles north of the Airport; several earthquakes recorded within the Rose Canyon Fault zone, which passes under the City, including magnitude 3.9, 4.0 and 3.9 earthquakes on June 17, 1985 and a magnitude 4.7 earthquake October 28, 1986; and a June 15, 2004 magnitude 5.3 earthquake in the San Clemente fault zone, approximately 40 miles west-southwest of the Airport. SDIA experienced no disruption of service due to any of these earthquakes.

The Airport's facilities could sustain extensive damage in a major seismic event, ranging from total destruction of the Airport to destabilization or liquefaction of the soils, to little or no damage at all. Any damage to facilities or other properties could adversely affect the Authority's revenues or require substantial new capital spending to replace or improve facilities.

The main terminal buildings of the Airport were seismically upgraded in the mid-1990s and comply with applicable building codes. Additionally, the Authority maintains earthquake insurance. See "FINANCIAL INFORMATION – Risk Management and Insurance."

Ability to Meet Rate Covenant

As discussed in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS – Rate Covenant," the Authority will covenant and agree to establish and at all times maintain rentals, rates, fees and charges for the use of the Airport and for services rendered by the Authority in connection with SDIA so that Net Revenues in each Fiscal Year will be at least equal to one hundred twenty-five percent (125%) of aggregate Annual Debt Service for such Fiscal Year. If Net Revenues fall below the level necessary to meet the rate covenant, the Indenture requires the Authority to retain and direct a Consultant to make recommendations as to the revision of the Authority's business operations and its schedule of rentals, rates, fees and charges for the use of SDIA and for services rendered by the Authority in connection with SDIA, and requires the Authority, upon receipt of such recommendations, to take all lawful measures to revise the schedule of rentals, rates, fees and charges as may be necessary to meet the rate covenant. If the Authority complies with the above described requirements, it will not constitute an event of default under the Indenture, provided that such amounts are not less than the debt service due on the Outstanding Bonds for such Fiscal Year and the Authority does not fail to meet the rate covenant for the Fiscal Year following the Fiscal Year in which such recommendations were received.

Increasing the schedule of rentals, rates, fees and charges for the use of SDIA and for services rendered by the Authority in connection with SDIA could be subject to contractual, statutory or regulatory restrictions and could have market implications.

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2005 Bond for any period during which such Series 2005 Bond is held by a “substantial user” of the facilities financed and refinanced by the Series 2005 Bonds or a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is further of the opinion that interest on the Series 2005 Bonds is a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentences assumes the accuracy of certain representations and compliance by the Authority with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Series 2005 Bonds. Failure to comply with such requirements could cause interest on the Series 2005 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2005 Bonds. The Authority has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Series 2005 Bonds.

Under existing laws, regulations, rulings and judicial decisions, Bond Counsel is of the opinion that interest on the Series 2005 Bonds is exempt from all present State of California personal income taxes.

The accrual or receipt of interest on the Series 2005 Bonds may otherwise affect the federal income tax liability of the owners of the Series 2005 Bonds. The extent of these other tax consequences will depend upon such owner’s particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series 2005 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2005 Bonds.

From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Series 2005 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. Purchasers of the Series 2005 Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Series 2005 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

Tax Treatment of Original Issue Premium

The Series 2005 Bonds are being sold at a premium. An amount equal to the excess of the issue price of a Series 2005 Bond over its stated redemption price at maturity constitutes premium on such Series 2005 Bond. An initial purchaser of a Series 2005 Bond must amortize any premium over such Series 2005 Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser’s basis in such Series 2005 Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2005 Bond prior to its maturity. Even though the purchaser’s basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Series 2005 Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Series 2005 Bond.

RATINGS

Standard & Poor's Rating Service, a Division of the McGraw-Hill Companies Inc. ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"), have assigned underlying ratings of "A+," "A1" and "A+," respectively, to the Series 2005 Bonds. S&P, Moody's and Fitch are expected to assign ratings of "AAA," "Aaa" and "AAA" respectively, to the Series 2005 Bonds on the date of issuance of the Series 2005 Bonds, based upon the Financial Guaranty Insurance Policy.

Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings, including any outlook thereon, should be obtained from the rating agency furnishing the same, at the following addresses: S&P, 55 Water Street, New York, New York 10041; Moody's, 99 Church Street, New York, New York 10007 and Fitch, One State Street Plaza, New York, New York 10004. The Authority furnished the rating agencies with certain information and materials concerning the Series 2005 Bonds and the Authority, some of which is not included in this Official Statement. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2005 Bonds.

LEGAL MATTERS

The validity of the Series 2005 Bonds and certain other legal matters are subject to the approving opinion of Kutak Rock LLP, Denver, Colorado, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX C hereto. Certain matters will be passed upon for the Authority by Breton K. Lobner, Esq., General Counsel to the Authority. Certain legal matters in connection with the Official Statement will be passed upon by Quateman & Zidell LLP, Disclosure Counsel to the Authority. Robinson & Pearman LLP served as counsel to the Underwriters ("Underwriters Counsel"). All of the fees of Bond Counsel, Disclosure Counsel and Underwriters Counsel with regard to the issuance of the Series 2005 Bonds are contingent upon the issuance and delivery of the Series 2005 Bonds. Bond Counsel has not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Series 2005 Bonds and expresses no opinion relating thereto.

UNDERWRITING

The Series 2005 Bonds are being purchased through negotiation by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Representative of the Underwriters (the "Representative"). Pursuant and subject to a Contract of Purchase, the Representative will purchase the Series 2005 Bonds at an aggregate purchase price of \$59,435,306.50 (which is comprised of the par amount of \$56,270,000.00 plus an original issue premium of \$3,333,300.65 less an underwriters' discount of \$167,994.15).

FINANCIAL ADVISOR

The Authority has retained the services of Frasca & Associates, L.L.C. of New York, New York, as Financial Advisor in connection with the authorization and delivery of the Series 2005 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

CONTINUING DISCLOSURE

In connection with the issuance of the Series 2005 Bonds, the Authority will covenant to provide, or cause to be provided, to each nationally recognized municipal securities information repository (collectively, the "Repositories"), for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission ("Rule 15c2-12(b)(5)"), certain annual financial information and operating data relating to the Authority and, in a timely manner, notice of certain material events. The Authority has never failed to comply in all material respects with any continuing disclosure undertakings with regard to Rule 15c2-12(b)(5) to provide annual reports or notices of material events. Owners may obtain from the Repositories such information provided by the Authority. The

foregoing should not be construed as a covenant of the Authority in connection with the offering of the Series 2005 Bonds. See “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

The Authority has agreed to provide the foregoing information to the Repositories and any State Information Depository only. The information will be available to owners of the Series 2005 Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement and in the Appendices hereto, and in any other information provided by the Authority or the Board, that are not purely historical, are forward-looking statements, including statements regarding the Authority or the Board’s expectations, hopes, intentions or strategies regarding the future. Prospective investors should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Authority and the Board on the date hereof, and the Authority and the Board assume no obligation to update any such forward-looking statements. It is important to note that the Authority’s actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including airlines, customers, suppliers and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Authority and the Board. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

FINANCIAL STATEMENTS

The audited financial statements of the Authority for Fiscal Year 2004 are included as APPENDIX A attached hereto. The financial statements referred to in the preceding sentence have been audited by McGladrey & Pullen, LLP, independent auditors, as stated in its Independent Auditor’s Report included in APPENDIX A. McGladrey & Pullen, LLP has consented to the inclusion of the financial statements and their Independent Auditor’s Report in APPENDIX A hereto.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Samuel Klein and Company, certified public accountants (the “Verification Agent”) will deliver a report stating that the Verification Agent has verified the accuracy of mathematical computations concerning the adequacy of the cash deposits initially deposited in the Escrow Fund to provide for the payment of the principal, redemption premium and accrued interest on the Refunded Bonds on the redemption date.

MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly stated, are set forth as such and not representations of fact. No representation is made that any of such opinions or estimates will be realized.

All references to the Act, the Indenture and agreements with any other parties herein and in the Appendices hereto are made subject to the detailed provisions of such documents, and reference is made to such documents and agreements for full and complete statements of the contents thereof. Copies of such documents are available for review at the offices of the Authority which are located at Commuter Terminal, 3rd Floor, 3225 North Harbor Drive, San Diego, California 92101, California. This Official Statement is not to be construed as a contract or agreement between the Authority and the owners of any of the Series 2005 Bonds.

AUTHORIZATION

The Board has authorized the distribution of this Official Statement. This Official Statement has been duly executed and delivered by the Executive Director on behalf of the Authority.

SAN DIEGO COUNTY REGIONAL AIRPORT
AUTHORITY

By: /s/ Thella F. Bowens
Thella F. Bowens, President and CEO/
Executive Director

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APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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San Diego County Regional Airport Authority

Financial Report
June 30, 2004

McGladrey & Pullen
Certified Public Accountants

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

Members of the Board
San Diego County Regional Airport Authority
San Diego, California

We have audited the accompanying basic financial statements of the San Diego County Regional Airport Authority (the Authority), as of and for the year ended June 30, 2004, 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 prior year partial comparative information has been derived from the Authority's 2003 financial statements and, in our report dated October 17, 2003, we expressed an unqualified opinion on the respective financial 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2003, from which such partial information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2004 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 through 12 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

San Diego, California
October 14, 2004

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD JULY 1, 2003 TO JUNE 30, 2004**

INTRODUCTION

This section of the San Diego County Regional Airport Authority's (the Authority) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2004. It also provides an explanation of the change in ownership of San Diego International Airport (SDIA).

The Authority was established on January 1, 2002 as an independent agency. On January 1, 2003, the operations and assets of SDIA transferred from the San Diego Unified Port District (Port) to the Authority. The Authority adopted a June 30 fiscal year and produced its first audited financial statements for the six months ended June 30, 2003. These financial statements cover the first full fiscal year of the Authority.

USING THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: Management's Discussion & Analysis (MD&A), the basic financial statements, and the notes to the financial statements. The report includes the following three basic financial statements: the balance sheet, the statement of activities, and the statement of cash flows. The notes are essential to a full understanding of the data contained in the financial statements.

The Balance Sheet depicts the Authority's financial position as of one point in time—June 30, 2004—and includes all assets and liabilities of the Authority. The Balance Sheet demonstrates that the Authority's assets minus liabilities equal net assets. Net assets represent the residual interest in the Authority's assets after liabilities are deducted. Net assets are displayed in three components—invested in capital assets, net of related debt; restricted; and unrestricted.

The Statement of Revenues, Expenses and Change in Net Assets reports total operating revenues, operating expenses, non-operating revenues and expenses and change in Authority net assets. Revenues and expenses are categorized as either operating or non-operating, based upon management's policy as established in accordance with definitions set forth in GASB 33 and GASB 34. Significant recurring sources of the Authority's revenues, including PFCs, investment income and settlement income, are reported as non-operating revenues. The Authority's interest expense is reported as nonoperating expense. Capital grant contributions represent grants for capital improvement purposes.

The Statement of Cash Flows presents information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statement of Cash Flows classifies cash receipts and cash payments resulting from operating activities, capital and related financing activities and investing activities.

The Authority is a self-sustaining entity receiving most of its revenues through airline user charges and rents from the concessionaires operating at or near SDIA. Since the Authority is not funded by tax revenues, accounts are maintained in an enterprise fund on the accrual basis of accounting. Under accrual accounting, revenues are recognized as soon as they are earned, and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows. Users of SDIA's facilities provide a significant portion of the revenues to operate, maintain and acquire necessary services and facilities.

SAN DIEGO INTERNATIONAL AIRPORT

Change in Ownership

The public policy decision to transfer responsibility for SDIA from the Port to the newly created Authority emanated from recommendations made by the San Diego Regional Efficiency Commission (Commission). The Commission was established to evaluate regional governance in San Diego County and report to the California State Legislature on measures to improve it.

Because of the significant regional consequences of airport development and operations, the Commission concluded that a regional decision-making process should address the future development of airport facilities in San Diego County. In October 2001, the enabling legislation, Assembly Bill 93 (AB 93) established the composition and jurisdiction of the Authority's governing body in a manner that is designed to reflect the collective interests of the entire San Diego region.

The policymakers recognized the complexity of transferring a commercial airport to a newly created entity. To ensure a smooth transition, the Authority was vested with the responsibility to develop and execute an Airport Transition Plan with the complete support and cooperation of the Port, the Federal Aviation Administration and the State of California.

Legislative Background

AB 93 was signed into California State law in October 2001. The Act established the Authority on January 1, 2002 as a local agency of regional government with jurisdiction throughout the County of San Diego. The Authority is vested with four principal responsibilities:

- (1) Operation of SDIA,
- (2) Planning and operation of any future airport that could be developed as a supplement or replacement to SDIA,
- (3) Development of comprehensive airport land use plans for the airports in the county by June 30, 2005, and
- (4) Serving as the region's Airport Land Use Commission

The second responsibility involves coordinating the airport planning functions of public agencies within San Diego County. The Authority is required to conduct a planning process to recommend to voters a supplemental or replacement site for SDIA to meet the future air service demands of the region no later than November 2006.

Subsequent legislative changes to AB93 were introduced and passed in California Senate Bill 1896 (Act). The amendment addresses several points pertaining to the transfer of aviation employees, date of transfer, property leases, property acquisition and purchase of services from the Port.

Transfer of Assets and Liabilities/Joint Audit

The Authority and Port collaboratively developed a financial Memorandum of Understanding (MOU) outlining the essential aspects of the Airport Transfer, including the timely transfer and identification of assets and liabilities relating specifically to the transfer of SDIA's asset and operations transfer on January 1, 2003. The MOU addresses the transfer process, litigation matters, utility obligations and treatment of employees.

The Authority and Port commissioned a joint audit in accordance with the Act. Independent auditors McGladrey & Pullen, LLP, issued an audit report on the Authority's balance sheet as of January 1, 2003 -- dated June 13, 2003. In addition, they prepared an audit report on the Authority's finances for the first six months of operation ending June 30, 2003 -- dated October 17, 2003.

Airport Activities Highlights

Following the administrative requirement to obtain certification from the FAA to operate SDIA, the change in airport proprietorship from the Port to the Authority had no significant impact on SDIA's operations. During the first 18 months of the Authority's existence, both passenger enplanements and SDIA's financial position improved. Increases in airline passenger traffic have reflected increased air service, concerted customer service initiatives and continued economic improvement.

The changes in SDIA's major activities under the Port's management from January 1, 2000 through December 31, 2002, transitioning to the Authority's management as of January 1, 2003, are as follows:

	2000	2001	2002	2003	2004
Enplaned Passengers	7,768,050	8,004,178	7,299,511	7,505,705	7,947,440
<i>% increase (decrease)</i>	<i>2.8%</i>	<i>3.0%</i>	<i>(8.8%)</i>	<i>2.8%</i>	<i>5.9%</i>
Total Passengers	15,540,545	15,972,825	14,580,659	14,991,814	15,880,137
<i>% increase (decrease)</i>	<i>3.0%</i>	<i>2.8%</i>	<i>(8.7%)</i>	<i>2.8%</i>	<i>5.9%</i>
Aircraft Operations	213,291	212,692	199,539	206,729	206,410
<i>% increase (decrease)</i>	<i>(4.2%)</i>	<i>(0.3%)</i>	<i>(6.2%)</i>	<i>3.6%</i>	<i>(0.2%)</i>
Freight and Mail (in tons)	152,015.9	149,264.9	158,692.5	158,561.8	151,230.8
<i>% increase (decrease)</i>	<i>16.6%</i>	<i>(1.8%)</i>	<i>6.3%</i>	<i>(0.1%)</i>	<i>(4.6%)</i>
Landed Weight (000)	11,106	11,275	10,626	10,841	10,716
<i>% increase (decrease)</i>	<i>1.9%</i>	<i>1.5%</i>	<i>(5.8%)</i>	<i>2.0%</i>	<i>(1.2%)</i>

Passenger enplanements continue to show healthy growth during fiscal 2004, a period of increased financial turmoil in the airline industry, and are only 0.7% below pre-9/11 levels. The 5.9% increase in passenger enplanements over fiscal 2003 was primarily due to increased activity by Southwest, JetBlue, America West and American Eagle.

At June 30, 2004, there were approximately 251 daily departures, compared to 241 in June 2003; a 4.2% increase. This level remains approximately 11.9% below the pre-9/11 level of 285 daily departures. During fiscal 2004 one new carrier, JetBlue, began service with flights to JFK. In addition, Southwest inaugurated service to Baltimore. Fiscal 2004 saw a number of airlines suspending service, including British Airways' flight to London Heathrow, Continental's seasonal service to Cleveland, and Southwest's service to Houston Hobby and its Saturday-only service to Reno.

FINANCIAL HIGHLIGHTS

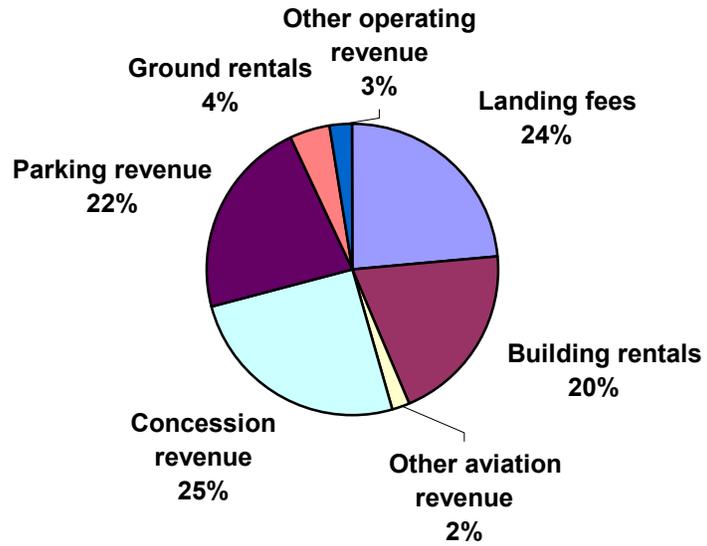
Revenues (in thousands)

Classification	July 1– December 31, 2002 (audited)*	January 1,– June 30, 2003 (audited)	Total FY 2003	FY 2004	Increase (Decrease)	% Change
Airline revenue:						
Landing fees	\$ 9,156	\$ 8,604	\$ 17,760	\$ 22,874	\$ 5,114	28.8%
Building rentals	9,959	8,770	18,729	19,511	782	4.2%
Other aviation revenue	896	1,333	2,229	1,812	(417)	(18.7%)
Concession revenue	11,293	11,711	23,004	24,571	1,567	6.8%
Parking revenue	7,666	9,317	16,983	21,335	4,352	25.6%
Ground rentals	2,289	2,184	4,473	4,269	(204)	(4.6%)
Other operating revenue	1,810	343	2,153	2,200	47	2.2%
Total operating revenue	\$ 43,069	\$ 42,262	\$ 85,331	\$ 96,572	\$ 11,241	13.2%

* Audited SDIA operations of the San Diego Unified Port District

Overall operating revenues increased by \$11.2 million (13.2%) from \$85.3 million to \$96.6 million, primarily due to increases in landing fees and parking revenues. Landing fee revenue increased by \$5.1 million (28.8%), reflecting a rate increase. Building rentals increased by \$0.8 million (4.2%), reflecting a terminal rate increase. Concession revenues, which include terminal retail, food and beverage, advertising, baggage carts, license percentage rents from off-airport tenants, and rental car revenues, increased by \$1.6 million (6.8%), primarily due to increased passenger activity at SDIA. Parking revenues increased by \$4.3 million (25.6%), reflecting an increase in the number and usage of overnight parking and long term parking facilities. Ground rental revenues decreased by \$0.2 million (-4.6%), reflecting reduced revenue from the SDIA cargo facility

San Diego County Regional Airport Authority FY 2004 Revenues

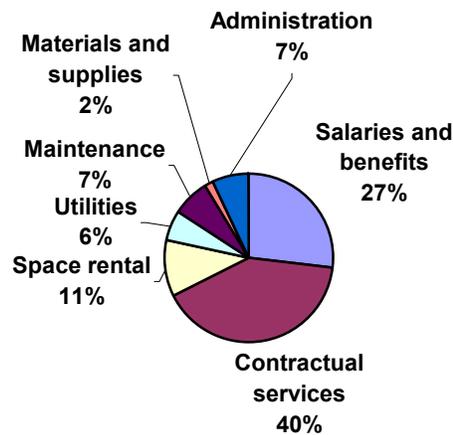


Operating Expenses (in thousands)

Classification	July 1– December 31, 2002 (audited)*	January 1– June 30, 2003 (audited)	Total FY 2003	FY 2004	Increase (Decrease)	% Change
Direct expenses	\$ 28,380					
General and administrative expenses	6,183					
Salaries and benefits		\$7,323		\$21,955		
Contractual services		18,997		32,912		
Space rental		5,293		8,826		
Utilities		2,525		4,914		
Maintenance		1,598		5,343		
Administration		1,551		6,230		
Materials and supplies		1,267		1,453		
Total operating expenses before depreciation and amortization	34,563	38,554	\$ 73,117	81,633	\$ 8,516	11.6%
Depreciation and amortization	14,461	12,598	27,059	32,993	5,934	21.9%
Total operating expenses	\$ 49,024	\$ 51,152	\$ 100,176	\$ 114,626	\$14,450	14.4%

* Audited SDIA operations of the San Diego Unified Port District

San Diego County Regional Airport Authority FY 2004 Expenses



In fiscal 2004, operating expenses increased by \$14.4 million (14.4%), reflecting, in part, increased operating expenses associated with setting up the new Authority. The audited six-month statement prepared as of December 31, 2002, when SDIA was under the jurisdiction of the Port, did not enumerate expenditures by category. Depreciation and amortization expenses increased by \$5.9 million (21.9%) as additional assets were depreciated and the depreciation of certain existing assets was accelerated.

Statement of Revenues, Expenses and Change in Net Assets

The change in net assets is an indicator of whether the overall fiscal condition of the Authority has improved or worsened during the fiscal year. Following is a summary of the statement of revenues, expenses and change in net assets:

In thousands	July 1– December 31, 2002 (audited)*	January 1– June 30, 2003 (audited)	Total June 30, 2003	June 30, 2004	Increase (Decrease)	% Change
Operating revenues	\$ 43,069	\$ 42,262	\$ 85,331	\$96,572	\$ 11,241	13.2%
Operating expenses	34,563	38,554	73,117	81,633	8,516	11.6%
Income from operations before depreciation and amortization	8,506	3,708	12,214	14,939	2,775	22.3%
Depreciation and amortization	14,461	12,598	27,059	32,993	5,934	21.9%
Operating loss	(5,955)	(8,890)	(14,845)	(18,054)	(3,209)	(21.6%)
Nonoperating revenues (expenses):						
Settlement income	133	0	133	0	(133)	(100.0%)
Passenger Facility Charges	9,372	10,236	19,608	31,241	11,633	59.3%
Quieter Home Program, net	(2,630)	275	(2,355)	(1,375)	980	(41.6%)
Interest income	957	2,355	3,312	3,830	518	15.6%
Interest expense	(2,280)	(1,892)	(4,172)	(4,294)	(122)	2.9%
Other nonoperating income (expense)	47	(631)	(584)	5,530	6,114	1046.9%
Nonoperating revenues	5,599	10,343	15,942	34,932	18,990	119.1%
Income before capital contributions and extraordinary item	(356)	1,453	1,097	16,878	15,781	1438.6%
Capital contributions	2,441	6,683	9,124	5,033	(4,091)	(44.8%)
Startup costs	(2,342)	(957)	(3,299)	0	3,299	100.0%
Change in Authority net assets		7,179		21,911		
Net assets, beginning of year		338,593		345,772		
Net assets, end of year		\$ 345,772		\$ 367,683		

*Audited SDIA operations of the San Diego Unified Port District. Certain items in the Statement of Revenues, Expenses and Change in Net Assets have been reclassified to reflect the classifications used in the financial statements as of and for the year ended June 30, 2004. These reclassifications had no impact on Authority net assets.

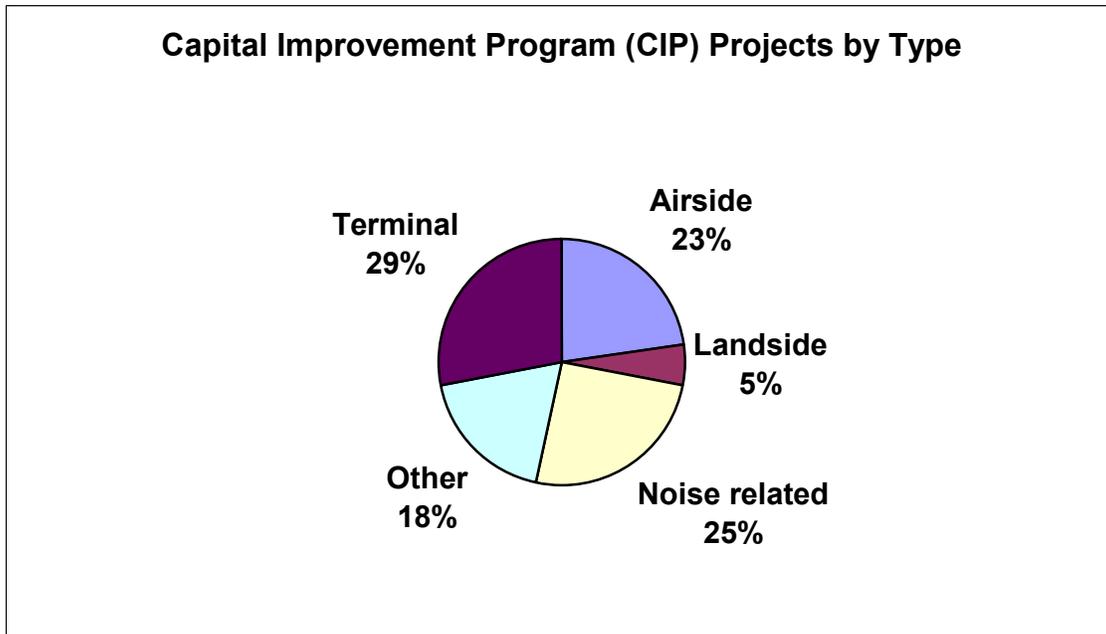
The balance sheets present the financial position of the Authority at June 30, 2004 compared to June 30, 2003. The statements include all assets and liabilities of the Authority. Authority net assets, the difference between total assets and liabilities, is an indicator of the current fiscal health of the organization. A summary comparison of the Authority's assets, liabilities and net assets at June 30, 2004 and June 30, 2003 is as follows:

	In thousands	
	June 30, 2004	June 30, 2003
Assets		
Current and other assets	\$ 203,045	\$ 161,579
Capital assets, net	304,556	325,229
Total assets	<u>507,601</u>	<u>486,808</u>
Liabilities		
Current liabilities	24,118	24,207
Long-term liabilities	115,800	116,829
Total liabilities	<u>139,918</u>	<u>141,036</u>
Net Assets		
Invested in capital assets, net of related debt	244,889	262,086
Other restricted reserve	16,670	3,381
Unrestricted	106,124	80,305
Total net assets	<u>367,683</u>	<u>345,772</u>
Total liabilities and net assets	<u>\$ 507,601</u>	<u>\$ 486,808</u>

As of June 30, 2004, the Authority's assets exceeded liabilities by \$367.7 million, a \$22 million increase over June 30, 2003. The largest portion of the Authority's net assets represents its investment in capital assets, less the amount of associated debt outstanding. The Authority uses these capital assets to provide services to its passengers and other users of SDIA; consequently, these assets cannot practically be sold or otherwise liquidated. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the funds required to repay this debt must be provided annually from operations. The remaining unrestricted net assets of \$106 million may be used to meet any of the Authority's ongoing obligations. As of June 30, 2004, management has designated unrestricted funds in the amount of \$34 million for capital commitments, retirement contributions and operating and insurance contingencies.

Capital Improvement Program

The funds used for the capital improvements or expansion of SDIA's facilities are derived from the receipt of grants from the FAA through the Airport Improvement Program (AIP), Passenger Facility Charges and SDIA funds. Currently, SDIA's \$298.9 million capital improvement program (CIP) follows a pay-as-you-go approach utilizing commercial paper program for short term financing needs. The current CIP consists of \$61.1 million for airside projects, \$13.8 million for landside projects, \$51.8 million for noise-related projects, \$139.5 million for terminal projects and \$32.7 million for various other projects. The current SDIA CIP does not include the master plan and related projects.



Capital Financing and Debt Management

As of June 30, 2004, \$62.296 million in bonds and \$51.694 million in commercial paper were outstanding. SDIA revenue bonds were issued in 1995 through the California Maritime Infrastructure Authority for the expansion of Terminal 2 from 225,000 sq. ft. to 549,000 sq. ft. The debt is insured by AMBAC and the underlying ratings are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch, respectively. The commercial paper program was established in 1997 to fund the then-approved CIP and related Terminal 2 expansion projects. The commercial paper is supported by an irrevocable letter of credit from BNP Paribas and is rated A-1 by Standard and Poor's and F1+ by Fitch.

The Passenger Facility Charge (PFC) program, established in 1994, authorized the imposition of a fee of \$3.00 on enplaning passengers and the use of the funding for approved capital improvement projects. The FAA approved SDIA's third PFC application in the amount of approximately \$83 million in May 2003. SDIA's current PFC level is \$4.50 per enplaned passenger.

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Authority has received approximately \$14.4 million in grant awards for the federal fiscal year ended September 30, 2004. This sum consisted of \$1.4 million in entitlements and \$13 million in discretionary funds. Grant awards are recognized as income/contributions as eligible expenses are incurred.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the SDCRAA's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Finance Department P.O. Box 82776, San Diego, CA 92138. They can also be reached at (619) 400-2805 or online at www.san.org.

San Diego County Regional Airport Authority

Balance Sheets June 30, 2004 and 2003

Assets	2004	2003
Current Assets		
Cash and investments (Note 2)	\$ 29,714,400	\$ 28,062,043
Tenant lease receivables, net of allowance of 2004 \$964,152 and 2003 \$134,985	5,702,163	5,833,289
Grants receivable	5,066,039	7,201,212
Receivable for Pond 20, current portion (Note 3)	281,292	190,680
Inventory	222,280	107,727
Other current assets	4,141,109	4,257,763
Total current assets	45,127,283	45,652,714
Cash and Investments Designated for Specific Capital Projects and Other Commitments (Notes 2, 7 and 12)	30,372,517	6,686,682
Restricted Assets (Notes 2, 5 and 6)		
Cash and investments		
Series 1995 Bonds reserves	46,301,433	44,759,696
Passenger facility charges unapplied	10,944,548	-
Naval Training Center remediation	3,236,284	-
Commercial paper reserve	205,141	275,853
	60,687,406	45,035,549
Series 1995 Bonds proceeds held by Trustee	5,612,772	5,611,837
Commercial paper interest held by Trustee	366,323	402,517
Passenger facility charges receivable	5,362,236	3,380,995
Other	362,881	-
Total restricted assets	72,391,618	54,430,898
Capital Assets (Note 4)		
Land and land improvements	23,581,619	23,581,619
Runways, roads and parking lots	192,369,884	166,611,296
Buildings and structures	336,904,439	323,413,131
Machinery and equipment	10,696,297	8,997,065
Construction in progress	19,314,475	48,820,607
	582,866,714	571,423,718
Less accumulated depreciation	(278,311,034)	(246,194,726)
Capital assets, net	304,555,680	325,228,992
Note Receivable, long-term portion (Note 3)	50,000,000	50,000,000
Deferred Costs, Series 1995 Bonds, net	2,501,944	2,705,880
Receivable for Pond 20, less current portion (Note 3)	2,652,459	2,095,662
Other Noncurrent Assets	-	6,700
Total noncurrent assets	55,154,403	54,808,242
Total assets	\$ 507,601,501	\$ 486,807,528

See Notes to Financial Statements.

Liabilities and Authority Net Assets	2004	2003
Current Liabilities		
Accounts payable	\$ 2,727,249	\$ 3,043,614
Accrued liabilities	15,048,577	18,010,726
Deposits	90,320	71,713
	<u>17,866,146</u>	<u>21,126,053</u>

Current Liabilities Payable from Restricted Assets		
Current portion of long-term debt, Series 1995 Bonds (Note 5)	2,355,000	2,245,000
Accrued interest on Series 1995 Bonds and commercial paper	660,965	836,269
Naval Training Center Remediation	3,236,284	-
	<u>6,252,249</u>	<u>3,081,269</u>

Long-term Liabilities		
Commercial paper notes payable (Note 5)	51,694,000	51,694,000
Long-term debt, less current portion, Series 1995 Bonds (Note 5)	60,605,000	62,960,000
Deferred rent liability (Note 11)	3,353,016	2,049,750
Long-term liabilities, other	147,497	124,446
	<u>115,799,513</u>	<u>116,828,196</u>

Commitments and Contingencies (Notes 6, 7, 9, 11 and 12)

Authority Net Assets		
Invested in capital assets, net of related debt (Note 1)	244,889,294	262,085,785
Other restricted (Note 1)	16,669,665	3,380,995
Unrestricted (Note 1)	106,124,634	80,305,230
Total Authority net assets	<u>367,683,593</u>	<u>345,772,010</u>
Total liabilities and Authority net assets	<u>\$ 507,601,501</u>	<u>\$ 486,807,528</u>

San Diego County Regional Airport Authority

Statement of Revenues, Expenses and Change in Net Assets
Year Ended June 30, 2004

Operating revenues:	
Airline revenue:	
Landing fees	\$ 22,873,581
Building rentals (Note 10)	19,510,766
Other aviation revenue	1,811,953
Concession revenue	24,570,999
Parking revenue	21,335,449
Ground rentals (Note 10)	4,269,295
Other operating revenue	2,199,533
Total operating revenues	<u>96,571,576</u>
Operating expenses:	
Salaries and benefits	21,954,665
Contractual services (Note 12)	32,911,781
Space rental (Note 11)	8,826,024
Utilities	4,914,139
Maintenance	5,342,579
Administration	6,230,908
Materials and supplies	1,452,743
Total operating expenses before depreciation and amortization	<u>81,632,839</u>
Income from operations before depreciation and amortization	<u>14,938,737</u>
Depreciation and amortization	32,993,075
Operating (loss)	<u>(18,054,338)</u>
Nonoperating revenues (expenses):	
Passenger facility charges	31,241,047
Quieter Home Program, net	(1,375,291)
Interest income	3,830,494
Interest expense (Note 5)	(4,293,925)
Other nonoperating revenues, net	5,530,408
Nonoperating revenue, net	<u>34,932,733</u>
Income before capital grant contributions	<u>16,878,395</u>
Capital grant contributions	5,033,188
Change in Authority net assets	<u>21,911,583</u>
Authority net assets, July 1, 2003	345,772,010
Authority net assets, June 30, 2004	<u>\$ 367,683,593</u>

See Notes to Financial Statements.

San Diego County Regional Airport Authority

**Statement of Cash Flows
Year Ended June 30, 2004**

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Cash Flows from Operating Activities	
Receipts from customers	\$ 96,024,758
Payments to suppliers	(60,361,544)
Payments to employees	(19,940,471)
Net cash provided by operating activities	<u>15,722,743</u>
Cash Flows from Noncapital Financing Activities	
Settlement receipts	8,783,980
Quieter Home Program receipts	8,735,273
Quieter Home Program payments	(10,110,564)
Other nonoperating receipts	10,269
Net cash provided by noncapital financing activities	<u>7,418,958</u>
Cash Flows from Capital and Related Financing Activities	
Capital expenditures	(16,743,518)
Proceeds on sale of capital assets	711,652
Federal grants received (excluding Quieter Home Program)	7,168,361
Proceeds from passenger facility charges	29,259,806
Payment of Series 1995 Bond principal	(2,245,000)
Interest and debt fees paid	(4,469,229)
Net cash provided by capital and related financing activities	<u>13,682,072</u>
Cash Flows from Investing Activities	
Purchase of short-term investments	35,259
Principal payments received on notes receivable	303,592
Interest received from notes receivable, investment securities and Series 1995 Bonds	3,827,425
Net cash provided by investing activities	<u>4,166,276</u>
Net increase in cash and cash equivalents	<u>40,990,049</u>
Cash and Cash Equivalents, July 1, 2003	<u>79,784,274</u>
Cash and Cash Equivalents, June 30, 2004	<u>\$ 120,774,323</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheet	
Cash and investments	\$ 29,714,400
Cash and investments designated for specific capital projects and other commitments	30,372,517
Cash and investments, restricted	60,687,406
	<u>\$ 120,774,323</u>
Noncash Investing, Capital and Financing Activities	
Amount receivable for Naval Training Center remediation	<u>\$ 3,236,284</u>
Additions to capital assets included in accounts payable	<u>\$ 5,539,294</u>

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statement of Cash Flows, Continued
Year Ended June 30, 2004

Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities	
Operating (loss)	\$ (18,054,338)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation and amortization expense	32,993,075
Settlement gain on Pond 20	(951,000)
Changes in assets and liabilities:	
Tenant lease receivables	131,126
Other assets	(357,709)
Accounts payable (on noncapital items)	(455,156)
Accrued liabilities (on noncapital items)	1,065,122
Deposits	25,306
Deferred rent liability	1,303,266
Other long-term liabilities	23,051
Net cash provided by operating activities	<u><u>\$ 15,722,743</u></u>

See Notes to Financial Statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Reporting Entity: The San Diego County Regional Airport Authority (SDCRAA or the Authority), an autonomous public agency, was established as a result of legislation, Assembly Bill 93 (2001) as modified by Senate Bill 1896 (2002), which together comprise the San Diego County Regional Airport Authority Act (Act). The Act required, among other things, the transfer of the assets and operations of the San Diego International Airport (SDIA) from the San Diego Unified Port District (SDUPD or the District) to the Authority. Effective January 1, 2003 (inception), the District transferred all AIRPORT operations and certain related assets and liabilities to the Authority, pursuant to the Act and the Memorandum of Understanding (MOU) dated as of December 31, 2002, between the Authority and the District, which implemented the Act.

As of June 1, 2004, the District and the Authority entered into a Settlement Agreement which finalized all outstanding issues related to the January 1, 2003 transfer of certain assets and liabilities. The agreement required the Authority to pay the District \$150,000 to settle miscellaneous claims. The Settlement Agreement memorialized all outstanding issues, such as lease agreements and charges by the District to the Authority for services provided by the District. Additionally, the agreement included a noncompete clause, terms to an existing promissory note resolution of mitigation funds and a litigation release.

Responsibilities of the Authority include, among other things, the operation, maintenance, development, management and regulation of the SDIA and its facilities. The Authority is the only agency in San Diego County that can receive state or federal grants for AIRPORT planning or improvements. In addition, the Authority has the responsibility to plan and locate a site for a new international airport or to expand the existing SDIA. The proposed relocation/expansion plan will require a countywide public vote on the recommendation of the Authority, which is to occur no later than the November 2006 general election. In addition, the Authority acts as the Airport Land Use Commission within San Diego County.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all organizations, agencies, boards, commissions and authorities for which the Authority is financially accountable. The Authority has also considered all other potential organizations for which the nature and significance of their relationships with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for that organization to provide specific benefits to, or impose specific financial burdens on, the Authority. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

Measurement focus and basis of accounting: The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies and, as such, the Authority is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of the change in Authority net assets. The Authority applies all applicable Financial Accounting Standards Board (FASB) pronouncements, including those issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

The financial statements are presented in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Evaluation of long-lived assets: Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. Management has determined that no impairment of long-lived assets currently exists.

Use of estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. Actual results could differ from those estimates.

Tenant lease receivables: Tenant lease receivables are carried at original invoice amount for fixed-rent tenants, and at estimated invoice amount for concession (variable) tenants, less an estimate made for doubtful receivables for both fixed-rent and concession tenants, based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by evaluating individual tenant receivables and considering a tenant's financial condition and credit history and current economic conditions. Tenant lease receivables are written off when deemed uncollectible. Recoveries of tenant lease receivables previously written off are recorded when received.

Investments: Investments are stated at fair market value on a portfolio basis.

Restricted assets: Funds are set aside as restricted assets, and they are not available for current expenses, when constraints placed on their use are legally enforceable due to either:

- Externally imposed requirements by creditors (such as through debt covenants), grantors or contributors.
- Laws or regulations of other governments.
- Constitutional provisions or enabling legislation.

Designated assets: The Authority's management may designate funds which they do not consider to be available for general operations. At June 30, 2004, management had designated funds for specific approved capital projects and other commitments totaling \$30,372,517.

Deferred costs, Series 1995 Bonds: The 1995 revenue bond original issue discount and issuance costs are deferred and amortized over the term of the bonds, using the straight-line method, which approximates the effective interest method.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Capital assets: Capital assets are recorded at cost, except for property contributed by third parties, which is recorded at fair market value at the date of contribution, less an allowance for accumulated depreciation.

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Depreciation is computed by use of the straight-line method over the following estimated useful lives:

Land improvements	30 to 40 years
Runways, taxiways, roads and parking areas	5 to 30 years
Buildings, structures and improvements	5 to 30 years
Automotive and equipment, office furniture and fixtures	3 to 10 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as construction in process as projects are constructed.

Airport Improvement Program (AIP): The District initially received approval from the Federal Aviation Administration (FAA) for Airport Improvement Program (AIP) grants. These grants transferred to the Authority, effective January 1, 2003. AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. Receipts from federal programs are subject to audit to determine if the funds were used in accordance with the applicable regulations. The Authority believes that no significant liabilities to the Authority would result from such an audit.

Passenger facility charges: The District initially received approval from the FAA to impose a passenger facility charge (PFC) at the SDIA. The approval for the PFC was transferred by the FAA to the Authority, effective January 1, 2003. The PFC program is authorized by the Aviation Safety and Capacity Expansion Act of 1990 (the Expansion Act). In accordance with the Expansion Act, the Authority's AIP Passenger Entitlement Apportionment is reduced by certain percentages, dependent upon the level of PFC received by the Authority.

In accordance with the program, the PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2004, accrued PFC receivables totaled \$5,362,236, and there were \$10,944,548 PFC amounts collected but not yet spent as of June 30, 2004.

On May 20, 2003, the FAA approved the Authority's PFC application to increase the charge per enplaned passenger from \$3.00 to \$4.50 beginning August 1, 2003, with an estimated charge expiration date of March 1, 2006. Approximately \$83 million in PFC revenues will be collected and applied toward eligible capital project costs. In accordance with the Aviation Investment Reform Act (AIR-21), airports imposing a \$4.50 collection level are required to reduce AIP Passenger Entitlement Apportionment to 75%.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Retentions payable: The Authority enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the Authority. The Authority's policy is to record the retention payable only after completion and acceptance have occurred. Retentions payable on completed contracts are included with accounts payable on the accompanying balance sheet. Amounts related to unpaid retentions on uncompleted contracts are included in Cash Designated for Specific Capital Projects.

Compensated absences: All employees of the Authority earn annual leave that is paid upon termination or retirement. Annual leave is accrued at current rates of compensation. As part of the transfer of airport operations at January 1, 2003, the Authority assumed the liability for unutilized leave of employees who transferred from the District to the Authority.

Authority net assets: Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Invested in capital assets, net of related debt, excludes unspent debt proceeds.

Restricted net assets represents amounts that are appropriated or are legally segregated for a specific purpose. Authority net assets is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Invested in capital assets, net of related debt as of June 30, 2004:

Invested in capital assets, net	\$ 192,403,625
Series 1995 Bond reserve	5,612,772
Commercial paper reserve	205,141
Commercial paper held by Trustee	366,323
	<hr/>
	198,587,861
Series 1995 Bond reserves:	
Operations and maintenance reserve	31,030,810
Operations and maintenance subaccount reserve	7,758,168
Revenue and replacement reserve	5,400,000
Debt service principal and interest	2,112,455
	<hr/>
	46,301,433
	<hr/>
Total invested in capital assets, net of related debt	\$ 244,889,294

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Restricted net assets as of June 30, 2004:

Passenger facility charges unapplied	\$ 10,944,548
Passenger facility charges receivable	5,362,236
Owner Controlled Insurance Program (OCIP) loss reserve	362,881
Total other restricted net assets	<u>\$ 16,669,665</u>

Unrestricted net assets as of June 30, 2004 include designations of net assets that represent tentative management plans that are subject to change, consisting of:

Operating contingency	\$ 2,000,000
Insurance contingency (Note 9)	2,000,000
Capital projects and other commitments (Note 7)	30,372,517
	<u>\$ 34,372,517</u>

Revenue classifications: The Authority will classify revenues as operating or nonoperating based on the following criteria:

Operating revenues are from the revenue sources that constitute the principal ongoing activities of the Authority's operations. The major components of SDIA's operating revenue sources consist of landing fees and terminal building and ground rentals, concession and parking fees, and other miscellaneous fees and charges. Landing fees and terminal building rates are charged on the basis of recovery of actual costs for operating and maintaining the SDIA landing and terminal areas.

Nonoperating revenues are from revenue sources related to financing activities and other activities, which do not constitute the principal ongoing activities of the Authority's operations. The major components of the nonoperating revenue sources are interest income from cash and investments, certain legal settlement income and passenger facility charges.

Federal grants: When a grant agreement is approved and all eligibility requirements have been met, the expenditures are recorded as a federal grant receivable and as a capital grant contribution or operating grant revenue, as appropriate.

Cash and cash equivalents: For purposes of the statement of cash flows, cash and cash equivalents is defined to be cash and investments readily convertible into cash. This includes cash on hand, demand deposits, certificates of deposit, commercial paper, U.S government and agency obligations, mutual funds, and repurchase agreements collateralized by the U.S government or agency obligations with an original maturity of three months or less, including restricted assets.

Inventories: Inventories are stated at purchase price and consist of office, janitorial, maintenance, kitchen and other supplies. The cost of these supplies is recorded as an expense in the month they are relieved from inventory for use. Inventories are determined by actual count and priced on the first-in first-out basis.

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Pronouncements issued, not yet effective: The GASB has issued several pronouncements prior to June 30, 2004, that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the Authority:

- GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.
- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*.
- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Additionally, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which amends portions of previous guidance related to the preparation of a statistical section when presented as a required part of a comprehensive annual financial report (CAFR).

Reclassification: Certain items in the 2003 balance sheet have been reclassified to reflect the classifications used in the financial statements as of and for the year ended June 30, 2004. These reclassifications had no impact on income or Authority net assets.

Prior period financial information: The financial statements include a prior period balance sheet without the disclosures required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2003, from which the partial information was derived.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments

Summary of cash and investments: Cash and investments are reported in the accompanying balance sheet as follows at June 30, 2004:

Unrestricted and undesignated	<u>\$ 29,714,400</u>
Designated for specific capital projects and other commitments	<u>30,372,517</u>
Restricted:	
Series 1995 Bonds reserves:	
Operations and maintenance reserve	31,030,810
Operations and maintenance subaccount reserve	7,758,168
Renewal and replacement reserve	5,400,000
Debt service principal and interest reserve	<u>2,112,455</u>
	46,301,433
Passenger facility charges unapplied	10,944,548
Naval Training Center remediation	3,236,284
Commercial paper reserve	<u>205,141</u>
Total restricted	<u>60,687,406</u>
Total cash and investments, without fiscal agent	<u>120,774,323</u>
Series 1995 Bonds proceeds held by Trustee	5,612,772
Commercial paper interest held by Trustee	<u>366,323</u>
	5,979,095
Total cash and investments	<u><u>\$ 126,753,418</u></u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

Components of cash and investments at June 30, 2004 are summarized below:

Cash:	
Cash in banks	\$ 1,067,260
Cash on hand	54,100
Total cash	<u>1,121,360</u>
Investments:	
San Diego County Investment Pool (SDCIP)	35,306,258
Local Agency Investment Fund (LAIF)	35,657,169
US Bank, Operating Account Repurchase Agreement	23,692,464
Zions First National Bank Liquid Asset Management	24,997,072
Total investments	<u>119,652,963</u>
Total cash and investments, without fiscal agent	<u>120,774,323</u>
Investments held by fiscal agent:	
Series 1995 Bond proceeds	5,612,772
Commercial paper interest	366,323
Total investments held by fiscal agent	<u>5,979,095</u>
Total cash and investments	<u>\$ 126,753,418</u>

Cash: Within cash and investments, the Authority has other funds identified as designated cash, which management has designated for certain uses/projects and does not consider to be available for general operations. These are identified in Note 1, Designated Assets.

At June 30, 2004, the carrying amount of the Authority's cash deposits, totaled \$1,121,360, and the bank balance of the Authority's cash deposits maintained in financial institutions is \$3,230,419. Of the \$3,230,419 maintained in financial institutions, \$200,021 is insured by the Federal Deposit Insurance Corporation (FDIC) and \$547,690 is collateralized with securities held by the pledging financial institution, or by its Trust Department or agent but not in the Authority's name, and the remainder of \$2,482,708 is uncollateralized and uninsured. The primary difference between the carrying amount and the bank balance are deposits in transit and outstanding checks. In accordance with state statutes, the Authority maintains deposits at those depository institutions insured by the FDIC. The California Government Code requires California banks and savings and loan associations to collateralize the deposits of governmental entities by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of those deposits. California law also allows financial institutions to secure the deposits of governmental entities by pledging first trust deed mortgage notes having collateral value of 150% of a corporation's total deposits.

In accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements*, the Authority's investments are categorized, according to the following criteria, to give an indication of the level of risk assumed by the Authority at year end.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 2. Cash and Investments, Continued

Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name.

Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's Trust Department or agent in the Authority's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its Trust Department or agent, but not in the Authority's name.

Investments: In accordance with state statutes, the Board has authorized the Authority's chief financial officer to invest in obligations of the U.S. Treasury and U.S. government agencies, commercial paper, bankers' acceptances, negotiable certificates of deposit, repurchase agreements, Local Agency Investment Fund (LAIF), and the San Diego County Investment Pool (SDCIP). The Authority values all of its cash and investments at fair value on a portfolio basis.

At June 30, 2004, the Authority's pooled investments in LAIF, SDCIP, and Zions First National Bank are not subject to custodial credit risk categorization according to GASB Statement No. 3, *Cash Deposits and Investments*. The Authority's investment in the Repurchase Agreement is considered to be risk category 2 defined as uninsured and unregistered investments for which the securities are held by the counterparty's Trust Department or agent in the Authority's name.

The Authority participates in a voluntary external investment pool, LAIF, which is managed by the State Treasurer. LAIF has oversight provided by the Local Agency Investment Advisory Board. The Board consists of five members as designated by state statute. The Chairman of the Board is the State Treasurer or his designated representative. The fair value of the Authority's shares in the pool approximates the fair value of the position in the pool.

The total estimated fair value invested by all public agencies in LAIF is approximately \$57.5 billion at June 30, 2004. Of that amount, 100% is invested in nonderivative financial products.

The total estimated fair value invested by all public agencies in SDCIP is approximately \$3.7 billion at June 30, 2004. Of that amount, 100% is invested in nonderivative financial products.

The County of San Diego has established a County Treasury Oversight Committee for the SDCIP. One of the responsibilities of the Oversight Committee is reviewing and monitoring the SDCIP investment policy.

Note 2. Cash and Investments, Continued

Investments with fiscal agents: The Authority has monies held by trustees pledged to the payment or security of certain bonds, the proceeds of which were used solely to pay for the expansion of the West Terminal at SDIA, as noted on the balance sheet as Series 1995 Bond proceeds held by Trustee of \$5,612,772 and commercial paper interest held by Trustee of \$366,323. These are subject to the same risk category as the invested cash of risk category 1. The California Government Code provides that these monies, in absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions or indentures are generally more restrictive than the Authority's general investment policy.

Note 3. Notes Receivable

As part of the transfer of airport operations, pursuant to the MOU, the District issued a \$50 million promissory note to the Authority. The promissory note was unsubordinated and fully negotiable, bearing interest at prime (4% at June 30, 2004) plus 1%. Subsequent to June 30, 2004, and through October 14, 2004, the prime rate has increased to 4.75%. The note requires monthly interest-only payments for seven years, with the outstanding principal due and payable on December 31, 2009.

Pursuant to the settlement agreement with the District, the Note is in the process of being modified to be amortized over 25 years commencing January 1, 2006, maturing December 31, 2030, subordinate to all bond indebtedness of the District, bearing interest rate at 5.5%.

As part of the transfer of airport operations, pursuant to the Act, the District is reimbursing the Authority for the fair market value of the Pond 20 property. The District is required to pay the Authority monthly principal and interest payments over a 10-year period at an interest rate of prime plus 1%. A receivable for the Pond 20 property was recorded by the Authority at January 1, 2003 at the District's preliminary appraised value of \$2,378,000. Pursuant to the settlement agreement with the District, the negotiated appraised value is \$3,329,000. Repayment terms remain unchanged. At June 30, 2004, the receivable is recorded at a value of \$2,933,751, of which \$281,292 is due to be received during the year ending June 30, 2005.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity was as follows at June 30, 2004:

	Balance at June 30, 2003	Increases	Decreases	Balance at June 30, 2004
Nondepreciable assets:				
Land	\$ 22,452,007	\$ -	\$ -	\$ 22,452,007
Construction in progress	48,820,607	14,466,484	(43,972,616)	19,314,475
Total nondepreciable assets	<u>71,272,614</u>	<u>14,466,484</u>	<u>(43,972,616)</u>	<u>41,766,482</u>
Depreciable assets:				
Land improvements	1,129,612	-	-	1,129,612
Buildings and structures	323,413,131	13,491,308	-	336,904,439
Machinery and equipment	8,997,065	3,191,733	(1,492,501)	10,696,297
Runways, roads and parking lots	166,611,296	25,758,588	-	192,369,884
Total capital assets being depreciated	<u>500,151,104</u>	<u>42,441,629</u>	<u>(1,492,501)</u>	<u>541,100,232</u>
Less accumulated depreciation for:				
Land improvements	(630,226)	(157,499)	-	(787,725)
Building and structures	(144,899,242)	(18,378,554)	-	(163,277,796)
Machinery and equipment	(5,534,676)	(1,711,356)	673,259	(6,572,773)
Runaways, roads and parking lots	(95,130,582)	(12,542,158)	-	(107,672,740)
Total accumulated depreciation	<u>(246,194,726)</u>	<u>(32,789,567)</u>	<u>673,259</u>	<u>(278,311,034)</u>
Total capital assets being depreciated, net	<u>253,956,378</u>	<u>9,652,062</u>	<u>(819,242)</u>	<u>262,789,198</u>
Capital assets, net	<u><u>\$ 325,228,992</u></u>	<u><u>\$ 24,118,546</u></u>	<u><u>\$ (44,791,858)</u></u>	<u><u>\$ 304,555,680</u></u>

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt

The following is a summary of changes in the principal balance of debt at June 30, 2004:

	Principal Balance at June 30, 2003	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2004	Due Within One Year
Debt obligations:					
Commercial paper	\$ 51,694,000	\$ -	\$ -	\$ 51,694,000	\$ -
Series 1995 Bonds	65,205,000	-	(2,245,000)	62,960,000	2,355,000
	<u>\$ 116,899,000</u>	<u>\$ -</u>	<u>\$ (2,245,000)</u>	<u>\$ 114,654,000</u>	<u>\$ 2,355,000</u>

Airport Revenue Bonds, Series 1995: In fiscal year 1996, the California Maritime Infrastructure Authority issued Airport Revenue Bonds (Series 1995 Bonds) for the San Diego Unified Port District, pursuant to a trust agreement dated December 1, 1995. The proceeds of the Series 1995 Bonds, together with investment income thereon, were used solely to pay a portion of the construction and installation of the West Terminal Expansion at SDIA, to fund a Reserve Account, and to pay certain expenses in connection with the issuance of the Series 1995 Bonds. In conjunction with the transfer of airport operations to the Authority on January 1, 2003, these bond obligations were assumed by the Authority.

The Series 1995 Bonds were issued in the aggregate principal amount of \$76,690,000, consisting of \$29,895,000 in serial bonds and \$46,795,000 in term bonds. The serial bonds bear interest at 4% to 5.5% and mature in fiscal years 1998 to 2010. The term bonds bear interest at 5.0% to 5.375% and mature in fiscal years 2013 to 2021. Interest on the bonds is payable semiannually on May 1 and November 1 of each year, beginning May 1, 1996. Interest expense for the year amounted to \$3,290,647, including accrued interest of \$542,454.

The Series 1995 Bonds are payable solely from and secured by "Pledged Revenues." Pledged Revenues are defined as all revenues and other cash receipts of the Authority's airport operations, reduced by operation and maintenance expenses. Pledged Revenues do not include cash received from passenger facility charges or federal grants.

The Series 1995 Bonds require that charges for services be set each fiscal year at rates sufficient to produce Pledged Revenues at least 125% times the debt service for that year. In addition, the Series 1995 Bonds require the Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Authority's books. At June 30, 2004, the amount held by the trustee was \$5,612,772, and the amount reserved by the Authority totaled \$46,301,433. The debt is insured by the American Municipal Bond Assurance Corporation (AMBAC) and the underlying public ratings of the Series 1995 Bonds as of June 30, 2004, are A+/A1/A+ by Standard & Poor's rating group, Moody's Investor Service and Fitch Inc., respectively.

The bonds maturing on or before November 1, 2005 are not subject to optional redemption. The bonds maturing on or after November 1, 2006, are subject to optional redemption. The term bonds maturing on November 1, 2012, 2015 and 2020 are subject to mandatory sinking fund redemption.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 5. Debt, Continued

The required debt service payments for the Series 1995 Bonds for fiscal years ending June 30 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 2,355,000	\$ 3,197,029	\$ 5,552,029
2006	2,480,000	3,071,131	5,551,131
2007	2,615,000	2,936,249	5,551,249
2008	2,755,000	2,797,936	5,552,936
2009	2,900,000	2,649,456	5,549,456
2010-2014	17,090,000	10,667,566	27,757,566
2015-2019	22,200,000	5,550,031	27,750,031
2020-2021	10,565,000	534,875	11,099,875
	<u>\$ 62,960,000</u>	<u>\$ 31,404,273</u>	<u>\$ 94,364,273</u>

Commercial Paper Series A and B: In June 2002, the District authorized the selection of a new letter of credit/commercial paper provider. The new commercial paper note offering, which is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing payment of the Series 1995 Bonds, provides for borrowings up to \$100,000,000 through September 2007. Proceeds from the issuances are to be used to finance further improvements to airport. Effective September 27, 2002, each series of notes became secured by an irrevocable letter of credit. Each letter of credit expires on September 26, 2007. Each commercial paper note matures at the end of a period not to exceed 270 days. Each issuance can be rolled into another issuance. The commercial paper notes outstanding at June 30, 2004, are due in November 2004, and management intends to roll the notes into another issuance. Interest is paid at a rate based on the market for similar commercial paper notes held by the bank. Interest expense for the year ended June 30, 2004 amounted to \$828,034, including accrued interest of \$118,511.

At June 30, 2004, the principal amounts outstanding for Series A and B Commercial Paper were \$22,134,000 with an average annual interest rate of 1.06%, and \$29,560,000 with an average annual interest rate of .99%, respectively. The commercial paper notes require that the charges for services be set each year at rates sufficient to produce Pledged Revenues at least 110% times the debt service for that year. In addition, the commercial paper notes require the Authority to maintain an interest reserve account with the note trustee and to reserve a certain amount in the Authority's books. At June 30, 2004, the amount held by the trustee was \$366,323, and the amount reserved by the Authority was \$205,141. The commercial paper is supported by an irrevocable letter of credit from Banque Nationale de Paris Paribas and is rated A-1 by Standard & Poor's rating group and F1+ by Fitch Inc.

In conjunction with the transfer of airport operations from the District to the Authority, and pursuant to the MOU, these commercial paper obligations were assumed by the Authority.

Note 6. Naval Training Center Remediation Reserve

In 1993 the Base Realignment and Closure Commission of the Department of Defense recommended, and Congress and the President approved, the closure of a substantial portion of the Naval Training Center (NTC) military installation located in the City of San Diego, including the area known as Camp Nimitz. Due to the closure of the NTC, the District decided to acquire a portion of the NTC land, including Camp Nimitz, which was expected to be designated for future expansion of SDIA. Twenty-five acres of the NTC land the District decided to acquire for future expansion of the SDIA was initially designated as the endangered California Least Tern nesting habitat conservation easement (the CLT Easement) site. Presence of the CLT Easement greatly limited development of the NTC land for expansion of SDIA.

The transaction was finalized during fiscal year 2001, with the District acquiring title to the NTC land. The District entered into an Environmental Services Cooperative Agreement with the United States Navy covering the parcels of the NTC land acquired by the District, under which the District assumed certain environmental cleanup responsibilities for these parcels. Under the agreement, the Navy remitted \$3,700,000 to the District to fund the environmental cleanup. The Authority assumed the obligation to remediate the NTC parcels upon separation from the District in the amount of \$3,236,284, which is reflected as a liability on the accompanying balance sheet.

Note 7. Defined Benefit Plan and Subsequent Event

Plan description: The Authority's defined benefit pension plan is separately administered by the City of San Diego's City Employees' Retirement System (CERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CERS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City of San Diego, the District and the Authority, administered by the Retirement Board of Administration (the CERS Board). San Diego City Charter Section 144, and San Diego Municipal Code Sections 24.0100 et seq. assign the authority to establish and amend the benefit provisions of the plans that participate in CERS to the CERS Board. The Authority contributes to the Federal Social Security Program. The CERS Board issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The financial report may be obtained by writing to the San Diego City Employees' Retirement System, 401 B Street, Suite 400, San Diego, California 92101.

Funding policy: The City of San Diego municipal code requires member contributions to be actuarially determined to provide a specific level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level and certain negotiated contracts, which provide for the Authority to pay a portion of the employees' contributions. The Authority contribution rate, as determined through actuarial valuation, was approximately 8.25%, expressed as a percentage of covered payroll.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 7. Defined Benefit Plan and Subsequent Event, Continued

Annual pension cost: For the fiscal year 2004, the annual pension cost of \$2,199,708 for the CERS pension was equal to the Authority’s required and actual contributions. The required annual contribution will be determined as part of an actuarial evaluation using the entry-age-actuarial-cost method, which is the method utilized by CERS. The actuarial assumptions used by CERS include (a) 8% investment rate of return, (b) projected salary increases of 4.75%, and (c) the assumption that benefits for certain members will increase after retirement. Both (a) and (b) include an inflation component of 4.25%. The actuarial value of assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Any unfunded actuarially accrued liability would be funded as a level percentage of projected payroll over a closed 18-year period. Subsequent to June 30, 2004, the Authority made a contribution payment in the amount of \$3,923,000 in addition to the annual required contribution to reflect a desired funded ratio of 95%. At June 30, 2004, the pending contribution is recorded as cash and investments designated for specific capital projects and other commitments. This additional contribution will be reflected as a net pension asset subject to amortization over an 18-year period.

Schedule of Funding Progress for CERS (\$ in thousands—unaudited):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/02	\$ 11,028	\$ 11,526	\$ 498	95.7%	\$ 8,871	5.6%
6/30/03	* \$ 11,142	\$ 16,279	\$ 5,137	68.4%	\$ 11,577	44.4%

* Reflects revised actuarial assumptions and benefit increases effective April 1, 2004.

Note 8. Employees’ Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan, which was created in accordance with Internal Revenue Code (IRC) Section 457. The plan, which is available to all full-time Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, total disability, death or unforeseeable emergency.

Note 8. Employees' Deferred Compensation Plan, Continued

The plan is administered by the Authority and contracted to an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are held in trust for employees.

As such, employee assets to be held in the IRC Section 457 plans are not the property of the Authority and are not subject to the claims of the Authority's general creditors. In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, employee assets are not reflected in the Authority's financial statements.

Note 9. Risk Management

The Authority has developed a comprehensive Risk Management Program, which includes risk transfer, loss prevention, loss control and claims administration. The Authority has purchased excess liability, airport, workers' compensation and automotive insurance, in addition to property, machinery and other miscellaneous insurance coverage. The Authority also administers an owner-controlled insurance program covering projects in the Airport capital improvement program. The Authority's coverage includes a variety of retentions or deductibles. A \$2,000,000 contingency reserve has been established, within unrestricted net assets, by the Authority's management. Management considers this contingency reserve to be designated to cover the cost of future retentions, deductibles and uninsured claims.

Note 10. Lease Revenues

The Authority leases certain of its capital assets to signatory airlines and other tenants under operating leases. A majority of the lease payments are determined each year based upon actual costs of the airport. Such costs are allocated pro rata to each tenant based upon factors such as landed weights, enplanements, square footage, acres, etc.

Note 11. Lease Commitments

The Authority is leasing from the District the land used by SDIA for \$1 per year, for 66 years, through December 31, 2068. In addition, the Authority is required, by legislation mandating the transfer of airport operations from the District, to lease from the District 89.75 acres of the former General Dynamics property on Pacific Highway adjacent to SDIA for 66 years commencing January 1, 2003. The lease agreement calls for predetermined rents through December 31, 2005, with future rents based upon a market rate established in late 2005 by an appraisal (or arbitration). As part of the settlement negotiations with the District commencing January 1, 2006, the fair market rent for the General Dynamics (GD) lease will not exceed \$7.5 million annually. The settlement negotiations included a new lease for 46.88 acres on N. Harbor Drive referred to as Teledyne Ryan, commencing January 1, 2005 expiring December 31, 2069 with \$3 million annual rent. Scheduled aggregate monthly rentals for General Dynamics and Teledyne during the calendar years 2004 and 2005 are \$558,333 and \$975,000, respectively, and rents will be recognized on a straight-line basis in future periods. In addition, the employee parking for the District administration building employees, located on the leased property, will be leased back by the District at the same fair market value. Under current law, in the event SDIA is relocated, and the property no longer used by SDIA for airport purposes, these leases would terminate and use of the property would revert to the District.

SDIA leases an additional four properties adjacent to SDIA. On one of those leases, SDIA leases parking lots from the District through December 31, 2005. The lease agreement calls for predetermined monthly rentals during the calendar years 2004 and 2005 of \$53,856 and \$65,472, respectively. This lease agreement also requires SDIA to collect set minimum parking fees or use of the property will revert back to the District. The other three properties are also leased by the Authority from the District and require monthly rentals of \$86,083, \$12,521 and \$4,151 and expire in December 2007, December 2007 and April 2012, respectively.

SDIA leases modular buildings from an unrelated third party that requires monthly rentals of \$15,205 through November 2005.

SDIA accrues rent expense, for the two leases with predetermined escalating payments, by the straight-line method over the respective lease terms. The accumulated benefit of the reduced scheduled payments of those two leases is recorded as an accrued liability of \$3,353,016 as of June 30, 2004. The accumulated benefit (accrued liability) is expected to decrease gradually over the remaining 64 years.

San Diego County Regional Airport Authority

Notes to Financial Statements

Note 11. Lease Commitments, Continued

The future rental commitment under the seven operating lease agreements as of June 30, 2004 is due as follows:

<u>Years Ending June 30,</u>	
2005	\$ 11,393,000
2006	12,864,000
2007	11,795,000
2008	11,172,000
2009	10,550,000
2010–2014	52,641,000
2015–2019	52,500,000
2020–2024	52,500,000
2025–2029	52,500,000
2030–2034	52,500,000
2035–2039	52,500,000
2040–2044	52,500,000
2045–2049	52,500,000
2050–2054	52,500,000
2055–2059	52,500,000
2060–2064	52,500,000
2065–2069	47,250,000
	<u>\$ 682,665,000</u>

The total rental expense charged to operations for the year ending June 30, 2004 consists of the following:

Rental payments made	\$ 7,522,758
Increase in accumulated benefit of reduced rents	1,303,266
	<u>\$ 8,826,024</u>

Note 12. Commitments and Contingencies

Commitments: As of June 30, 2004, the Authority had significant commitments for capital expenditures and other matters as described below:

- i. The Authority has funds which have been classified as noncurrent assets for the unpaid contractual portion of capital projects that are currently in progress, for the estimated cost of capital projects that have been authorized by the Board for construction planning to proceed, and for the contractual costs of upgrading certain major equipment. These noncurrent funds totaled \$30,372,517 at June 30, 2004 and are classified on the accompanying balance sheet as Cash and Investments Designated for Specific Capital Projects and Other Commitments.
- ii. Support Services—As part of the MOU, the Authority is required to purchase specified District services from January 1, 2003 to June 30, 2005, and the District is required to meet the standards and specifications established by the Authority for those services. The services will be purchased on a declining basis during that period as the Authority phases in its own staff and operational resources. The Authority will have the option to purchase (by mutual agreement) services from the District for a longer period of time. Services provided by the District Harbor Police are required to be purchased by the Authority as long as the SDIA continues to operate at Lindbergh Field. At the time of the transfer, the Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which describe the services that the Authority may purchase, and the manner of calculating the payments for such services. The largest amount that will become payable under any of these is under the Police Services Agreement, which is for Harbor Police services. The District provides monthly billings to the Authority, with payment generally due 30 days after the date of the invoice and provision of appropriate supporting documentation. The Authority expensed \$9,427,480 for these services during the year ended June 30, 2004.
- iii. Postretirement Healthcare Benefits—In addition to the pension benefits described in Note 7, the Authority will provide postretirement healthcare benefits to retirees. Currently, expenditures for postretirement healthcare benefits, which include medical and dental coverage and life insurance coverage, will be recognized as they are paid.
- iv. In addition, the Authority has a profit sharing plan as defined under Section 401(a) of the Internal Revenue Code. Under the plan, eligible employees receive annual discretionary employer contributions. Authority contributions are immediately vested by the participants.

Note 12. Commitments and Contingencies, Continued

Contingencies: As of June 30, 2004, the Authority is subject to contingencies arising from legal matters as described below:

The Authority has leases and operating agreements with various tenants. These agreements typically include provisions requiring the tenant/operators to indemnify the Authority for any damage to property or losses to the Authority as a result of the tenant's operations. Also, the leases and operating agreements typically require the Authority to be named as an additional insured under certain insurance policies of the tenant/operators. And, finally, the Authority also tenders these claims to its own insurers once they become asserted claims. Thus, according to the Authority's legal counsel, when these types of claims are asserted against the Authority, the Authority not only vigorously opposes them but also vigorously seeks contribution and/or indemnity from all tenant/operators involved, from the tenant/operator's insurers and from its own insurers. The Authority's legal counsel cannot predict the net exposure to the Authority with respect to these matters, or the probability or remoteness of any outcome.

Under the Eighth Variance Agreement to Title 21 of the California Airport Noise Standards, adopted by the District on July 9, 2001, and approved by the State of California, Department of Transportation on August 27, 2001, the District agreed to enhance its Residential Sound Attenuation Program (RSAP), which began as a result of litigation. Beginning with the District's 2001-02 fiscal year, the District's funding for the RSAP was \$2 million per year for three years with a commitment to use the District's best efforts to obtain matching FAA AIP discretionary funds. If the FAA does provide a full federal match to the District's contribution, the RSAP will be funded at \$10 million per year for the three years of the Eighth Variance Agreement. If the FAA does not provide matching federal funds in the amount of \$8 million per year, the District further agreed to contribute an additional \$1 million in any such year of the Eighth Variance Agreement. From inception to December 31, 2002, the District had expended approximately \$14,355,000 on the RSAP. As part of the transfer of airport operations, the State of California, Department of Transportation transferred the future commitments under the Eighth Variance Agreement to the Authority, and the Authority assumed those commitments. As of June 30, 2004, the program had cumulatively expended \$29,732,364.

The Eighth Variance Agreement expired on August 27, 2004. On June 27, 2004, the Authority submitted an application for a subsequent (ninth) variance from the State. The provisions of the Eighth Variance Agreement remain in place until the ninth variance application is addressed by State. This is expected to occur in early 2005.

The Authority is also named as a defendant in certain other legal actions arising from transactions conducted in the ordinary course of business, including claims filed by certain contractors for disputes related to compensation for contracted work and general liability claims for alleged injuries on Authority property. The Authority's legal counsel has indicated that it is not currently possible to estimate the amount or range of potential loss to the Authority related to these cases. The Authority has \$30,372,517 designated against net assets as a contingency reserve for future specific capital projects and other commitments.

Note 12. Commitments and Contingencies, Continued

As the ultimate resolution of these items is not yet determinable, no amounts have been recorded for the above items by the Authority as of June 30, 2004.

In addition, on June 3, 2003, the court approved settlement of a claim against an architecture firm whereby the District was the plaintiff. As the claim was related to airport construction projects, the claim and subsequent settlement were transferred to the SDCRAA as of January 1, 2003. Per the settlement, the Authority owed \$500,000 and received \$3,600,000.

Teledyne Ryan Industries, Inc. (TDY)/Allegheny Technologies Inc. & San Diego Unified Port District: During 2004 the Authority initiated litigation against the Port District, entitled San Diego County Regional Airport Authority v. San Diego Unified Port District, and related cross-actions, S.D.S.C. Case No. GIC 821224. The litigation resulted in a comprehensive settlement agreement (hereinafter Settlement Agreement) that specified that the Port District lease the 46.9-acre Teledyne Ryan property (hereinafter the Property) to the Authority commencing January 1, 2005. The Property is currently the subject of three pending legal actions:

The first action is a litigation, entitled; TDY Industries, Inc v. San Diego Unified Port District and San Diego Unified Port District v. TDY Industries, Inc. (consolidated), San Diego Superior Court Case No. GIC 779490, that resulted in a judgment in favor of the Port District and an award of damages in the amount of \$21,347,519, of which \$9,770,393 is an award for demolition and environmental abatement costs, but which is now on appeal.

The second action is a litigation, entitled; San Diego Unified Port District v. TDY Industries, *et al*, USDC No. 3:03CV1146, a pending federal court action wherein the Port District is seeking to recover cleanup costs and environmental damages from TDY.

The third action involved an order by the California Regional Water Quality Control Board, San Diego Region, entitled Cleanup and Abatement Order (CAO) No. R9-2004-0258, Code No. ICU:02-0381.05 for TDY Industries, Inc., TDY Holdings, LLC, Teledyne Ryan Aeronautical Company and Allegheny Technologies Incorporated, 2701 North Harbor Drive, San Diego, California, dated October 4, 2004, ordering the cleanup and abatement of the Property pursuant to California Water Code Section 13304.

The 2004 Port District-Authority Settlement Agreement contains, and the proposed lease of the Property will contain when approved, provisions dictating each party's future responsibility and source of funds for the demolition, abatement and remediation on the Property. As to the first action, the Port District has agreed to remit any funds received for demolition and abatement costs (presently the judgment of \$9,770,393 which is now on appeal) to the Authority to remediate the Property. Should the judgment amount be insufficient to complete the demolition and remediation as contemplated in the lawsuit or required by law, the Port District and Authority agree to equally share the remaining costs. The judgment is considered a gain contingency; therefore, the Authority has not recorded the anticipated remediation funds.

Note 12. Commitments and Contingencies, Continued

As to the second action, the matter is pending in federal district court and seeks damages for cleanup costs, remediation and environmental damages on the Property. The Authority has no reliable information on the estimated amount of monetary damages the Port is seeking against TDY Industries as they are not a party to the litigation. The Port District and Authority have agreed that the net sum of any judgment in the case, after deduction of litigation costs, shall be available to the Authority for cleanup and remediation costs on the Property. Should the net amount be insufficient to cover the costs, the Port District and Authority shall equally pay any remaining expenses.

As to the third case, an administrative matter pertaining substantially to the same issues as the second case, the Authority is not a party to the proceeding at this time. TDY Industries, Inc., TDY Holdings, LLC, Teledyne Ryan Aeronautical Company and Allegheny Technologies Incorporated (hereinafter Allegheny) are named in the California Regional Water Quality Control Board, San Diego Region, CAO that requires the Property to be remediated. Allegheny, however, has petitioned the Water Quality Control Board to add the Authority, the Port District, and General Dynamics Corporation to the CAO.

The Authority's management believes that ultimate liability resulting from the above cases, if any, will not be material to the Authority's financial condition.

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APPENDIX B

SUMMARIES OF THE MASTER INDENTURE AND THE FIRST SUPPLEMENTAL INDENTURE

DEFINITIONS

The following are definitions of certain terms used in this Official Statement including the summaries of the Master Indenture and the First Supplemental Indenture.

“*Accreted Value*” means (a) with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in a Supplemental Indenture as the amount representing the initial principal amount of such Capital Appreciation Bond plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Bonds plus the amount of the discounted principal which has accreted since the date of issue; in each case the Accreted Value will be determined in accordance with the provisions of the Supplemental Indenture authorizing the issuance of such Capital Appreciation Bond or Original Issue Discount Bonds. All references in the Master Indenture to “principal” includes Accreted Value, as applicable.

“*Act*” means Section 170000 *et seq.* of the California Public Utilities Code, as amended from time to time.

“*Aggregate Annual Debt Service*” means for any Fiscal Year the aggregate amount of Annual Debt Service on all Outstanding Bonds and Unissued Program Bonds. For purposes of calculating Aggregate Annual Debt Service, the following components of debt service will be computed as follows:

(a) in determining the amount of principal to be funded in each year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Bonds and Unissued Program Bonds in accordance with any amortization schedule established by the governing documents setting forth the terms of such Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Bonds or Original Issue Discount Bonds maturing or scheduled for redemption in such year; in determining the amount of interest to be funded in each year, interest payable at a fixed rate will (except to the extent subsection (b), (c) or (d) of this definition applies) be assumed to be made at such fixed rate and on the required funding dates; provided, however, that interest payable on the Bonds will be excluded to the extent such payments are to be paid from Capitalized Interest for such Fiscal Year;

(b) if all or any portion or portions of an Outstanding Series of Bonds, or Unissued Program Bonds constitute Balloon Indebtedness (excluding Program Bonds or Unissued Program Bonds to which subsection (f) applies), then, for purposes of determining Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness will, unless otherwise provided in the Supplemental Indenture pursuant to which such Balloon Indebtedness is issued or unless provision (c) of this definition then applies to such maturity, be treated as if it were to be amortized over a term of not more than 30 years and with substantially level annual debt service funding payments commencing not later than the year following the year in which such Balloon Indebtedness was issued, and extending not later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Authority, or if the Authority fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Bonds, Unissued Program Bonds or Program Bonds only a portion of which constitutes Balloon Indebtedness, the remaining portion

will be treated as described in (a) above or such other provision of this definition as will be applicable and, with respect to any Series, Unissued Program Bonds or Program Bonds or that portion of a Series thereof which constitutes Balloon Indebtedness, all funding requirements of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness will be treated as described in (a) above or such other provision of this definition as will be applicable;

(c) any maturity of Bonds which constitutes Balloon Indebtedness as described in provision (b) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation of Aggregate Annual Debt Service is made, will be assumed to become due and payable on the stated maturity date and provision (b) above will not apply thereto unless there is delivered to the entity making the calculation of Aggregate Annual Debt Service a certificate of an Authorized Authority Representative stating that the Authority intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Authority is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness will be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms will be used for purposes of calculating Aggregate Annual Debt Service, provided that such assumption will not result in an interest rate lower than that which would be assumed under provision (b) above and will be amortized over a term of not more than 30 years from the date of refinancing;

(d) if any Outstanding Bonds (including Program Bonds) or any Bonds which are then proposed to be issued constitute Tender Indebtedness (but excluding Program Bonds or Bonds as to which a Qualified Swap is in effect and to which subsection (g) or (h) applies), then, for purposes of determining Aggregate Annual Debt Service, Tender Indebtedness will be treated as if the principal amount of such Bonds were to be amortized over a term of not more than 30 years commencing in the year in which such Series is first subject to tender and with substantially level Annual Debt Service payments and extending not later than 30 years from the date such Tender Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Authority, or if the Authority fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and with respect to all funding requirements of principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender, such payments will be treated as described in (a) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date will be determined as provided in (e) or (f) below, as appropriate;

(e) if any Outstanding Bonds constitute Variable Rate Indebtedness, including obligations described in subsection (h)(ii) to the extent it applies (except to the extent subsection (b) or (c) relating to Balloon Indebtedness or (d) relating to Tender Indebtedness or subsection (h)(i) relating to Synthetic Fixed Rate Debt applies), the interest rate on such Bonds will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Authority, or if the Authority fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for variable rate Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(f) with respect to any Program Bonds or Unissued Program Bonds (other than a Commercial Paper Program) (i) debt service on Program Bonds then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (ii) with respect to Unissued Program Bonds, it will be assumed that the full principal amount of such Unissued Program Bonds will be amortized over a term certified by an Authorized Authority Representative at the time the initial Program Bonds of such Program are issued to be the expected duration of such Program or,

if such expectations have changed, over a term certified by an Authorized Authority Representative to be the expected duration of such Program at the time of such calculation, but not to exceed 30 years from the date the initial Program Bonds of such Program are issued and it will be assumed that debt service will be paid in substantially level Annual Debt Service payments over such assumed term; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Authority, or if the Authority fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(g) debt service on Repayment Obligations, to the extent such obligations constitute Bonds under the Master Indenture, will be calculated as provided in the Master Indenture;

(h) (i) for purposes of computing the Aggregate Annual Debt Service of Bonds which constitute Synthetic Fixed Rate Debt, the interest payable thereon will, if the Authority elects, be that rate as provided for by the terms of the Swap or the net interest rate payable pursuant to offsetting indices, as applicable; or, if the Authority fails to elect such rate, then it will be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Authority;

(ii) for purposes of computing the Aggregate Annual Debt Service of Bonds with respect to which a Swap has been entered into whereby the Authority has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Bonds to which such Swap pertains will be included in the calculation of Aggregate Annual Debt Service, and the interest rate with respect to such Bonds will, if the Authority elects, be the sum of that rate as determined in accordance with subsection (e) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Designated Debt and the rate received from the Swap Provider;

(i) with respect to any Commercial Paper Program which has been Implemented and not then terminated or with respect to any Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Authorized Amount of such Commercial Paper Program were to be amortized over a term of 35 years commencing in the year in which such Commercial Paper Program is Implemented and with substantially level Annual Debt Service payments; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Authority, or if the Authority fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed rate Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(j) if moneys or Permitted Investments have been irrevocably deposited with and are held by the Trustee or another fiduciary or Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid from such moneys, Permitted Investments, or Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Annual Debt Service; and

(k) if Passenger Facility Charges, state and/or federal grants or other moneys have been irrevocably committed or are held by the Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid

from such Passenger Facility Charges, state and/or federal grants or other moneys or from earnings thereon will be disregarded (unless such Passenger Facility Charges, state and/or federal grants or other moneys are included in the definition of Revenues) and not included in calculating Aggregate Annual Debt Service.

“*Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Aggregate Annual Debt Service for a Debt Service Reserve Fund with respect to all Outstanding Bonds participating in an identified Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Aggregate Annual Debt Service For Reserve Requirement for the respective Debt Service Reserve Fund, if any, for a Series of Bonds, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in a Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Bonds containing Balloon Indebtedness or Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Airport Facilities*” or “*Airport Facility*” means a facility or group of facilities or category of facilities which constitute or are part of the Airport System.

“*Airport System*” means all airports, airport sites, and all equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce under the jurisdiction and control of the Authority, including San Diego International Airport (Lindbergh Field), and any successor entities thereto, including all facilities and property related thereto, real or personal, under the jurisdiction or control of the Authority or in which the Authority has other rights or from which the Authority derives revenues at such location; and including or excluding, as the case may be, such property as the Authority may either acquire or which will be placed under its control, or divest or have removed from its control.

“*Annual Debt Service*” means, with respect to any Bond, the aggregate amount of principal and interest becoming due and payable during the Fiscal Year, and if a Qualified Swap is in effect for any Bond, plus the amount payable by the Authority (or the Trustee) under the Qualified Swap in accordance with the terms thereof, less any amount to be received by the Authority from the Qualified Swap Provider pursuant to the Qualified Swap, calculated using the principles and assumptions set forth in the definition of Aggregate Annual Debt Service.

“*Authority*” means the San Diego County Regional Airport Authority, created under the provisions of the Act, and any successor to its function. Any action required or authorized to be taken by the Authority in the Master Indenture may be taken by the Authorized Authority Representative with such formal approvals by the Authority as are required by the policies and practices of the Authority and applicable laws; provided, however, that any action taken by the Authorized Authority Representative in accordance with the provisions of the Master Indenture will conclusively be deemed by the Trustee and the Owners to be the act of the Authority without further evidence of the authorization thereof by the Authority.

“*Authorized Amount*” means, when used with respect to Bonds, including Bonds issued pursuant to a Program, the maximum Principal Amount of Bonds which is then authorized by a resolution adopted by the Board or a Supplemental Indenture entered into by the Authority pursuant to the Master Indenture to be Outstanding at any one time under the terms of such Program or Supplemental Indenture. If the maximum Principal Amount of Bonds or Program Bonds authorized by a preliminary resolution or form of Supplemental Indenture approved by the Authority pursuant to the Master Indenture exceeds the maximum Principal Amount of Bonds set forth in the final definitive Supplemental Indenture executed and delivered by the Authority pursuant to which such Bonds are issued or such Program is established, the Principal Amount of such Bonds or Program Bonds as is set forth in said final definitive Supplemental Indenture as executed and delivered by the Authority will be deemed to be the “Authorized Amount.”

“*Authorized Authority Representative*” means the Executive Director of the Authority, or such other officer or employee of the Authority or other person which other officer, employee or person has been designated by the

Executive Director as an Authorized Authority Representative by written notice delivered by the Executive Director to the Trustee.

“*Authorized Denominations*” means \$5,000 principal amount and integral multiples thereof.

“*Balloon Indebtedness*” means, with respect to any Series of Bonds 50% or more of the principal of which matures on the same date or within a Fiscal Year, that portion of such Series which matures on such date or within such Fiscal Year; provided, however, that to constitute Balloon Indebtedness the amount of Bonds of a Series maturing on a single date or within a Fiscal Year must equal or exceed 150% of the amount of such Series which matures during any Fiscal Year. For purposes of this definition, the principal amount maturing on any date will be reduced by the amount of such Bonds, scheduled to be amortized by prepayment or redemption prior to their stated maturity date. A Commercial Paper Program and the Commercial Paper constituting part of such Program will not be Balloon Indebtedness.

“*Board*” means the board of directors of the Authority established pursuant to the provisions of the Act.

“*Bond*” or “*Bonds*” means any debt obligation of the Authority issued as a taxable or tax-exempt obligation under and in accordance with the provisions of the Master Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper notes and other instruments creating an indebtedness of the Authority, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Repayment Obligations to the extent provided in the Master Indenture. The term “*Bond*” or “*Bonds*” in the Master Indenture does not include any Subordinate Obligation; provided, however, that the Authority may provide in a Supplemental Indenture to the Master Indenture that Subordinate Obligations may be thenceforth issued pursuant to the Master Indenture having the terms applicable to the Bonds, except that such Subordinate Obligations will be junior and subordinate in payment to the Bonds from Net Revenues. The term “*Bond*” and “*Bonds*” includes Program Bonds.

“*Bond Counsel*” means a firm or firms of attorneys which are nationally recognized as experts in the area of municipal finance and which are familiar with the transactions contemplated under the Master Indenture and which are acceptable to the Authority.

“*Bondholder*,” “*holder*,” “*Owner*,” “*owner*” or “*registered owner*” means the person in whose name any Bond or Bonds are registered on the books maintained by the Registrar and will include any Credit Provider or Liquidity Provider to which a Repayment Obligation is then owed, to the extent that such Repayment Obligation is deemed to be a Bond under the provisions of the Master Indenture.

“*Business Day*” means a day on which banks located in New York, New York, in San Diego, California, and in the city in which the principal corporate trust office of the Trustee is located are open, provided that such term may have a different meaning for any specified Series of Bonds if so provided by Supplemental Indenture.

“*Capital Appreciation Bonds*” means Bonds all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Indenture and is payable only upon redemption or on the maturity date of such Bonds. Bonds which are issued as Capital Appreciation Bonds, but later convert to Bonds on which interest is paid periodically will be Capital Appreciation Bonds until the conversion date and from and after such conversion date will no longer be Capital Appreciation Bonds, but will be treated as having a principal amount equal to their Accreted Value on the conversion date.

“*Capitalized Interest*” means the amount of interest on Bonds, if any, funded from the proceeds of the Bonds or other monies that are deposited with the Trustee in the Debt Service Fund as will be described in a Supplemental Indenture upon issuance of Bonds to be used to pay interest on the Bonds.

“*Chair*” means the chair of the Board or such other title as the Board or the Act may from time to time assign for such position.

“Code” means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations applicable with respect thereto.

“Commercial Paper” means notes of the Authority with a maturity of not more than 270 days from the date of issuance and which are issued and reissued from time to time pursuant to a Program adopted by the Authority.

“Commercial Paper Program” means a Program authorized by the Authority pursuant to which Commercial Paper will be issued and reissued from time to time, up to the Authorized Amount of such Program.

“Construction Fund” means any of the Construction Funds authorized to be created as provided by the Master Indenture.

“Consultant” means any Independent consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm, financial advisory or investment banking firm, or other expert recognized to be well-qualified for work of the character required and retained by the Authority to perform acts and carry out the duties provided for such consultant in the Master Indenture.

“Costs” or “Costs of a Project” means all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and will include, but not be limited to the following: (a) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (b) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (c) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the Authority or a Consultant; (d) costs of the Authority properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (e) financing expenses, including costs related to issuance of and securing of Bonds, costs of Credit Facilities, Liquidity Facilities, Capitalized Interest, a Debt Service Reserve Fund, if any, Trustee’s fees and expenses; (f) any Swap Termination Payments due in connection with a Series of Bonds or the failure to issue such Series of Bonds, and (g) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Authority.

“Credit Facility” means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, Debt Service Reserve Fund Surety Policy or other financial instrument which obligates a third party to make payment of or provide funds to the Trustee for the payment of the principal or Accreted Value of and/or interest on Bonds whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Authority fails to do so.

“Credit Provider” means the party obligated to make payment of principal of and interest on the Bonds under a Credit Facility.

“Debt Service Fund” or “Debt Service Funds” means a Debt Service Fund or any of the Debt Service Funds required to be created as provided by the Master Indenture.

“Debt Service Reserve Fund” means any Debt Service Reserve Fund created by the Authority or the Trustee pursuant to a Supplemental Indenture in connection with the issuance of any Series of Bonds and that is required to be funded for the purpose of providing additional security for such Series of Bonds and under certain circumstances to provide additional security for such other designated Series of Bonds issued pursuant to the terms of the Master Indenture and as specified in any Supplemental Indenture.

“Debt Service Reserve Fund Surety Policy” means an insurance policy or surety bond, or a letter of credit, deposited with the Trustee for the credit of the Debt Service Reserve Fund created for one or more series of

Outstanding Bonds in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Debt Service Reserve Fund Surety Policy will be rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

“*Designated Debt*” means a specific indebtedness, designated by the Authority, in which such debt will be offset with a Swap, such specific indebtedness to include all or any part of a Series of Bonds.

“*Estimated Completion Date*” means the estimated date upon which a specified Project will have been substantially completed in accordance with the plans and specifications applicable thereto or the estimated date upon which a specified Project is expected to have been acquired and payment therefor made, in each case, as that date will be set forth in a certificate of an Authorized Authority Representative delivered to the Trustee at or prior to the time of issuance of the Bonds which are issued to finance such specified Project.

“*Event of Default*” means any occurrence or event specified as an “Event of Default” in the Master Indenture.

“*Executive Director*” means the person at a given time who is the executive director of the Authority, as provided for in the Act, or such other title as the Authority may from time to time assign for such position, including, but not limited to President/CEO, and the officer or officers succeeding to such position as certified to the Trustee by the Authority.

“*Facilities Construction Credit*” and “*Facilities Construction Credits*” means the amounts further described in the Master Indenture resulting from an arrangement embodied in a written agreement of the Authority and another person or entity pursuant to which the Authority permits such person or entity to make a payment or payments to the Authority which is reduced by the amount owed by the Authority to such person or entity under such agreement, resulting in a net payment to the Authority by such person or entity. The “*Facilities Construction Credit*” will be deemed to be the amount owed by the Authority under such agreement which is “netted” against the payment of such person or entity to the Authority. Facilities Construction Credits are some times referred to as “rental credits.”

“*Financial Guaranty Insurance Policy*” means the financial guaranty insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the Series 2005 Bonds.

“*First Supplemental Indenture*” means the First Supplemental Trust Indenture, dated as of November 1, 2005, by and between the Authority and the Trustee and which sets forth the terms of the Series 2005 Bonds.

“*Fiscal Year*” means the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other similar period as the Authority designates as its fiscal year.

“*Fitch*” means Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation will for any reason no longer perform the functions of a securities rating agency, “Fitch” will be deemed to refer to any nationally recognized rating agency designated by the Authority.

“*General Counsel*” means the in-house general counsel to the Authority who is responsible for representing the Authority on legal matters.

“*Government Obligations*” means (a) United States Obligations (including obligations issued or held in book-entry form), (b) preredempted municipal obligations meeting the following conditions: (i) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (iii) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (iv) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (v) the United States Obligations are not

available to satisfy any other claims, including those against the trustee or escrow agent; and (vi) the municipal obligations are rated in their highest rating category by one or more of the Rating Agencies, but only if such Rating Agencies have been requested by the Authority to maintain a rating on the Bonds and such Rating Agencies are then maintaining a rating on any of the Bonds; and (c) any other type of security or obligation which the Rating Agencies then maintaining ratings on the Bonds to be defeased have determined to be permitted defeasance securities.

“*Implemented*” means, when used with respect to a Program, a Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Program, the provisions of the Master Indenture have been complied with by the Authority.

“*Indenture*” means the Master Trust Indenture together with all Supplemental Indentures, including the First Supplemental Indenture.

“*Independent*” means, when used with respect to any specified firm or individual, such a firm or individual who (a) does not have any direct financial interest or any material indirect financial interest in the operations of the Authority, other than the payment to be received under a contract for services to be performed, and (b) is not connected with the Authority as an official, officer or employee.

“*Initial Bonds*” means the Series 2005 Bonds.

“*Insurer*” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto.

“*Interest Payment Date*” means each January 1 and July 1, commencing January 1, 2006, the dates upon which interest on the Series 2005 Bonds become due and payable.

“*Investment Agreement*” means an investment agreement or guaranteed investment contract (a) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short-term rating category (if the term of the Investment Agreement is less than three years) or in either of the two highest long-term Rating Categories (if the term of the Investment Agreement is three years or longer) by one or more of the Rating Agencies, or (b) which investment agreement or guaranteed investment contract is fully secured by obligations described in items (a) or (b) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 103% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

“*Liquidity Facility*” means a letter of credit, line of credit, standby purchase agreement or other financial instrument, including a Credit Facility, which is available to provide funds with which to purchase Bonds.

“*Liquidity Provider*” means the entity, including a Credit Provider, which is obligated to provide funds to purchase Bonds under the terms of a Liquidity Facility.

“*Mail*” means by first-class United States mail, postage prepaid.

“*Master Indenture*” means the Master Trust Indenture, dated as of November 1, 2005, by and between the Authority and the Trustee, together with all amendments thereto.

“*Maximum Aggregate Annual Debt Service*” means the maximum amount of Aggregate Annual Debt Service with respect to all Bonds, Unissued Program Bonds, and the Authorized Amount of all Bonds then proposed to be issued in the then current or any future Fiscal Year.

“*Maximum Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Maximum Aggregate Annual Debt Service for a Debt Service Reserve Fund with respect to all Outstanding Bonds

participating in an identified Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Maximum Aggregate Annual Debt Service For Reserve Requirement for the respective Debt Service Reserve Fund, if any, for a Series of Bonds the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in an identified Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Bonds containing Balloon Indebtedness or Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Moody’s*” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation will for any reason no longer perform the functions of a securities rating agency, “*Moody’s*” will be deemed to refer to any other nationally recognized rating agency designated by the Authority.

“*Net Proceeds*” means insurance proceeds received as a result of damage to or destruction of Airport Facilities or any condemnation award or amounts received by the Authority from the sale of Airport Facilities under the threat of condemnation less expenses (including attorneys’ fees and expenses and any fees and expenses of the Trustee) incurred in the collection of such proceeds or award.

“*Net Revenues*” means, for any given period, the Revenues for such period less, for such period, the Operation and Maintenance Expenses of the Airport System.

“*Notes*” means Bonds issued under the provisions of the Master Indenture which have a maturity of one year or less from their date of original issuance and which are not part of a Commercial Paper Program.

“*Operation and Maintenance Expenses of the Airport System*” means, for any given period, the total operation and maintenance expenses of the Airport System as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of the Airport System payable from moneys other than Revenues.

“*Operation and Maintenance Reserve Subaccount*” means the “Operation and Maintenance Reserve Subaccount” created by the Authority within the Revenue Account pursuant to the Master Indenture.

“*Operation and Maintenance Reserve Subaccount Requirement*” means, as of any date of calculation, an amount equal to one-fourth (1/4) of the current annual budget of the Authority for Operation and Maintenance Expenses of the Airport System or such higher amount as may be established by the Authority from time to time.

“*Operation and Maintenance Subaccount*” means the “Operation and Maintenance Subaccount” created by the Authority within the Revenue Account pursuant to the Master Indenture.

“*Original Issue Discount Bonds*” means Bonds which are sold at an initial public offering price of less than face value and which are specifically designated as Original Issue Discount Bonds by the Supplemental Indenture under which such Bonds are issued.

“*Outstanding*” when used with respect to Bonds means all Bonds which have been authenticated and delivered under the Master Indenture, except:

- (a) Bonds cancelled or purchased by the Trustee for cancellation or delivered to or acquired by the Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;
- (b) Bonds deemed to be paid in accordance with the Master Indenture;

(c) Bonds in lieu of which other Bonds have been authenticated under the provisions of the Master Indenture;

(d) Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Trustee or a Paying Agent;

(e) Bonds which, under the terms of the Supplemental Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;

(f) Repayment Obligations deemed to be Bonds under the Master Indenture to the extent such Repayment Obligation arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Bonds acquired by the Liquidity Provider; and

(g) for purposes of any consent or other action to be taken by the holders of a specified percentage of Bonds under the Master Indenture, Bonds held by or for the account of the Authority or by any person controlling, controlled by or under common control with the Authority, unless such Bonds are pledged to secure a debt to an unrelated party.

“*Passenger Facility Charges*” means charges collected by the Authority pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 and 14 CFR Part 158, as amended from time to time, in respect of any component of the Airport System and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

“*Paying Agent*” or “*Paying Agents*” means, with respect to the Bonds or any Series of Bonds, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Indenture or a resolution of the Authority as the place where such Bonds will be payable. The Trustee will act a Paying Agent with respect to the Series 2005 Bonds.

“*Payment Date*” means, with respect to any Bonds, each date on which interest is due and payable thereon and each date on which principal is due and payable thereon whether by maturity or redemption thereof.

“*Permitted Investments*” means any of the following, but only to the extent permitted by the laws of the State and the Authority’s investment policy and except as otherwise limited pursuant to a Supplemental Indenture:

(a) United States Obligations;

(b) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration;

(c) Direct and general long-term obligations of any state, which obligations are rated in one of the two highest Rating Categories by one or more of the Rating Agencies;

(d) Direct and general short-term obligations of any state which obligations are rated in the highest Rating Category by one or more of the Rating Agencies;

(e) Interest-bearing demand or time deposits (including certificates of deposit) or interests in money market portfolios issued by state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation (“FDIC”) or by savings and loan associations that are members of the FDIC, which deposits or interests must either be (i) continuously and fully insured by FDIC and with banks that are rated at least in the highest short-term Rating Category by one or more of the

Rating Agencies or is rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies; or (ii) fully secured by obligations described in item (a) or (b) of this definition of Permitted Investments (A) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (B) held by the Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (C) subject to a perfected first lien in favor of the Trustee, and (D) free and clear from all third-party liens;

(f) Long-term or medium-term corporate debt guaranteed by any corporation that is rated in one of the two highest Rating Categories by one or more of the Rating Agencies;

(g) Repurchase agreements which are (A) entered into with banks or trust companies organized under state law, national banking associations, insurance companies or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and which either are members of the Security Investors Protection Corporation or with a dealer or parent holding company that has an investment grade rating from one or more of the Rating Agencies and (B) fully secured by obligations specified in items (a) or (b) of this definition of Permitted Investments (1) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements, (2) held by the Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (3) subject to a perfected first lien in favor of the Trustee and (4) free and clear from all third-party liens;

(h) Prime commercial paper of a United States corporation, finance company or banking institution rated in the highest short-term Rating Category of one or more of the Rating Agencies;

(i) Shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940, as amended) or shares in a regulated investment company (as defined in Section 851(a) of the Code) that is (A) a money market fund that has been rated in one of the two highest Rating Categories by one or more of the Rating Agencies or (B) a money market fund or account of the Trustee or any state or federal bank that is rated at least in the highest short-term Rating Category by one or more of the Rating Agencies or is rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies, or whose one bank holding company parent is rated at least in the highest short-term Rating Category by one or more of the Rating Agencies or is rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies, or that has a combined capital and surplus of not less than \$50,000,000;

(j) Interest bearing notes issued by a banking institution having a combined capital and surplus of at least \$500,000,000 and whose senior debt is in the highest Rating Category by one or more of the Rating Agencies;

(k) Public housing bonds issued by public agencies which are either unconditionally guaranteed as to principal and interest by the United States of America, or rated in the highest Rating Category by one or more of the Rating Agencies;

(l) Obligations issued or guaranteed by Private Export Funding Corporation, Resolution Funding Corporation and any other instrumentality or agency of the United States of America;

(m) Investment Agreements;

(n) Any other type of investment consistent with Authority policy in which the Authority directs the Trustee to invest provided that there is delivered to the Trustee a certificate of an Authorized Authority Representative stating that each of the Rating Agencies then maintaining a rating on the Bonds has been informed of the proposal to invest in such investment and each of such Rating Agencies has

confirmed that such investment will not adversely affect the rating then assigned by such rating agency to any of the Bonds;

(o) Any state administered pool investment fund in which the Authority is statutorily permitted or required to invest (including but not limited to the State of California Local Agency Fund (“LAIF”) established pursuant to Section 16429.1 et seq. of the Government Code of the State); and

(p) The San Diego County Investment Pool (“SDCIP”). The Authority may invest in SDCIP up to the LAIF statutory limit.

(q) any other investment which is a permitted investment of the Authority in accordance with the laws of the State.

“*Port District*” means the San Diego Unified Port District, a port district duly organized and existing pursuant to Appendix 1 of the California Harbors and Navigation Code, as amended from time to time.

“*Principal Amount*” or “*principal amount*” means, as of any date of calculation, (a) with respect to any Capital Appreciation Bond, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), (b) with respect to any Original Issue Discount Bond, the Accreted Value thereof, unless the Supplemental Indenture under which such Bond was issued will specify a different amount, in which case, the terms of the Supplemental Indenture will control, and (c) with respect to any other Bonds, the principal amount of such Bond payable at maturity.

“*Program*” means a financing program identified in a Supplemental Indenture, including but not limited to a Commercial Paper Program, (a) which is authorized and the terms thereof approved by a resolution adopted by the Board and the items described in the Master Indenture have been filed with the Trustee, (b) wherein the Authority has authorized the issuance, from time to time, of notes, commercial paper or other indebtedness in an Authorized Amount, and (c) the Authorized Amount of which has met the additional bonds test set forth in the Master Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Authorized Amount.

“*Program Bonds*” means Bonds issued and Outstanding pursuant to a Program, other than Unissued Program Bonds.

“*Project*” means any and all facilities, improvements and other expenditures related to the Airport System financed in whole or in part with proceeds of a Series of Bonds.

“*Qualified Swap*” means any Swap (a) whose Designated Debt is all or part of a particular Series of Bonds; (b) whose Swap Provider is a Qualified Swap Provider or has been a Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Annual Debt Service or Aggregate Annual Debt Service is being made; (c) which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; and (d) which has been designated in writing to the Trustee by the Authority as a Qualified Swap with respect to such Bonds.

“*Qualified Swap Provider*” means a financial institution whose senior long-term debt obligations, or whose obligations under any Qualified Swap are (a) guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated at least “A1,” in the case of Moody’s and “A+,” in the case of S&P, or the equivalent thereto in the case of any successor thereto, or (b) fully secured by obligations described in items (a) or (b) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

“*Rating Agency*” and “*Rating Agencies*” means Fitch, Moody’s or S&P, or any other nationally recognized rating agency of municipal obligations, but only if such Rating Agencies have been requested by the Authority to maintain a rating on the Bonds and such Rating Agencies are then maintaining a rating on any of the Bonds.

“*Rating Category*” and “*Rating Categories*” means (a) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier, and (b) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“*Rebate Fund*” means any fund created by the Authority or the Trustee pursuant to a Supplemental Indenture in connection with the issuance of the Bonds or any Series of Bonds for the purpose of complying with the Code and providing for the collection and holding for and payment of amounts to the United States of America.

“*Record Date*” means, with respect to any Series of Bonds, the record date as specified in the Supplemental Indenture which provides for the issuance of such Series. With respect to the Series 2005 Bonds, “*Record Date*” means for a January 1 Interest Payment Date the preceding December 15 and for a July 1 Interest Payment Date the preceding June 15.

“*Refunding Bonds*” means any Bonds issued pursuant to the Master Indenture to refund or defease all or a portion of any series of Outstanding Bonds.

“*Registrar*” means, with respect to the Bonds or any Series of Bonds, the bank, trust company or other entity designated in a Supplemental Indenture or a resolution of the Authority to perform the function of Registrar under the Master Indenture or any Supplemental Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Master Indenture. The Trustee will act as Registrar for the Series 2005 Bonds.

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

“*Released Revenues*” means Revenues in respect of which the following have been filed with the Trustee:

- (a) a resolution of the Board describing a specific identifiable portion of Revenues and approving that such Revenues be excluded from the term Revenues;
- (b) either (i) a certificate prepared by an Authorized Authority Representative showing that Net Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of Revenues covered by the Board’s resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through SEVENTH as described under the caption entitled “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Flow of Funds” in this Official Statement, or (B) an amount not less than 150% of average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Revenues (excluding the specific identifiable portion of Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through SEVENTH as described under the caption entitled “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Flow of Funds” in this Official Statement, or (B) an amount not less than 150% of the average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of Revenues;

(c) an opinion of Bond Counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of Revenues and from the pledge and lien of the Master Indenture will not, in and of itself, cause the interest on any Outstanding Bonds to be included in gross income for purposes of federal income tax; and

(d) written confirmation from each of Fitch, Moody's and S&P (provided such Rating Agencies have been requested by the Authority to maintain a rating on the Bonds and such Rating Agencies are then maintaining a rating on any of the Bonds) to the effect that the exclusion of such specific identifiable portion of Revenues from the pledge and lien of the Master Indenture will not cause a withdrawal or reduction in any unenhanced rating then assigned to the Bonds.

Upon filing of such documents, the specific identifiable portion of Revenues described in the resolution of the Board will no longer be included in Revenues and will be excluded from the pledge and lien of the Master Indenture, unless otherwise included in Revenues and in the pledge and lien of the Master Indenture pursuant to a Supplemental Indenture.

“Renewal and Replacement Subaccount” means the “Renewal and Replacement Subaccount” created by the Authority within the Revenue Account pursuant to the Master Indenture.

“Renewal and Replacement Subaccount Requirement” means, as of any date of calculation, such minimum amount as will be established by the Authority from time to time.

“Repayment Obligations” means an obligation arising under a written agreement of the Authority and a Credit Provider pursuant to which the Authority agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Bonds or an obligation arising under a written agreement of the Authority and a Liquidity Provider pursuant to which the Authority agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Bonds.

“Reserve Fund Insurance Policy” means an insurance policy, a letter of credit, qualified surety bond or other financial instrument deposited in the Reserve Fund in lieu of or in partial substitution for cash or securities which is provided by an institution rated in one of the two highest long term Rating Categories by one or more of the Rating Agencies, and if rated by A.M. Best & Company, such institution must be rated in the highest rating category by A.M. Best & Company.

“Reserve Requirement” means an amount equal to the lesser of (a) Maximum Aggregate Annual Debt Service For Reserve Requirement for all Series of Bonds participating in the Reserve Fund, (b) 10% of the principal amount of the Series of Bonds that have been issued and are participating in the Reserve Fund, less the amount of original issue discount with respect to such Series of Bonds if such original issue discount exceeded 2% on such Series of Bonds at the time of their original sale and (c) 125% of the average Aggregate Annual Debt Service For Reserve Requirement for all Series of Bonds participating in the Reserve Fund. When calculating the Reserve Requirement, all references to Fiscal Year will mean a 12-month period beginning on July 2 of each given year and ending on July 1 of the immediate subsequent year.

“Responsible Officer” means an officer or assistant officer of the Trustee assigned by the Trustee to administer the Master Indenture.

“Revenue Account” means the account by that name in the Revenue Fund established pursuant to the Master Indenture.

“Revenue Fund” means the “San Diego County Regional Airport Authority Revenue Fund” established by the Authority and held and maintained by the Authority for the purpose of depositing all Revenues and other moneys and funds not included in Revenues.

“Revenues” means, except to the extent specifically excluded herefrom, all income, receipts, earnings and revenues received by the Authority from the operation and ownership of the Airport System, as determined in

accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to, (a) rates, tolls, fees, rentals, charges and other payments made to or owed to the Authority for the use or availability of the Airport System, and (b) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Authority, including rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Authority or any successor thereto from the possession, management, charge, superintendence and control of the Airport System and its related facilities or activities and undertakings related thereto or from any other facilities wherever located with respect to which the Authority receives payments which are attributable to the Airport System or activities or undertakings related thereto. Additionally, "Revenues" will also include amounts received from tenants representing the principal portion of payments received pursuant to certain self-liquidating lease agreements, all income, receipts and earnings (except any earning allowed to be pledged by the terms of a Supplemental Indenture to fund the Construction Fund) from the investment of amounts held in the Revenue Account, any Construction Fund, any Debt Service Fund (except Capitalized Interest on deposit therein), any Debt Service Reserve Fund and such additional revenues, if any, as are designated as "Revenues" under the terms of any Supplemental Indenture. The following, including any investment earnings thereon, are specifically excluded from Revenues: (i) any amounts received by the Authority from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in this definition of "Revenues" which are restricted by their terms to purposes inconsistent with the payment of debt service on the Bonds, (iii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Bonds (except to the extent Net Proceeds are utilized to pay Operation and Maintenance Expenses of the Airport System), and (iv) Special Facilities Revenue (to the extent there is no excess Special Facilities Revenue as described in the Master Indenture). In addition, the following, including any investment earnings thereon, are specifically excluded from "Revenues," unless designated as "Revenues" under the terms of a Supplemental Indenture or pursuant to a certificate of an Authorized Authority Representative: (A) any Swap Termination Payments paid to the Authority pursuant to a Qualified Swap, (B) Facilities Construction Credits, (C) Passenger Facility Charges, (D) Released Revenues, (E) subject to (ii) in the previous sentence, grants and other charges authorized on or after the date of the Master Indenture by federal and/or State laws or regulations to be assessed to fund specific programs at the Airport System, (F) investment income derived from any moneys or securities which may be placed in escrow or trust to defease Bonds, (G) any arbitrage earnings which are required to be paid to the U.S. Government pursuant to Section 148 of the Code and (H) Capitalized Interest. Further, interest earnings or other investment earnings on any Construction Fund established by any Supplemental Indenture are specifically excluded from "Revenues," unless otherwise provided for in such Supplemental Indenture.

"*Serial Bonds*" means Bonds for which no sinking installment payments are provided.

"*Series*" means Bonds designated as a separate Series by a Supplemental Indenture and, with respect to Program Bonds or a Commercial Paper Program, means the full Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Indenture, designated as separate Series.

"*Series 2005 Bonds*" means the \$56,270,000 aggregate principal amount of the Series 2005 Bonds issued under the Master Indenture and the First Supplemental Indenture and designated "San Diego County Regional Airport Authority Airport Revenue Refunding Bonds, Series 2005."

"*Significant Portion*" means, for purposes of the Master Indenture, any Airport Facilities or portions thereof which, if such facilities had been sold or disposed of by the Authority at the beginning of an annual period which includes the month of commencement of the 12-month period ending on the day of such disposition would have resulted in a reduction in Net Revenues for such annual period of more than 5% when the actual Net Revenues for such annual period are decreased by the Revenues directly attributable to such Airport Facilities and increased by the expenses of the Authority directly attributable to such Airport Facilities. The Authority will notify each of the Rating Agencies that the Authority has requested ratings from and who are then maintaining a rating on any of the Bonds prior to the selling or disposing of a Significant Portion of any Airport Facilities or portions thereof.

"*S&P*" means Standard & Poor's Ratings Group, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if such corporation will for any reason no longer perform

the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority.

“*Special Facilities*” or “*Special Facility*” means a facility or group of facilities or category of facilities which are designated as a Special Facility pursuant to the provisions of the Master Indenture.

“*Special Facilities Revenue*” means the contractual payments and all other revenues (other than ground rentals relating to such Special Facility) derived by or available to the Authority from a Special Facility which are pledged to secure Special Facility Obligations.

“*Special Facility Obligations*” means bonds or other debt instruments issued pursuant to an indenture other than the Master Indenture to finance Special Facilities and which are not secured by nor payable from a lien on and pledge of the Net Revenues but which are secured by revenues derived from Special Facilities.

“*Specified Project*” means a Project or a group of alternative Projects which are described in a certificate of an Authorized Authority Representative, which is delivered to the Consultant preparing the certificate described in the Master Indenture, if applicable, the revenues and expenses of which Project or of the alternative Projects are to be taken into account by such Consultant in preparing the certificate required under the Master Indenture.

“*State*” means the State of California.

“*Subordinate Commercial Paper Notes*” means the Authority’s Subordinate Airport Revenue Commercial Paper Notes (Lindbergh Field) issued and outstanding, from time to time, pursuant to the Subordinate Commercial Paper Notes Indenture.

“*Subordinate Commercial Paper Notes Indenture*” means that certain Subordinate Indenture, dated as of October 1, 1997, between the Authority (as successor to the Port District) and the Subordinate Commercial Paper Notes Trustee, as amended and supplemented pursuant to that certain First Supplemental Subordinate Indenture, dated as of July 1, 2000, between the Authority (as successor to the Port District) and the Subordinate Commercial Paper Notes Trustee.

“*Subordinate Commercial Paper Notes Reimbursement Obligations*” means the amounts owed to BNP Paribas, San Francisco Branch, pursuant to that certain Reimbursement Agreement, dated as of September 1, 2002, between the Authority (as successor to the Port District) and BNP Paribas, San Francisco Branch, which was entered into in connection with the issuance by BNP Paribas, San Francisco Branch, of those certain letters of credit as support for the Subordinate Commercial Paper Notes.

“*Subordinate Commercial Paper Notes Trustee*” means Deutsche Bank Trust Company Americas (formerly Bankers Trust Company of California, N.A.), as trustee under the Subordinate Commercial Paper Notes Indenture.

“*Subordinate Obligation*” means any bond, note or other debt instrument issued or otherwise entered into by the Authority which ranks junior and subordinate to the Bonds and which may be paid from moneys constituting Net Revenues only if all amounts of principal and interest which have become due and payable on the Bonds whether by maturity, redemption or acceleration have been paid in full and the Authority is current on all payments, if any, required to be made to replenish all Debt Service Reserve Funds. “Subordinate Obligations” will include the Subordinate Commercial Paper Notes and the Subordinate Commercial Paper Notes Reimbursement Obligations. “Subordinate Obligations” are not Bonds for purposes of the Master Indenture; provided, however, that the Authority may henceforth by Supplemental Indenture elect to have the provisions of the Master Indenture applicable to the Bonds apply to the Subordinate Obligations issued thereunder, except that such Subordinate Obligations will be secured on a junior and subordinate basis to the Bonds from the Net Revenues. Except for the Subordinate Commercial Paper Notes and the Subordinate Commercial Paper Notes Reimbursement Obligations, no bond, note or other instrument of indebtedness will be deemed to be a “Subordinate Obligation” for purposes of the Master Indenture and payable on a subordinate basis from Net Revenues unless specifically designated by the Authority as a “Subordinate Obligation” in a Supplemental Indenture or other written instrument. In connection with any

Subordinate Obligation with respect to which a Swap is in effect or proposes to be in effect, the term “Subordinate Obligation” includes, collectively, both such Subordinate Obligation and either such Swap or the obligations of the Authority under each such Swap, as the context requires. The term “Subordinate Obligations” also includes a Swap or the obligations of the Authority under such Swap which has been entered into in connection with a Subordinate Obligation, as the context requires, although none of the Subordinate Obligations with respect to which such Swap was entered into remain outstanding. In connection with any Bonds with respect to which a Qualified Swap is in effect or proposed to be in effect, the term “Subordinate Obligation” includes any Swap Termination Payment if designated as a Subordinate Obligation in a Supplemental Indenture.

“*Subordinate Obligation Trustee*” means the entity named and serving as the trustee under a Subordinate Obligation Trust Indenture, until a successor replaces it and, thereafter, means such successor. “Subordinate Obligation Trustee” includes the Subordinate Commercial Paper Notes Trustee.

“*Subordinate Obligation Trust Indenture*” means a separate trust indenture entered into by the Authority with a Subordinate Obligation Trustee which provides for the issuance of Subordinate Obligations. “Subordinate Obligation Trust Indenture” includes the Subordinate Commercial Paper Notes Indenture.

“*Supplemental Indenture*” means any document supplementing or amending the Master Indenture or providing for the issuance of Bonds and entered into as provided in the Master Indenture.

“*Swap*” means any financial arrangement between the Authority and a Swap Provider which provides that (a) each of the parties will pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or a variable rate or measured against some other rate) on a Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid before it is deemed to have accrued, the amount paid will reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid after it is deemed to have accrued will reflect the time value of such funds; (c) payment dates and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one will pay to the other any net amount due under such arrangement.

“*Swap Provider*” means a party to a Swap with the Authority.

“*Swap Termination Payment*” means an amount payable by the Authority or a Qualified Swap Provider, in accordance with a Qualified Swap, to compensate the other party to the Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Qualified Swap.

“*Synthetic Fixed Rate Debt*” means indebtedness issued by the Authority which: (a) is combined, as Designated Debt, with a Qualified Swap and creates, in the opinion of a Consultant, a substantially fixed-rate maturity or maturities for a term not exceeding such maturity or maturities, or (b) consisting of an arrangement in which two inversely related variable-rate securities are issued in equal principal amounts with interest based on off-setting indices resulting in a combined payment which is economically equivalent to a fixed rate.

“*Tax Compliance Certificate*” means the certificate of the Authority prepared by Bond Counsel and delivered by the Authority at the time of issuance and delivery of any Series of Bonds, the interest on which is excluded from gross income for federal income tax purposes pursuant to a favorable opinion of such Bond Counsel, making certifications and representations of the Authority as to the status of such Bonds under the Code.

“*Tender Indebtedness*” means any Bonds or portions of Bonds a feature of which is an obligation on the part of the Bondholders, under the terms of such Bonds, to tender all or a portion of such Bonds to the Authority, the Trustee, the Paying Agent or other fiduciary or agent or Credit Provider or Liquidity Provider for payment or purchase and requiring that such Bonds or portions of Bonds be purchased if properly presented.

“*Term Bonds*” means Bonds of a Series which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental Indenture for such Series for that purpose and calculated to retire the Bonds on or before their specified maturity dates.

“*Trustee*” means The Bank of New York Trust Company, N.A., until a successor replaces it and, thereafter, means such successor.

“*Unissued Program Bonds*” means the bonds, notes or other indebtedness authorized to be issued pursuant to a Program and payable from Net Revenues, issuable in an amount up to the Authorized Amount relating to such Program, which have been approved for issuance by the Authority pursuant to a resolution adopted by the Board and with respect to which Program the items described in the Master Indenture have been filed with the Trustee but which have not yet been authenticated and delivered pursuant to the Program documents.

“*United States Bankruptcy Code*” means Title 11 U.S.C., Section 101 et seq., as amended or supplemented from time to time, or any successor federal act.

“*United States Obligations*” means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including, with respect only to direct and general obligations and not to guaranteed obligations, evidences of ownership of proportionate interests in future interest and/or principal payments of such obligations, provided that investments in such proportionate interests must be limited to circumstances wherein: (a) a bank or trust company acts as custodian and holds the underlying United States Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (c) the underlying United States Obligations are held in a special account separate from the custodian’s general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated. “United States Obligations” include any stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

“*Variable Rate Indebtedness*” means any Bond or Bonds the interest rate on which is not, at the time in question, fixed to maturity, excluding any Commercial Paper Program.

“*Vice President of Finance*” means the person at a given time who is the Vice President of Finance and Treasurer of the Authority or such other title (i.e. Chief Financial Officer) as the Authority may from time to time assign for such position and the officer or officers succeeding to such position as certified to the Trustee by the Authority.

MASTER INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2005 BONDS,” “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS” and “OTHER OBLIGATIONS OF THE AUTHORITY” in this Official Statement, the following is a summary of certain provisions of the Master Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Master Indenture.

Grant to Secure Bonds; Pledge of Net Revenues

To secure the payment of the principal and Accreted Value of, premium, if any, and interest on the Bonds and the performance and observance by the Authority of all the covenants, agreements and conditions expressed or implied in the Master Indenture or contained in the Bonds, the Authority has pledged and assigned to the Trustee and granted to the Trustee a lien on and security interest in all right, title and interest of the Authority in and to all of the following and provided that such lien and security interest will be prior in right to any other pledge, lien or security interest created by the Authority in the following: (a) the Net Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Trustee under the

Master Indenture, and to the extent provided in any Supplemental Indenture moneys and securities held in any Construction Fund whether or not held by the Trustee, (c) earnings on amounts included in provisions (a) and (b) of this paragraph (except to the extent excluded from the definition of “Revenues”), and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the Master Indenture, for the equal and proportionate benefit and security of all Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, will, with respect to the security provided by this paragraph, be of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds. Any Debt Service Reserve Fund and any Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Reserve Requirement and any other security, Liquidity Facility or Credit Facility provided for specific Bonds, a specific Series of Bonds or one or more Series of Bonds may, as provided by a Supplemental Indenture, secure only such specific Bonds, Series of Bonds or one or more Series of Bonds and, therefore, will not be included as security for all Bonds under the Master Indenture unless otherwise provided by a Supplemental Indenture and moneys and securities held in trust as provided in the Master Indenture exclusively for Bonds which have become due and payable and moneys and securities which are held exclusively to pay Bonds which are deemed to have been paid under the Master Indenture will be held solely for the payment of such specific Bonds.

Additional Bonds

Subject to the provisions under subsection (A), (B) or (C) of the last paragraph of this section and excepting the Initial Bonds, as a condition to the issuance of any Series of Bonds, there will first be delivered to the Trustee either:

(a) a certificate prepared by an Authorized Authority Representative showing the Net Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Bonds or preceding the first issuance of the proposed Program Bonds were at least equal to 125% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Bonds, Unissued Program Bonds and the proposed Series of Bonds, calculated as if the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds (as applicable) were then Outstanding; or

(b) a certificate, dated as of a date between the date of pricing of the Bonds being issued and the date of delivery of such Bonds (both dates inclusive), prepared by a Consultant showing that:

(i) the Net Revenues for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Bonds or the establishment of a Program, were at least equal to 125% of the sum of the Aggregate Annual Debt Service due and payable with respect to all Outstanding Bonds for such applicable period;

(ii) for the period, if any, from and including the first full Fiscal Year following the issuance of such proposed Series of Bonds through and including the last Fiscal Year during any part of which interest on such Series of Bonds is expected to be paid from the proceeds thereof, the Consultant estimates that the Authority will be in compliance with the provisions of the rate covenant set forth in the Master Indenture; and

(iii) for the period from and including the first full Fiscal Year following the issuance of such proposed Series of Bonds during which no interest on such Series of Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Series of Bonds, or (B) the third full Fiscal Year during which no interest on such Series of Bonds is expected to be paid from the proceeds thereof, the estimated Net Revenues for each such Fiscal Year, will be at least equal to 125% of the Aggregate Annual Debt Service for each such Fiscal Year with respect to all Outstanding Bonds, Unissued

Program Bonds and calculated as if the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds (as applicable) were then Outstanding.

For purposes of subsections (b)(ii) and (iii) above, in estimating Net Revenues, the Consultant may take into account (1) Revenues from Projects or Airport Facilities reasonably expected to become available during the period for which the estimates are provided, (2) any increase in fees, rates, charges, rentals or other sources of Revenues which have been approved by the Authority and will be in effect during the period for which the estimates are provided, (3) any other increases in Revenues which the Consultant believes to be a reasonable assumption for such period. With respect to Operation and Maintenance Expenses of the Airport System, the Consultant will use such assumptions as the Consultant believes to be reasonable, taking into account: (i) historical Operation and Maintenance Expenses of the Airport System, (ii) Operation and Maintenance Expenses of the Airport System associated with the Projects and any other new Airport Facilities, and (iii) such other factors, including inflation and changing operations or policies of the Authority, as the Consultant believes to be appropriate. The Consultant will include in the certificate or in a separate accompanying report a description of the assumptions used and the calculations made in determining the estimated Net Revenues and will also set forth the calculations of Aggregate Annual Debt Service, which calculations may be based upon information provided by another Consultant.

For purposes of preparing the certificate or certificates described above, the Consultant or Consultants or the Authorized Authority Representative may rely upon financial statements prepared by the Authority which have not been subject to audit by an independent certified public accountant if audited financial statements for the Fiscal Year or period are not available; provided, however, that an Authorized Authority Representative will certify as to their accuracy and that such financial statements were prepared substantially in accordance with generally accepted accounting principles, subject to year-end adjustments.

Neither of the certificates described above under (a) or (b) will be required:

(A) if the Bonds being issued are for the purpose of refunding then Outstanding Bonds and there is delivered to the Trustee, instead, a certificate of the Authorized Authority Representative showing that Aggregate Annual Debt Service after the issuance of such Refunding Bonds will not exceed the Aggregate Annual Debt Service prior to the issuance of such Refunding Bonds, for each Fiscal Year;

(B) if the Bonds being issued constitute Notes and there is delivered to the Trustee, instead, a certificate prepared by an Authorized Authority Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then Outstanding, does not exceed 10% of the Net Revenues for any 12 consecutive months out of the most recent 24 months immediately preceding the issuance of the proposed Notes and there is delivered to the Trustee a certificate of an Authorized Authority Representative setting forth calculations showing that for each of the Fiscal Years during which the Notes will be Outstanding, and taking into account the debt service becoming due on such Notes, the Authority will be in compliance with the provisions of the rate covenant set forth in the Master Indenture; or

(C) if the Bonds being issued are to pay costs of completing a Project for which Bonds have previously been issued and the principal amount of such Bonds being issued for completion purposes does not exceed an amount equal to 15% of the principal amount of the Bonds originally issued for such Project and reasonably allocable to the Project to be completed as shown in a written certificate of an Authorized Authority Representative and there is delivered to the Trustee (1) a Consultant's certificate stating that the nature and purpose of such Project has not materially changed and (2) a certificate of an Authorized Authority Representative to the effect that (y) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Project) of the original Bonds issued to finance such Project have been or will be used to pay Costs of the Project and (z) the then estimated Costs of the Project exceed the sum of the Costs of the Project already paid plus moneys available in the Construction Fund established for the Project (including unspent proceeds of Bonds previously issued for such purpose).

Repayment Obligations Afforded Status of Bonds

If a Credit Provider or Liquidity Provider makes payment of principal of and interest on a Bond or advances funds to purchase or provide for the purchase of Bonds and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Authority, but is not reimbursed, the Authority's Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Bond issued under the Master Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider will be the Bondholder and such Bond will be deemed to have been issued at the time of the original Bond for which the Credit Facility or Liquidity Facility was provided and will not be subject to the issuance provisions of the Master Indenture; provided, however, notwithstanding the stated terms of the Repayment Obligation, the payment terms of the Bond held by the Credit Provider or Liquidity Provider under the Master Indenture will be as follows (unless otherwise provided in the written agreement with the Authority or a Supplemental Indenture pursuant to which the Bonds are issued): (a) interest will be due and payable semiannually and (b) principal will be due and payable not less frequently than annually and in such annual amounts as to amortize the principal amount thereof in (i) 30 years or, if shorter, (ii)(A) a term extending to the maturity date of the enhanced Bonds or (B) if longer, the final maturity of the Repayment Obligation under the written agreement, and providing substantially level Annual Debt Service payments, using the rate of interest set forth in the written repayment agreement which would apply to the Repayment Obligation as of the date such amortization schedule is fixed. The principal amortized as described in the prior sentence will bear interest in accordance with the terms of the Repayment Obligation. Any amount which comes due on the Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Bond will be a Subordinate Obligation of the Authority. This provision will not defeat or alter the rights of subrogation which any Credit Provider may have under law or under the terms of any Supplemental Indenture. The Trustee may conclusively rely on a written certification by the Credit Provider or Liquidity Provider of the amount of such non-reimbursement and that such Repayment Obligation is to be afforded the status of a Bond under the Master Indenture.

Funds and Accounts

Funding of Debt Service Funds. The Trustee will, at least fifteen (15) Business Days prior to each Payment Date on any Bond, give the Authority notice by telephone, promptly confirmed in writing, of the amount, after taking into account Capitalized Interest, if any, on deposit in the Debt Service Fund, required to be deposited with the Trustee to make each required payment of principal and interest due on such Payment Date. With respect to any Series of Bonds, the Supplemental Indenture under which such Bonds are issued may provide for different times and methods of notifying the Authority of Payment Dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Indenture will control.

The Authority, at least five (5) Business Days prior to each Payment Date, will withdraw from the Revenue Account and pay to the Trustee the full amount required to make the interest and/or principal payments due on such Payment Date. With respect to any Series of Bonds, the Supplemental Indenture under which such Bonds are issued may provide for different times and methods of paying the interest and/or principal payments due on a Payment Date, and, in such event, the terms of such Supplemental Indenture will control.

On any day on which the Trustee receives funds from the Authority to be used to pay principal of or interest on Bonds, the Trustee will, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Debt Service Funds for the Series of Bonds for which such payments were made and any excess will be applied to pay all amounts of principal and interest becoming due on any subsequent Payment Dates. If, on any Payment Date, the Trustee does not have sufficient amounts in the Debt Service Funds (without regard to any amounts which may be available from Debt Service Reserve Funds) to pay in full all amounts of principal and/or interest due on such date, the Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the various Debt Service Reserve Funds) as follows: first to the payment of interest then due on the Bonds and, if the amount available will not be sufficient to pay in full all interest on the Bonds then due, then pro rata among the Series according to the amount of interest then due and second to the payment of principal then due on the Bonds and, if the amount available will not be sufficient to pay in full all principal on the Bonds then due, then pro rata among the Series according to the Principal Amount then due on the Bonds.

If a Debt Service Reserve Fund or Debt Service Reserve Funds (or a Credit Facility provided in lieu thereof) have been used to make payments on Bonds secured thereby, then the Authority may be required by Supplemental Indenture to replenish such Debt Service Reserve Fund or Debt Service Reserve Funds or reimburse the Credit Provider from Net Revenues provided that (a) no amount from Net Revenues may be used for such purpose until all payments of principal of and interest on all Bonds which have become due and payable will have been paid in full, (b) the required payments to replenish any such Debt Service Reserve Fund or reimburse the Credit Provider will be due in no more than 12 substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Debt Service Reserve Funds exceeds the amount available for such purpose, the payments made to the Trustee for such purpose will be allocated among the various Debt Service Reserve Funds pro rata on the basis of the Outstanding Principal Amount of Bonds secured thereby.

Notwithstanding the foregoing, the Authority may, in the Supplemental Indenture authorizing such Series of Bonds, provide for different provisions and timing of deposits with the Trustee and different methods of paying principal of or interest on such Bonds depending upon the terms of such Bonds and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Debt Service Fund created for the Series of Bonds for which such Credit Facility is provided.

If the Net Revenues are at any time insufficient to make the deposits required to make payments on the Bonds, the Authority may, at its election, pay to the Trustee funds from any available sources with the direction that such funds be deposited into the Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Operation and Maintenance Reserve Subaccount. The Authority will create and maintain, within the Revenue Account, a special subaccount to be designated as the “Operation and Maintenance Reserve Subaccount.” Upon adoption of the annual budget of the Authority for Operation and Maintenance Expenses of the Airport System, the Authority will recalculate the Operation and Maintenance Reserve Subaccount Requirement. To the extent amounts on deposit in the Operation and Maintenance Reserve Subaccount exceed the Operation and Maintenance Reserve Subaccount Requirement on the date of any such recalculation, the Authority may transfer such excess to the Revenue Account. To the extent amounts on deposit in the Operation and Maintenance Reserve Subaccount on the date of any such recalculation are less than the recalculated Operation and Maintenance Reserve Subaccount Requirement, the Authority will increase the amount on deposit in the Operation and Maintenance Reserve Subaccount to the recalculated Operation and Maintenance Reserve Subaccount Requirement no later than the last Business Day of the month of such recalculation.

In the event of any withdrawal from the Operation and Maintenance Reserve Subaccount, other than such withdrawal as is permitted pursuant to the immediately preceding paragraph, the Authority will deposit monthly in the Operation and Maintenance Reserve Subaccount an amount equal to one-twelfth (1/12th) of the aggregate amount of such withdrawal until the balance in the Operation and Maintenance Reserve Subaccount is at least equal to the Operation and Maintenance Reserve Subaccount Requirement.

All amounts in the Operation and Maintenance Reserve Subaccount will be used and applied by the Authority: (a) to pay Operation and Maintenance Expenses of the Airport System; (b) to make any required payments or deposits to pay or secure the payment of the principal of, or interest on, or premium, if any, on the Bonds; and (c) to pay the costs of any additions, improvements, repairs, renewals or replacements to the Airport System, in each case only if and to the extent that moneys otherwise available to make such payments or deposits are insufficient.

Renewal and Replacement Subaccount. The Authority will create and maintain, within the Revenue Account, a special subaccount to be designated as the “Renewal and Replacement Subaccount.” The Authority will fund the Renewal and Replacement Subaccount in amount equal to the Renewal and Replacement Subaccount Requirement. In the event of any deficiency in the Renewal and Replacement Subaccount, the Authority will deposit monthly in the Renewal and Replacement Subaccount an amount equal to one-twelfth (1/12th) of the aggregate amount of any such deficiency until the balance in the Renewal and Replacement Subaccount is at least equal to the Renewal and Replacement Subaccount Requirement.

All amounts in the Renewal and Replacement Subaccount will be used and applied by the Authority: (a) to pay the costs of any extraordinary repairs, renewals or replacements to the Airport System; and (b) to make any required payments or deposits to pay or secure the payment of the principal of, or interest on, or premium, if any, on the Bonds.

Additional Security. The pledge of Net Revenues and the other security provided in the Granting Clauses of the Master Indenture, secure all Bonds issued under the terms of the Master Indenture on an equal and ratable basis, except as to the timing of such payments. The Authority may, however, in its discretion, provide additional security or credit enhancement for specified Bonds or Series of Bonds with no obligation to provide such additional security or credit enhancement to other Bonds.

Payment of Principal and Interest

The Authority has covenanted and agreed that it will duly and punctually pay or cause to be paid from the Net Revenues and to the extent thereof the principal of, premium, if any, and interest on every Bond at the place and on the dates and in the manner set forth in the Master Indenture, in the Supplemental Indentures and in the Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Master Indenture and in the Bonds contained, provided that the Authority's obligation to make payment of the principal of, premium, if any, and interest on the Bonds will be limited to payment from the Net Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Master Indenture and any other source which the Authority may specifically provide for such purpose and no Bondholder will have any right to enforce payment from any other funds of the Authority.

Subordinate Obligations

The Authority may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is referred to in the Master Indenture as Subordinate Obligations. Such indebtedness will be incurred at such times and upon such terms as the Authority will determine, provided that: (a) any Supplemental Indenture authorizing the issuance of any Subordinate Obligations will specifically state that such lien on or security interest granted in the Net Revenues is junior and subordinate to the lien on and security interest in such Net Revenues and other assets granted to secure the Bonds; and (b) payment of principal of and interest on such Subordinate Obligations will be permitted, provided that all deposits required to be made pursuant to the Master Indenture, if any, are then current in accordance with the Master Indenture.

Special Facilities and Special Facility Obligations

The Authority is permitted to designate new or existing Airport Facilities as Special Facilities. The Authority may, from time to time, and subject to the terms and conditions of the Master Indenture, (a) designate a separately identifiable existing facility or planned facility as a "Special Facility," (b) pursuant to an indenture other than the Master Indenture and without a pledge of any Net Revenues, incur debt primarily for the purpose of acquiring, constructing, renovating or improving or providing financing or refinancing to a third party to acquire, construct, renovate or improve, such facility, (c) provide that certain of the contractual payments derived from or related to such Special Facility, together with other income and revenues available to the Authority from such Special Facility to the extent necessary to make the payments required by clause (i) of the second succeeding paragraph, be "Special Facilities Revenue" and not included as Revenues or Net Revenues unless on terms provided in any supplemental indenture, and (d) provide that the debt so incurred will be a "Special Facility Obligation" and the principal of and interest thereon will be payable solely from the Special Facilities Revenue. The Authority may from time to time refinance any such Special Facility Obligations with other Special Facility Obligations.

Special Facility Obligations will be payable as to principal, redemption premium, if any, and interest solely from Special Facilities Revenue, which will include contractual payments derived by the Authority under and pursuant to a contract (which may be in the form of a lease) relating to a Special Facility by and between the Authority and another person, firm or corporation, either public or private, as will undertake the operation of a Special Facility.

No Special Facility Obligations will be issued by the Authority unless there will have been filed with the Trustee a certificate of an Authorized Authority Representative stating that: (i) the estimated Special Facilities Revenue pledged to the payment of obligations relating to the Special Facility will be at least sufficient to pay the principal of and interest on such Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such Special Facility not paid for by the operator thereof or by a party other than the Authority and all sinking fund, reserve or other payments required by the resolution authorizing the Special Facility Obligations as the same become due; and (ii) with respect to the designation of any separately identifiable existing Airport Facilities or Airport Facility as a “Special Facility” or “Special Facilities,” the estimated Net Revenues, calculated without including the new Special Facilities Revenue and without including any operation and maintenance expenses of the Special Facility as Operation and Maintenance Expenses of the Airport System, will be sufficient so that the Authority will be in compliance with the provisions of the rate covenant of the Master Indenture; and (iii) no Event of Default then exists under the Master Indenture.

To the extent Special Facilities Revenue received by the Authority during any Fiscal Year will exceed the amounts required to be paid pursuant to clause (i) of the immediately preceding paragraph for such Fiscal Year, such excess Special Facilities Revenue, to the extent not otherwise encumbered or restricted, will constitute Revenues.

Notwithstanding any other provision of this section, at such time as the Special Facility Obligations issued for an Special Facility including Special Facility Obligations issued to refinance Special Facility Obligations are fully paid or otherwise discharged, all revenues of the Authority from such facility will be included as Revenues.

Operation and Maintenance of Airport System

Subject to the transfer of any Airport Facilities pursuant to the Master Indenture, the Authority has covenanted that the Airport System will at all times be operated and maintained in good working order and condition and that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be complied with (provided the Authority will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith), and that all licenses and permits necessary to construct or operate any part of the Airport System will be obtained and maintained and that all necessary repairs, improvements and replacements of the Airport System will be made, subject to sound business judgment. Subject to the transfer of any Airport Facilities pursuant to the Master Indenture, the Authority will, from time to time, duly pay and discharge, or cause to be paid and discharged, except to the extent the imposition or payment thereof is being contested in good faith by the Authority, all taxes (if any), assessments or other governmental charges lawfully imposed upon the Airport System or upon any part thereof, or upon the Revenues or Net Revenues, when the same will become due, as well as any lawful claim for labor, materials or supplies or other charges which, if unpaid, might by law become a lien or charge upon the Revenues or Net Revenues or the Airport System or any part thereof constituting part of the Airport System.

Insurance; Application of Insurance Proceeds

Subject, in each case, to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions: (a) the Authority will procure and maintain or cause to be procured and maintained commercial insurance or provide Qualified Self Insurance with respect to the facilities constituting the Airport System and public liability insurance in the form of commercial insurance or Qualified Self Insurance and, in each case, in such amounts and against such risks as are, in the judgment of the Authority, prudent and reasonable taking into account, but not being controlled by, the amounts and types of insurance or self-insured programs provided by similar airports; and (b) the Authority will place on file with the Trustee, annually within 120 days after the close of each Fiscal Year a certificate of an Authorized Authority Representative containing a summary of all insurance policies and self-insured programs then in effect with respect to the Airport System and the operations of the Authority. The Trustee may conclusively rely upon such certificate and will not be responsible for the sufficiency or adequacy of any insurance required in the Master Indenture or obtained by the Authority.

“Qualified Self Insurance” means insurance maintained through a program of self insurance or insurance maintained with a fund, company or association in which the Authority may have a material interest and of which the Authority may have control, either singly or with others. Each plan of Qualified Self Insurance will be established in accordance with law, will provide that reserves be established or insurance acquired in amounts

adequate to provide coverage which the Authority determines to be reasonable to protect against risks assumed under the Qualified Self Insurance plan, including any potential retained liability in the event of the termination of such plan of Qualified Self Insurance, and such self-insurance program will be reviewed at least once every 12 months by a Consultant who will deliver to the Authority a report on the adequacy of the reserves established thereunder. If the Consultant determines that such reserves are inadequate, they will make a recommendation as to the amount of reserves that should be established and maintained, and the Authority will comply with such recommendation unless it can establish to the satisfaction of and receive a certification from a Consultant that a lower amount is reasonable to provide adequate protection to the Authority.

If, as a result of any event, any part of the Airport System is destroyed or severely damaged, the Authority will create within the Revenue Account a special account and will credit the Net Proceeds received as a result of such event of damage or destruction to such account and such Net Proceeds will, within a reasonable period of time taking into account any terms under which insurance proceeds are paid and any insurance restrictions upon the use or timing of the use of insurance proceeds, be used to: (i) repair or replace the Airport System, or portion thereof, which were damaged or destroyed, (ii) provide additional revenue-producing Airport Facilities, (iii) redeem Bonds, or (iv) create an escrow fund pledged to pay specified Bonds and thereby cause such Bonds to be deemed to be paid as provided in the Master Indenture; provided, however, that the Authority will first deliver to the Trustee a certificate of a Consultant showing that, after taking into account the use of the Net Proceeds for the redemption of such specified Bonds, the rate covenant as set forth in the Master Indenture would, nevertheless, be met.

Transfer of Airport Facility or Airport Facilities

The Authority will not, except as provided in Section 170060 of the Act and except as permitted below, transfer, sell or otherwise dispose of an Airport Facility or Airport Facilities. For purposes of this section, any transfer of an asset over which the Authority retains substantial control in accordance with the terms of such transfer, will not, for so long as the Authority has such control, be deemed a disposition of an Airport Facility or Airport Facilities.

Except as otherwise provided in Section 170060 of the Act, the Authority may transfer, sell or otherwise dispose of Airport Facilities only if such transfer, sale or disposition complies with one or more of the following provisions: (a) the property being disposed of is inadequate, obsolete or worn out; or (b) the property proposed to be disposed of and all other Airport Facilities disposed of during the 12-month period ending on the day of such transfer (but excluding property disposed of under the preceding paragraph), will not, in the aggregate, constitute a Significant Portion, the proceeds are deposited into the Revenue Account to be used as described below and the Authority believes that such disposal will not prevent it from fulfilling its obligations under the Master Indenture; or (c) the Authority receives fair market value for the property, the proceeds are deposited in the Revenue Account to be used as described below, and prior to the disposition of such property, there is delivered to the Trustee a certificate of a Consultant to the effect that notwithstanding such disposition, but taking into account the use of such proceeds in accordance with the expectations of the Authority as evidenced by a certificate of an Authorized Authority Representative, the Consultant estimates that the Authority will be in compliance with the rate covenant of the Master Indenture during each of the first five (5) Fiscal Years immediately following such disposition.

Proceeds of the disposition of assets under the preceding two paragraphs above will be deposited into the Revenue Account and used, within a reasonable period of time, not to exceed three years, to (i) provide additional revenue-producing Airport Facilities, (ii) redeem Bonds or (iii) create an escrow fund pledged to pay specified Bonds and thereby cause such Bonds to be deemed to be paid as provided in the Master Indenture.

Airport Facilities which were financed with the proceeds of obligations the interest on which is then excluded from gross income for federal income tax purposes will not be disposed of, except under the terms of the first paragraph of this section above, unless the Authority has first received a written opinion of Bond Counsel to the effect that such disposition will not cause the interest on such obligations to become includable in gross income for federal income tax purposes.

Investments

Moneys held by the Authority and/or the Trustee in the funds and accounts created in the Master Indenture and under any Supplemental Indenture will be invested and reinvested as directed by the Authority, in Permitted Investments subject to the restrictions set forth in the Master Indenture and such Supplemental Indenture and subject to the investment restrictions imposed upon the Authority by the laws of the State and the Authority's investment policy. The Authority will direct such investments by written certificate (upon which the Trustee may conclusively rely) of an Authorized Authority Representative or by telephone instruction followed by prompt written confirmation by an Authorized Authority Representative; in the absence of any such instructions, the Trustee will, to the extent practicable, invest in Permitted Investments specified in item (a) of the definition thereof, which includes a money market fund comprised of United States Obligations, or in a money market fund or account of the Trustee, provided it meets the requirements specified in (i) of the definition of Permitted Investments, which are Permitted Investments under State law.

Defeasance

Bonds or portions thereof (such portions to be in integral multiples of the authorized denomination) which have been paid in full or which are deemed to have been paid in full will no longer be secured by or entitled to the benefits of the Master Indenture except for the purposes of payment from moneys, Government Obligations or obligations described in item (b) of the definition of Permitted Investments held by the Trustee or a Paying Agent for such purpose. When all Bonds which have been issued under the Master Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master Indenture by the Authority, including all necessary and proper fees, compensation and expenses of the Trustee, the Registrar and the Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Trustee in and to the pledge of Net Revenues and the other assets pledged to secure the Bonds under the Master Indenture will thereupon cease, terminate and become void, and thereupon the Trustee will cancel, discharge and release the Master Indenture, will execute, acknowledge and deliver to the Authority such instruments as will be requisite to evidence such cancellation, discharge and release and will assign and deliver to the Authority any property and revenues at the time subject to the Master Indenture which may then be in the Trustee's possession, except funds or securities in which such funds are invested and are held by the Trustee or the Paying Agent for the payment of the principal of, premium, if any, and interest on the Bonds.

A Bond will be deemed to be paid within the meaning of the Master Indenture and for all purposes of the Master Indenture when payment of the principal, interest and premium, if any, either (a) will have been made or caused to be made in accordance with the terms of the Bonds and the Master Indenture or (b) will have been provided for by depositing with the Trustee in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations or obligations described in item (b) of the definition of Permitted Investments, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Bonds will be deemed to be paid under the Master Indenture, such Bonds will no longer be secured by or entitled to the benefits of the Master Indenture, except for the purposes of payment from such moneys, Government Obligations or obligations described in item (b) of the definition of Permitted Investments.

Any deposit under clause (b) of the foregoing paragraph will be deemed a payment of such Bonds. Once such deposit will have been made, the Trustee will notify all holders of the affected Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Master Indenture. Notice of redemption will be required at the time of such defeasance or prior to such date as may be required by the Supplemental Indenture under which such Bonds were issued. The Authority may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Indenture under which such Bonds were issued, modify or otherwise change the scheduled date for the redemption or payment of any Bond deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Bonds or the Master Indenture subject to (A) receipt of an approving opinion of nationally recognized Bond Counsel that such action will not adversely affect the tax-exemption of any Bond or Bonds then Outstanding and (B) receipt of an approving opinion of a nationally recognized accounting firm that there are sufficient moneys and/or Government Obligations and/or obligations described in item (b) of the definition of Permitted Investments to provide for the payment of such Bonds. Notwithstanding anything in the Master Indenture to the contrary, monies from the trust or

escrow established for the defeasance of Bonds may be withdrawn and delivered to the Authority so long as the requirements of subparagraphs (A) and (B) above are met prior to or concurrently with any such withdrawal.

Defaults and Remedies

Events of Default. Each of the following events will constitute and is referred to in the Master Indenture as an “Event of Default”:

- (a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same will become due and payable at maturity or upon redemption;
- (b) a failure to pay any installment of interest on any of the Bonds when such interest will become due and payable;
- (c) a failure to pay the purchase price of any Bond when such purchase price will be due and payable upon an optional or mandatory tender date as provided in a Supplemental Indenture;
- (d) a failure by the Authority to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) of this section) that are to be observed or performed by the Authority and which are contained in the Master Indenture or a Supplemental Indenture, which failure, except for a violation under the rate covenant provisions of the Master Indenture which will be controlled by the provisions set forth therein, will continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, will have been given to the Authority by the Trustee, which notice may be given at the discretion of the Trustee and will be given at the written request of holders of 25% or more of the Principal Amount of the Bonds then Outstanding, unless the Trustee, or the Trustee and the holders of Bonds in a Principal Amount not less than the Principal Amount of Bonds the holders of which requested such notice, will agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee and the holders of such principal amount of Bonds will be deemed to have agreed to an extension of such period if corrective action is initiated by the Authority within such period and is being diligently pursued until such failure is corrected;
- (e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 of the United States Bankruptcy Code, or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Authority and, if instituted against the Authority, said proceedings are consented to or are not dismissed within 60 days after such institution; or
- (f) the occurrence of any other Event of Default as is provided in a Supplemental Indenture.

If, on any date on which payment of principal of or interest on the Bonds is due and sufficient moneys are not on deposit with the Trustee or Paying Agent to make such payment, the Trustee will give telephone notice of such insufficiency to the Authority.

Remedies.

- (a) Upon the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and upon the written direction of the holders of 25% or more of the Principal Amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Trustee of an express trust:
 - (i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, and require the Authority to carry out any agreements with or for the benefit of the Bondholders and to perform its or their duties under the Act or any other law to which it is subject and the Master Indenture;

(ii) bring suit upon the Bonds;

(iii) commence an action or suit in equity to require the Authority to account as if it were the trustee of an express trust for the Bondholders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

(b) The Trustee will be under no obligation to take any action with respect to any Event of Default unless the Trustee has actual knowledge of the occurrence of such Event of Default.

(c) In no event, upon the occurrence and continuation of an Event of Default, will the Trustee, the Bondholders, a Credit Provider, a Liquidity Provider or any other party have the right to accelerate the payment of principal of and interest on the Bonds Outstanding.

See “—FIRST SUPPLEMENTAL INDENTURE—Certain Provisions Relating to the Insurer” for a description of the rights granted the Insurer in the Event of Default.

Bondholders’ Right To Direct Proceedings. Anything in the Master Indenture to the contrary notwithstanding, holders of a majority in Principal Amount of the Bonds then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Trustee under the Master Indenture to be taken in connection with the enforcement of the terms of the Master Indenture or exercising any trust or power conferred on the Trustee by the Master Indenture; provided that such direction will not be otherwise than in accordance with the provisions of the law and the Master Indenture and that there will have been provided to the Trustee security and indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Trustee. See also “—FIRST SUPPLEMENTAL INDENTURE—Certain Provisions Relating to the Insurer.”

Limitation on Right To Institute Proceedings. No Bondholder will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power under the Master Indenture, or any other remedy under the Master Indenture or on such Bonds, unless such Bondholder or Bondholders previously will have given to the Trustee written notice of an Event of Default as provided above and unless also holders of 25% or more of the Principal Amount of the Bonds then Outstanding will have made written request of the Trustee to do so, after the right to institute such suit, action or proceeding under the Master Indenture will have accrued, and will have afforded the Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also will have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being understood and intended that no one or more of the Bondholders will have any right in any manner whatever by their action to affect, disturb or prejudice the security of the Master Indenture, or to enforce any right under the Master Indenture or under the Bonds, except in the manner provided in the Master Indenture, and that all suits, actions and proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Master Indenture and for the equal benefit of all Bondholders.

Application of Moneys. If an Event of Default will occur and be continuing, all amounts then held or any moneys received by the Trustee, by any receiver or by any Bondholder pursuant to any right given or action taken under the provisions of the Master Indenture (which will not include moneys provided through a Credit Facility, which moneys will be restricted to the specific use for which such moneys were provided), after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee (including attorneys’ fees and disbursements), will be applied as follows: (a) first, to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (b) second, to the payment to the persons entitled thereto of the unpaid principal

amount of any of the Bonds which will have become due with interest on such Bonds at such rate as provided in a Supplemental Indenture from the respective dates upon which they became due and, if the amount available will not be sufficient to pay in full Bonds on any particular date determined to be the payment date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee will apply such funds, it will fix the date (which will be an interest Payment Date unless it will deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date will cease to accrue. The Trustee will give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Bondholders and will not be required to make payment to any Bondholder until such Bonds will be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

The Trustee

Standard of Care. If an Event of Default has occurred and is continuing, the Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (i) the Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Trustee was negligent in ascertaining the pertinent facts; and (ii) the Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Bondholders or the Authority in the manner provided in the Master Indenture.

Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Bonds and may otherwise deal with the Authority with the same rights it would have if it were not Trustee. Any Paying Agent or other agent may do the same with like rights.

Notice of Defaults. If (a) an Event of Default has occurred or (b) an event has occurred which with the giving of notice and/or the lapse of time would be an Event of Default and, with respect to such events for which notice to the Authority is required before such events will become Events of Default, such notice has been given, then the Trustee will promptly, after obtaining actual notice of such Event of Default or event described in (b) above, give notice thereof to each Bondholder. Except in the case of a default in payment or purchase on any Bonds, the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Bondholders.

Eligibility of Trustee. The Master Indenture will always have a Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State, is subject to supervision or examination by United States, state or District of Columbia authority and has (together with its corporate parent) a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

Replacement of Trustee. The Trustee may resign by notifying the Authority in writing prior to the proposed effective date of the resignation. The holders of a majority in Principal Amount of the Bonds may remove the Trustee by notifying the removed Trustee and may appoint a successor Trustee with the Authority's consent. The Authority may remove the Trustee, by notice in writing delivered to the Trustee at least 60 days prior to the proposed removal date; provided, however, that the Authority will have no right to remove the Trustee during any time when an Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be an Event of Default.

No resignation or removal of the Trustee under this section will be effective until a new Trustee has taken office and delivered a written acceptance of its appointment to the retiring Trustee and to the Authority. Immediately thereafter, the retiring Trustee will transfer all property held by it as Trustee to the successor Trustee, the resignation or removal of the retiring Trustee will then (but only then) become effective and the successor Trustee will have all the rights, powers and duties of the Trustee under the Master Indenture.

If the Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Master Indenture, the Authority will promptly appoint a successor Trustee.

If a Trustee is not performing its duties under the Master Indenture and a successor Trustee does not take office within 60 days after the retiring Trustee delivers notice of resignation or the Authority delivers notice of removal, the retiring Trustee, the Authority or the holders of a majority in Principal Amount of the Bonds may petition any court of competent jurisdiction for the appointment of a successor Trustee.

See “—FIRST SUPPLEMENTAL INDENTURE—Certain Provisions Relating to the Insurer” for a description of the rights granted the Insurer in the event of the replacement of the Trustee.

Successor Trustee or Agent by Merger. If the Trustee, any Paying Agent or Registrar consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a bank or trust company, its corporate trust assets) to, another corporation and meets the qualifications set forth in the Master Indenture, the resulting, surviving or transferee corporation without any further act will be the successor Trustee, Paying Agent or Registrar.

Amendments

Amendments Not Requiring Consent of Bondholders. The Authority may, from time to time and at any time, without the consent of or notice to the Bondholders, execute and deliver Supplemental Indentures supplementing and/or amending the Master Indenture or any Supplemental Indenture as follows:

- (a) to provide for the issuance of a Series or multiple Series of Bonds under the provisions of the Master Indenture and to set forth the terms of such Bonds and the special provisions which will apply to such Bonds;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Indenture or any Supplemental Indenture, provided such supplement or amendment is not materially adverse to the Bondholders;
- (c) to add to the covenants and agreements of the Authority in the Master Indenture or any Supplemental Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Authority, provided such supplement or amendment will not adversely affect the interests of the Bondholders;
- (d) to confirm, as further assurance, any interest of the Trustee in and to the pledge of Net Revenues or in and to the funds and accounts held by the Trustee or in and to any other moneys, securities or funds of the Authority provided pursuant to the Master Indenture or to otherwise add additional security for the Bondholders;
- (e) to evidence any change made in the terms of any Series of Bonds if such changes are authorized by the Supplemental Indenture at the time the Series of Bonds is issued and such change is made in accordance with the terms of such Supplemental Indenture;
- (f) to comply with the requirements of the Trust Indenture Act of 1939, as amended from time to time;

(g) to modify, alter, amend or supplement the Master Indenture or any Supplemental Indenture in any other respect which is not materially adverse to the Bondholders;

(h) to provide for uncertificated Bonds or for the issuance of coupons and bearer Bonds or Bonds registered only as to principal;

(i) to qualify the Bonds or a Series of Bonds for a rating or ratings from a Rating Agency;

(j) to accommodate the technical, operational and structural features of Bonds which are issued or are proposed to be issued or of a Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, swaps, variable rate or adjustable rate bonds, discounted or compound interest bonds or other forms of indebtedness which the Authority from time to time deems appropriate to incur;

(k) to accommodate the use of a Credit Facility or Liquidity Facility for specific Bonds or a specific Series of Bonds; and

(l) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Bonds, including, without limitation, the segregation of Revenues into different funds.

Before the Authority will, pursuant to this section, execute any Supplemental Indenture, there will have been delivered to the Authority and Trustee an opinion of Bond Counsel to the effect that such Supplemental Indenture: (y) is authorized or permitted by the Master Indenture, the Act and other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Authority in accordance with its terms and (z) will not cause interest on any of the Bonds which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes. The opinion of Bond Counsel required pursuant to clause (z) in the preceding sentence will not be required for a Supplemental Indenture executed and delivered in accordance with subsection (a) above.

Amendments Requiring Consent of Bondholders. Except for any Supplemental Indenture entered into pursuant to the above section and any Supplemental Indenture entered into pursuant to the following paragraph, subject to the terms and provisions contained in this section and not otherwise, the holders of not less than a majority in aggregate Principal Amount of the Bonds then Outstanding will have the right from time to time to consent to and approve the execution by the Authority of any Supplemental Indenture deemed necessary or desirable by the Authority for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture or in a Supplemental Indenture; provided, however, that, unless approved in writing by the holders of all the Bonds then Outstanding or unless such change affects less than all Series of Bonds and the following paragraph (b) is applicable, nothing contained in the Master Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Bonds or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds or the rate of interest thereon; and provided that nothing contained in the Master Indenture, including the provisions of the following paragraph, will, unless approved in writing by the holders of all the Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Master Indenture) upon or pledge of the Net Revenues created by the Master Indenture, ranking prior to or on a parity with the claim created by the Master Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Bonds, a preference or priority of any Bond or Bonds over any other Bond or Bonds with respect to the security granted therefor under the Granting Clauses of the Master Indenture, or (v) a reduction in the aggregate Principal Amount of Bonds the consent of the Bondholders of which is required for any such Supplemental Indenture. Nothing contained in the Master Indenture, however, will be construed as making necessary the approval by Bondholders of the execution of any Supplemental Indenture as authorized in the section above, including the granting, for the benefit of particular Series of Bonds, security in addition to the pledge of the Net Revenues.

The Authority may, from time to time and at any time, execute a Supplemental Indenture which amends the provisions of an earlier Supplemental Indenture under which a Series or multiple Series of Bonds were issued. If

such Supplemental Indenture is executed for one of the purposes set forth in the previous section, no notice to or consent of the Bondholders will be required. If such Supplemental Indenture contains provisions which affect the rights and interests of less than all Series of Bonds Outstanding and the previous section is not applicable, then this paragraph rather than the paragraph above will control and, subject to the terms and provisions contained in this paragraph and not otherwise, the holders of not less than 51% in aggregate Principal Amount of the Bonds of all Series which are affected by such changes will have the right from time to time to consent to any Supplemental Indenture deemed necessary or desirable by the Authority for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Indenture and affecting only the Bonds of such Series; provided, however, that, unless approved in writing by the holders of all the Bonds of all the affected Series then Outstanding, nothing contained in the Master Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds of such Series or the rate of interest thereon. Nothing contained in the Master Indenture, however, will be construed as making necessary the approval by Bondholders of the adoption of any Supplemental Indenture as authorized in the Master Indenture, including the granting, for the benefit of particular Series of Bonds, security in addition to the pledge of the Net Revenues.

See “—FIRST SUPPLEMENTAL INDENTURE—Certain Provisions Relating to the Insurer” for a description of the rights granted the Insurer in connection with the execution of certain Supplemental Indentures.

Credit Providers

If a Credit Facility is provided for a Series of Bonds or for specific Bonds, the Authority may in the Supplemental Indenture under which such Bonds are issued, provide any or all of the following rights to the Credit Provider as the Authority shall deem to be appropriate: (a) the right to make requests of, direct or consent to the actions of the Trustee or to otherwise direct proceedings all as provided in “—Defaults and Remedies” above to the same extent and in place of the Owners of the Bonds which are secured by the Credit Facility and for such purposes the Credit Provider shall be deemed to be the Holder of such Bonds; (b) the right to act in place of the Owners of the Bonds which are secured by the Credit Facility for purposes of removing a Trustee or appointing a Trustee under the provisions of the Master Indenture; and (c) the right to consent to Supplemental Indentures, which would otherwise require the consent of the Holders of not less than 51% of the aggregate Principal Amount of the Bonds, entered into pursuant to the provisions of the Master Indenture, except with respect to any amendments described in (i) through (v) of the first paragraph of the section entitled “—Amendments—Amendments Requiring Consent of Bondholders” above and (i) or (ii) of the second paragraph of the section entitled “—Amendments—Amendments Requiring Consent of Bondholders” above which consent of the actual Holders will still be required, of the Master Indenture to the same extent and in place of the Holders of the Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Holder of such Bonds. See “—FIRST SUPPLEMENTAL INDENTURE—Certain Provisions Relating to the Insurer.”

The rights granted to any such Credit Provider, as described in the previous paragraph, will be disregarded and be of no effect if the Credit Provider is in default of its payment obligations under its Credit Facility.

FIRST SUPPLEMENTAL INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2005 BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS,” the following is a summary of certain provisions of the First Supplemental Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the First Supplemental Indenture.

Terms of the Series 2005 Bonds

The First Supplemental Indenture sets forth the terms of the Series 2005 Bonds, most of which terms are described earlier in this Official Statement under “DESCRIPTION OF THE SERIES 2005 BONDS.”

Establishment of Funds

The First Supplemental Indenture establishes the following funds and accounts: the Series 2005 Debt Service Fund, and within the Series 2005 Debt Service Fund an Interest Account, a Principal Account and a Redemption Account; the Series 2005 Costs of Issuance Fund, and the Series 2005 Reserve Account in the Reserve Fund.

The funds and accounts will be initially funded by the proceeds of the sale of the Series 2005 Bonds as described earlier in this Official Statement under “PLAN OF REFUNDING AND APPLICATION OF SERIES 2005 BOND PROCEEDS.”

Series 2005 Debt Service Fund. The Trustee will deposit into the Interest Account amounts received from the Authority, as provided in the Master Indenture, to be used to pay interest on the Series 2005 Bonds. The Trustee will also deposit into the Interest Account any other amounts deposited with the Trustee for deposit in the Interest Account or transferred from other funds and accounts for deposit therein. Earnings on the Interest Account will be retained in such account.

The Trustee will deposit into the Principal Account amounts received from the Authority to be used to pay principal of the Series 2005 Bonds whether at maturity or by mandatory sinking fund redemption as provided in the First Supplemental Indenture. The Trustee will also deposit into the Principal Account any other amounts deposited with the Trustee for deposit into the Principal Account or transferred from other funds and accounts for deposit therein. Earnings on the Principal Account will be withdrawn and paid to the Authority for deposit into the Revenue Account unless an Event of Default exists under the Master Indenture, in which event the earnings will be retained in such account.

The Trustee will deposit into the Redemption Account amounts received from the Authority or from other sources to be used to pay principal of and interest on the Series 2005 Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of the mandatory sinking fund, which amounts will be deposited into the Principal Account). Earnings on the respective Redemption Account will be retained in such account or paid to the Authority for deposit into the Revenue Fund in accordance with instructions given to the Trustee by an Authorized Authority Representative at the time of such deposit.

The Series 2005 Debt Service Fund will be invested and reinvested in Permitted Investments as directed by the Authority.

Series 2005 Reserve Account. For a description of the Series 2005 Reserve Account, reference is made to the Official Statement under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Debt Service Reserve Fund.”

Series 2005 Rebate Fund

The First Supplemental Indenture creates the Series 2005 Rebate Fund for the Series 2005 Bonds established for the purpose of complying with certain provisions of the Code which require that the Authority pay to the United States of America the excess, if any, of the amounts earned on certain funds held by the Trustee with respect to the Series 2005 Bonds over the amounts which would have been earned on such funds if such funds earned interest at a rate equal to the yield on the Series 2005 Bonds. Such excess is to be deposited into the Series 2005 Rebate Fund and periodically paid to the United States of America. The Series 2005 Rebate Fund while held by the Trustee is held in trust for the benefit of the United States of America and is not pledged as security for nor available to make payment on the Series 2005 Bonds.

Certain Provisions Relating to the Insurer

Pursuant to the terms of the First Supplemental Indenture (except as otherwise provided in the Master Indenture or the First Supplemental Indenture) the Insurer will be deemed the Owner of the Series 2005 Bonds for all purposes other than the receipt of principal and interest on the Series 2005 Bonds and except as provided in the

last sentence of this paragraph. These rights of the Insurer to be treated as the Owner of the Series 2005 Bonds include, but are not limited to, (i) the right of the Owners to make requests of, direct or consent to the actions of the Trustee or to otherwise direct proceedings in the Event of Default, (ii) the right of the Owners to remove or consent to the removal of the Trustee, approve the appointment of a successor Trustee or object to the appointment of a successor Trustee pursuant to the Master Indenture, (iii) the right of the Owners to consent to a Supplemental Indenture as described under the caption entitled “—MASTER INDENTURE—Amendments—Amendments Requiring Consent of Bondholders” (except as otherwise provided in the last sentence of this paragraph), and (iv) any other right to consent, exercise rights or control proceedings by or on behalf of the Owners of the Series 2005 Bonds. Notwithstanding anything to the contrary in this paragraph or elsewhere in the First Supplemental Indenture, the Insurer will not be deemed to be the Owner of the Series 2005 Bonds for purposes of any amendments described in (i) through (v) of the first paragraph of the section entitled “—MASTER INDENTURE—Amendments—Amendments Requiring Consent of Bondholders” above and (i) or (ii) of the second paragraph of the section entitled “—MASTER INDENTURE—Amendments—Amendments Requiring Consent of Bondholders”; however, in addition to the consent of the applicable Holders of the Series 2005 Bonds, any Supplemental Indenture entered into pursuant to (i) through (v) of the first paragraph of the section entitled “—MASTER INDENTURE—Amendments—Amendments Requiring Consent of Bondholders” above or (i) or (ii) of the second paragraph of the section entitled “—MASTER INDENTURE—Amendments—Amendments Requiring Consent of Bondholders” the consent of the Insurer will also be required.

Additionally, under the First Supplemental Indenture, the Insurer is granted the right to be subrogated to the rights of the Holders of the Series 2005 Bonds if any payment is made by the Insurer under the terms of the Financial Guaranty Insurance Policy.

APPENDIX C

PROPOSED FORM OF BOND COUNSEL OPINION

November 9, 2005

San Diego County
Regional Airport Authority
San Diego, California

\$56,270,000
San Diego County Regional Airport Authority
Airport Revenue Refunding Bonds
Series 2005

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the San Diego County Regional Airport Authority (the "Authority"), of \$56,270,000 aggregate principal amount of its San Diego County Regional Airport Authority Airport Revenue Refunding Bonds, Series 2005 (the "Series 2005 Bonds"). The proceeds of the Series 2005 Bonds are being used to (a) prepay certain installment sale payments due under that certain Installment Sale Agreement, dated as of December 1, 1995, between the Authority (as successor to the San Diego Unified Port District) and the California Maritime Infrastructure Authority and thereby to simultaneously current refund and defease \$58,125,000 aggregate principal amount of the related California Maritime Infrastructure Authority Airport Revenue Bonds (San Diego Unified Port District Airport Project – Lindbergh Field), Series 1995, (b) satisfy the reserve fund requirement for the Series 2005 Bonds, (c) pay the premium for the bond insurance policy and (d) finance certain costs of issuance all as described in the hereinafter defined First Supplemental Trust Indenture.

The Series 2005 Bonds are being issued pursuant to Section 170000 *et seq.* of the California Public Utilities Code (the "Act"); the Revenue Bond Law of 1941 (Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 of the California Government Code), excluding Article 3 (commencing with Section 54380) of Chapter 6 of Part 1 of Division 2 of Title 5 of the California Government Code and the limitations set forth in subdivision (b) of Section 54402 of the California Government Code (the "Revenue Bond Law"); Section 53580 *et seq.* of the California Government Code (the "Refunding Law"); a Master Trust Indenture, dated as of November 1, 2005, (the "Master Trust Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"); and a First Supplemental Trust Indenture, dated as of November 1, 2005 (the "First Supplemental Trust Indenture"), by and between the Authority and the Trustee. Issuance of the Series 2005 Bonds has also been authorized by a resolution adopted by the board of directors of the Authority on September 26, 2005 (the "Resolution").

The Series 2005 Bonds are special obligations of the Authority, payable solely from and secured by a pledge of Net Revenues (as defined in the Master Trust Indenture) derived by the Authority from the operations of the Airport System (as defined in the Master Trust Indenture) and certain funds and accounts created under the Master Trust Indenture and the First Supplemental Trust Indenture. None of the properties of the Airport System are subject to any mortgage or other lien for the benefit of the owners of the Series 2005 Bonds, and neither the full faith and credit nor the taxing power of the Authority, the City of San Diego, the County of San Diego, the State of California or any political subdivision or agency of the State of California is pledged to the payment of the principal of or interest on the Series 2005 Bonds.

In connection with the issuance of the Series 2005 Bonds, we have examined the following:

- (a) a copy of the Act, the Revenue Bond Law and the Refunding Law;
- (b) a certified copy of the Resolution;
- (c) an executed counterpart of the Master Trust Indenture;
- (d) an executed counterpart of the First Supplemental Trust Indenture;
- (e) certifications of the Authority and others;
- (f) an executed counterpart of a Tax Compliance Certificate dated this date relating to the Series 2005 Bonds (the "Tax Certificate");
- (g) an opinion of the Authority's General Counsel with respect to the Authority; and
- (h) such other documents as we deemed relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

1. The Authority validly exists as a local government entity of regional government pursuant to the laws of the State of California, with the power to execute the Master Trust Indenture and the First Supplemental Trust Indenture and to issue the Series 2005 Bonds.

2. The Master Trust Indenture and the First Supplemental Trust Indenture have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee, represent valid and binding agreements of the Authority enforceable in accordance with their terms.

3. The Series 2005 Bonds have been validly authorized, executed and issued in accordance with the Act, the Revenue Bond Law, the Refunding Law, the Resolution, the Master Trust Indenture and the First Supplemental Trust Indenture and represent valid and binding limited obligations of the Authority. The principal of and interest on the Series 2005 Bonds shall be payable solely from and are secured by an assignment and pledge by the Authority to the Trustee of the Net Revenues and certain funds and accounts created under the Master Trust Indenture and the First Supplemental Trust Indenture, and not out of any other fund or money of the Authority.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes; except that such exclusion does not apply with respect to interest on any Series 2005 Bonds for any period during which such Series 2005 Bonds are held by a person who is a "substantial user" of the facilities financed and refinanced by the Series 2005 Bonds or a person "related" to such substantial user within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2005 Bonds constitutes an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations by the Code.

5. The opinion set forth in the first sentence of paragraph 4 regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Authority with covenants regarding federal tax law contained in the Master Trust Indenture, the First Supplemental Trust Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2005 Bonds to be included in gross income retroactive to the date of issue of the Series 2005 Bonds. Although we are of the opinion that interest on the Series 2005 Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2005 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

6. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2005 Bonds is exempt from all present State of California personal income taxes.

The obligations of the Authority and the security provided therefor, as contained in the Series 2005 Bonds, the Master Trust Indenture and the First Supplemental Trust Indenture may be subject to general principles of equity which permit the exercise of judicial discretion and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated October 6, 2005, or any other offering material relating to the Series 2005 Bonds and express no opinion relating thereto.

Very truly yours,

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APPENDIX D

BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the subcaption “– General” below has been provided by DTC. The Authority makes no representation as to the accuracy or the completeness of such information. The beneficial owners of the Series 2005 Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2005 BONDS UNDER THE INDENTURE, (C) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL, PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE OWNER OF THE SERIES 2005 BONDS; (D) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2005 BONDS; OR (E) ANY OTHER MATTER REGARDING DTC.

General

DTC will act as securities depository for the Series 2005 Bonds. The Series 2005 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2005 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Trustee.

DTC 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 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of Series 2005 Bonds 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, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its 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. The Authority undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s website as described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website.

Purchases of the Series 2005 Bonds under the DTC system must be made by or through Direct or Indirect Participants, which will receive a credit for the Series 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2005 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2005 Bonds, except in the event that use of the book-entry system for the Series 2005 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2005 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 2005 Bonds DTC records reflect only the identity of the Direct Participants to whose accounts such Series 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2005 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 Series 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Series 2005 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2005 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participant and not of DTC, the Authority, or the Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Series 2005 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2005 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates 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 Bonds depository). In that event, bond certificates will be printed and delivered.

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

No Assurance Regarding DTC Practices

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

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE SERIES 2005 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE SERIES 2005 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2005 BONDS. Each person for whom a Participant acquires an interest in the Series 2005 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all communications to DTC, which may affect such person, forwarded in writing by such Participant and to receive notification of all interest payments.

THE AUTHORITY WILL HAVE NO RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE PAYMENTS TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS, OR THE PROVISION OF NOTICE TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE SERIES 2005 BONDS. NO ASSURANCE CAN BE GIVEN BY THE AUTHORITY THAT DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR OTHER NOMINEES OF THE BENEFICIAL OWNERS WILL MAKE PROMPT TRANSFER OF PAYMENTS TO THE BENEFICIAL OWNERS, THAT THEY WILL DISTRIBUTE NOTICES RECEIVED AS THE REGISTERED OWNER OF THE SERIES 2005 BONDS TO THE BENEFICIAL OWNERS, THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

In the event the Authority determines not to continue the book-entry system or DTC determines to discontinue its services with respect to the Series 2005 Bonds and the Authority does not select another qualified depository, the Authority shall deliver one or more Series 2005 Bonds in such principal amount or amounts, in authorized denominations, and registered in whatever name or names, as DTC shall designate. In such event, transfers and exchanges of Series 2005 Bonds will be governed by the provisions of the Indenture.

Risks of Book-Entry System

The Authority makes no assurance, and the Authority shall incur no liability, regarding the fulfillment by DTC of its obligations under the book-entry system with respect to the Series 2005 Bonds.

In addition, Beneficial Owners of the Series 2005 Bonds may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Series 2005 Bonds since such distributions will be forwarded by the Authority to DTC and DTC will credit such distributions to the accounts of the Direct Participants which will thereafter credit them to the accounts of the Beneficial Owners either directly or through Indirect Participants.

Since transactions in the Series 2005 Bonds can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2005 Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Series 2005 Bonds, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Authority as registered owners of the Series 2005 Bonds, and Beneficial Owners will only be permitted to exercise the rights of registered owners indirectly through DTC and its Participants.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY (the “Authority”) in connection with the issuance by the Authority of its San Diego County Regional Airport Authority Airport Revenue Refunding Bonds Series 2005, in an aggregate principal amount of \$56,270,000 (the “Bonds”). The Bonds are being issued by the Authority, in accordance with certain provisions of Sections 170000 *et seq.* of the Public Utilities Code of the State (collectively, the “Act”); a resolution adopted by the board of directors of the Authority on September 26, 2005 (the “Resolution”); a Master Trust Indenture, dated as of November 1, 2005 (the “Master Indenture”), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the “Trustee”), and a First Supplemental Trust Indenture, dated as of November 1, 2005 (the “First Supplemental Indenture,” and collectively with the Master Indenture, the “Indenture”), by and between the Authority and the Trustee. The Authority covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-2(b)(5).

SECTION 2. Definitions. The definitions set forth in the Act, the Resolution and the Indenture apply to any capitalized term used in this Disclosure Certificate, unless such terms are otherwise defined in this Section 2 below:

“Annual Report” shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person who (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Insurer” means Ambac Assurance Corporation, or any successor thereto, located at One State Street Plaza, New York, New York, 10004, Attention: Surveillance Department.

“Disclosure Representative” shall mean the Executive Director of the Authority, or such officer’s designee, or such other officer or employee as the Authority shall designate in writing from time to time.

“Dissemination Agent” shall mean the Authority, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Authority.

“Holders” shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in its depository system.

“Listed Events” shall mean any of the events listed in Section 6(a) of this Disclosure Certificate.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at: <http://www.sec.gov/info/municipal/nrmsir.htm>

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

“Tax Owner” means the owner of any Bonds for Federal income tax purposes. The assertion of any tax ownership of a Bond must be filed with full documentary support, as part of a written request pursuant to Section 10 hereof.

SECTION 3. Provision of Annual Reports.

(a) The Authority shall, not later than 181 days after the end of the Authority’s Fiscal Year (presently December 31 of the calendar year following the end of the Authority’s Fiscal Year), commencing with the report for the end of the 2005-2006 Fiscal Year, prepare an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate and shall, or shall cause the Dissemination Agent, if applicable, to provide such Annual Report to each Repository and the Insurer. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the Authority may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the Authority’s Fiscal Year changes, the Authority shall give notice of such change in the same manner as for a Listed Event under Section 6(c).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories and the Insurer, the Authority shall provide the Annual Report to the Dissemination Agent (if other than the Authority).

(c) If the Authority is unable to provide the Repositories and the Insurer an Annual Report as required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Insurer in substantially the form attached as Exhibit A hereto.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any and the Insurer; and

(ii) (if the Dissemination Agent is other than the Authority), file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories and the Insurer to which it was provided.

SECTION 4. Content of Annual Reports. The Authority’s Annual Report shall be in format suitable for filing with each Repository and the Insurer and shall contain or incorporate by reference historical quantitative data concerning the Authority and SDIA (as defined in the Official Statement, dated October 6, 2005 relating to the Bonds (the “Official Statement”)), including:

(i) the Authority’s audited financial statements prepared in accordance with generally accepted accounting principles in effect from time to time;

(ii) information in form and substance similar to tables 1 through 6 and 9 through 12 of the forepart of the Official Statement; and

- (iii) projected future financings of the Authority for the current Fiscal Year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Authority shall clearly identify each such other document so included by reference. In the event that information necessary to prepare the tables listed above becomes unavailable due to changes in accounting practices, legislative changes or organizational changes, the Authority shall state in its Annual Report that such table will no longer be included in the Annual Report and the reasons therefor. Comparable information shall be provided if available.

SECTION 5. Provision of Fiscal Year 2005 Audited Financial Statements.

The Authority shall, or shall cause the Dissemination Agent to, provide the Authority's audited financial statements for the Fiscal Year ended June 30, 2005 to each Repository and the Insurer as soon as practicable following completion thereof. Audited financial statements for future Fiscal Years shall be provided by the Authority in accordance with Section 3 hereof.

SECTION 6. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 6, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if the Authority determines that such event is material under applicable federal securities law:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bond Holders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or any failure by any credit or liquidity provider to perform; and
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event the Authority shall as soon as possible determine if such event would be material under federal securities laws.

(c) If the Authority determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Authority shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board, the Repositories and the Insurer; provided, however, that any filing under this Disclosure Certificate may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the Securities and Exchange Commission has

withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture.

SECTION 7. Termination of Reporting Obligation. The obligations of the Authority under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 6(c).

SECTION 8. 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 Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice prepared by the Authority pursuant to this Disclosure Certificate.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided the following conditions are satisfied:

(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; and

(b) this Disclosure Certificate, as amended, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) the amendment does not materially impair the interests of Bond Holders, as determined by nationally recognized bond counsel; and

(d) in the event of any amendment or waiver of a provision of this Disclosure Certificate, the Authority shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Authority. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 6(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Authority shall not have any obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Authority or the Dissemination Agent, if applicable, to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority, the Authority or the Dissemination Agent (if applicable), as the case may be, to comply with its obligations under this Disclosure Certificate provided such action is taken in the Federal or State

Court located in the County of Los Angeles, State of California, and provided further that no remedy other than substantial performance may sought or granted against the Authority. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel substantial performance.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if one is appointed by the Authority) shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of the disclosure of information pursuant to this Disclosure Certificate or out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the gross negligence or willful misconduct of the Dissemination Agent. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent, termination of Disclosure Certificate and payment of the Bonds. The Dissemination Agent (if not the Authority) shall not have any responsibility or liability for the failure to report any Listed Event or any financial information or as to which the Authority did not prepare a report in a format suitable for filing with the Repositories. No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Authority satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Authority shall have refused to comply therewith within a reasonable time.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the Authority: San Diego County Regional Airport Authority
Commuter Terminal, 3rd Floor
3225 North Harbor Drive
San Diego, California 92101
Attention: Executive Director
Fax: (619) 400-2878
Telephone: (619) 400-2400

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Signature. This Disclosure Certificate has been executed by the undersigned on the date hereof, and such signature binds the Authority to the undertaking herein provided.

Dated: _____, 2005

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

By: _____
Title: _____

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: San Diego County Regional Airport Authority (the "Authority")
Name of Issue: San Diego County Regional Airport Authority Airport Revenue Refunding Bonds, Series 2005 (Delivered _____, 2005)

NOTICE IS HEREBY GIVEN that the Authority has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated _____, 2005. [The Authority has informed the undersigned that it anticipates that the Annual Report will be filed by _____.] [The undersigned Authority is the Dissemination Agent under the Continuing Disclosure Certificate referred to herein.]

Dated: _____

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

By: _____
Title: _____

cc: Executive Director
San Diego County Regional Airport Authority

APPENDIX F

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative