

NEW ISSUE -- BOOK-ENTRY ONLY

RATINGS: See "RATINGS" herein

In the opinion of Preston Gates & Ellis LLP, Bond Counsel, assuming compliance with certain covenants of the State, interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes under existing law, except with respect to any Series 2006A Bond or Series 2006C Bond during any period in which such Series 2006A Bond or Series 2006C Bond is held by a substantial user of the facilities financed or refinanced by such Bonds or by a related person. Interest on the Series 2006B Bonds and the Series 2006D Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Series 2006A Bonds and the Series 2006C Bonds is an item of tax preference for purposes of individual and corporate alternative minimum tax. Interest on the Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See "TAX EXEMPTION" herein for a discussion of the opinion of Bond Counsel.

\$344,595,000

State of Alaska

International Airports System Revenue and Refunding Bonds

\$118,975,000	\$70,760,000	\$50,000,000	\$104,860,000
Revenue Bonds	Revenue Bonds	Variable Rate Demand	Revenue Refunding Bonds
Series 2006A	Series 2006B	Revenue Bonds	Series 2006D
(AMT)	(Non-AMT)	Series 2006C	(Non-AMT)
		(AMT)	

Dates, Interest Rates, Prices or Yields, Are Shown on the Inside Cover Pages

The State Bond Committee, on behalf of the State of Alaska, is issuing \$118,975,000 principal amount of State of Alaska International Airports System Revenue Bonds, Series 2006A (AMT) (the "Series 2006A Bonds"), \$70,760,000 principal amount of State of Alaska International Airports System Revenue Bonds, Series 2006B (Non-AMT) (the "Series 2006B Bonds"), \$50,000,000 principal amount of State of Alaska International Airports System Variable Rate Demand Revenue Bonds, Series 2006C (AMT) (the "Series 2006C Bonds"), and \$104,860,000 principal amount of State of Alaska International Airports System Revenue Refunding Bonds, Series 2006D (Non-AMT) (the "Series 2006D Bonds," and together with the Series 2006A Bonds, the Series 2006B Bonds, and the Series 2006C Bonds, the "Bonds"). The Bonds will be issued in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Bonds will not receive physical certificates representing their interests in the Bonds purchased. DTC will act as securities depository for the Bonds. The principal of and interest on the Bonds are payable directly to DTC by J.P. Morgan Trust Company, Seattle, Washington, as registrar (the "Registrar"). Upon receipt of payments of such principal and interest, DTC is to remit such principal and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Bonds.

The Series 2006C Bonds will initially bear interest at weekly rates determined by UBS Securities LLC, as Remarketing Agent, as more fully described herein. **This Official Statement is intended to provide information on the Series 2006C Bonds only when such Bonds bear interest at a rate determined weekly or daily, upon conversion to a daily rate, by the Remarketing Agent (such Bonds are referred to herein as "Variable Rate Bonds").** At its option, the State of Alaska may at any time convert the interest rate on the 2006C Bonds to other interest rate modes as described herein. The Variable Rate Bonds will be subject to mandatory tender upon the exercise of such election, and at other times as more fully set forth herein. See "DESCRIPTION OF THE VARIABLE RATE BONDS -- Optional Tender for Purchase and Mandatory Tender for Purchase." Variable Rate Bonds in the weekly mode may, at the option of the Bondholder thereof, be tendered in authorized denominations, to the Registrar, as Tender Agent, for purchase on any Business Day not less than seven days after the giving of notice of such tender.

In the event that the proceeds of the remarketing of the Variable Rate Bonds pursuant to optional tender or mandatory purchase are insufficient to pay the tendering Bondholders, the Registrar will be entitled to draw upon a liquidity facility to pay the purchase price of Variable Rate Bonds. The initial liquidity facility is expected to be in the form of a standby bond purchase agreement (the "Series 2006C Standby Bond Purchase Agreement") among the Registrar, the State of Alaska and Lloyds TSB Bank plc, acting through its New York Branch, as liquidity provider, under which the Liquidity Provider agrees to provide liquidity for the Variable Rate Bonds bearing weekly or daily rates in the event of a failed remarketing, and will expire on March 14, 2010, subject to extension or earlier termination as described herein. Under certain circumstances, the Series 2006C Standby Bond Purchase Agreement may be terminated without prior notice to Bondholders or without an opportunity to tender Variable Rate Bonds for purchase. See "SUMMARY OF THE LIQUIDITY FACILITY" herein.

The Series 2006A Bonds, the Series 2006B Bonds, and the Series 2006D Bonds are subject to optional and mandatory redemption prior to maturity, as more fully described herein.

The Bonds will be issued pursuant to and secured by Resolution No. 68-4, as amended and restated by Resolution No. 99-01, adopted January 28, 1999 (the "General Bond Resolution"), as supplemented by Supplemental Resolution No. 2006-01, adopted February 23, 2006 (the "Fourth Supplemental Bond Resolution" and together with the General Bond Resolution, the "Bond Resolution"). Previous series of bonds have been issued under the General Bond Resolution and, as of February 1, 2006, are currently outstanding in the principal amount of \$404,175,000 (the "Outstanding Parity Bonds"). The Bonds, the Outstanding Parity Bonds, and any Future Parity Bonds (as defined herein) are equally and ratably secured under the General Resolution by a pledge of all revenues (the "Revenues" as further defined herein), including the Reserve Account. The Bonds are special, limited obligations of the State of Alaska and are payable as to interest on, principal of and premium, if any (except to the extent paid from Bond proceeds or the income from investments), solely from, and are secured by a pledge of, the Revenues derived by the State of Alaska from the operation of the Alaska International Airports System (the "System") consisting of Ted Stevens Anchorage International Airport and the Fairbanks International Airport. The Bonds are not general obligations of the State of Alaska, and neither the full faith and credit nor the taxing power of the State of Alaska are pledged for the payment of the Bonds. The Bonds are being issued: (i) to finance certain capital improvements to the System; (ii) to refund certain Outstanding Parity Bonds, (iii) to satisfy the reserve requirement; (iv) to pay capitalized interest; and (v) to finance costs of issuance of the Bonds, all as more fully described herein.



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

THIS COVER PAGE IS NOT INTENDED TO BE A SUMMARY OF THE TERMS OF OR SECURITY FOR THE BONDS. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING APPENDICES, TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds are offered when, as and if issued, subject to the approval of their validity and enforceability by Preston Gates & Ellis LLP, Seattle, Washington, Bond Counsel. Certain legal matters will be passed upon for the State of Alaska by the Attorney General for the State of Alaska and for the Underwriters by Underwriters' Counsel, Wohlforth, Johnson, Brecht, Cartledge, & Brooking, PC, Anchorage, Alaska. Government Finance Associates, Inc. serves as independent financial advisor to the State of Alaska. First Southwest Company serves as financial advisor to the System. It is expected that the Bonds in book-entry form will be available for delivery by Fast Automated Securities Transfer, through the facilities of DTC, on or about March 14, 2006.

UBS Investment Bank*

Citigroup

Merrill Lynch & Co.

Morgan Stanley

February 23, 2006

* Sole Underwriter and Remarketing Agent for the Series 2006C Bonds (the Variable Rate Bonds).

State of Alaska

\$344,595,000

**International Airports System Revenue and Refunding Bonds
consisting of:**

\$118,975,000

Revenue Bonds, Series 2006A (AMT)

Dated: Date of Delivery

Due: October 1, as shown below

The Series 2006A Bonds will be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2006A Bonds will be payable April 1 and October 1, commencing October 1, 2006.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND CUSIP†

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Cusip</u> [†] <u>011842</u>	<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Cusip</u> [†] <u>011842</u>
2007	\$1,400,000	4.00%	3.56%	NJ6	2014	\$7,200,000	5.00%	4.11%	NY3
2007	275,000	3.50	3.56	NH0	2014	570,000	4.125	4.11	NX5
2008	3,745,000	5.00	3.70	NL1	2015	8,005,000	5.00	4.16	PA3
2008	2,135,000	3.75	3.70	NK3	2015	150,000	4.15	4.16	NZ0
2009	4,040,000	5.00	3.75	NN7	2016	7,645,000	4.00	4.21	PC9
2009	2,105,000	3.75	3.75	NM9	2016	915,000	4.20	4.21	PB1
2010	6,400,000	5.00	3.83	NQ0	2017	8,795,000	5.00	4.25 ^(c)	PE5
2010	25,000	3.80	3.83	NP2	2017	110,000	4.25	4.25	PD7
2011	6,315,000	5.00	3.92	NS6	2018	9,280,000	5.00	4.29 ^(c)	PG0
2011	435,000	4.00	3.92	NR8	2018	70,000	4.25	4.29	PF2
2012	5,530,000	5.00	4.00	NU1	2019	9,815,000	5.00	4.33 ^(c)	PH8
2012	1,550,000	4.00	4.00	NT4	2020	10,305,000	5.00	4.37 ^(c)	PJ4
2013	5,410,000	5.00	4.06	NW7	2021	10,820,000	5.00	4.40 ^(c)	PK1
2013	2,010,000	4.00	4.06	NV9	2022	3,550,000	5.00	4.43 ^(c)	PM7
					2022	370,000	4.40	4.43	PL9

(c) Priced to Call at 100% on October 1, 2016.

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

\$70,760,000

Revenue Bonds, Series 2006B (Non-AMT)

Dated: Date of Delivery

Due: October 1, as shown below

The Series 2006B Bonds will be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2006B Bonds will be payable April 1 and October 1, commencing October 1, 2006.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND CUSIP[†]

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Cusip[†]</u> <u>011842</u>	<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Cusip[†]</u> <u>011842</u>
2022	\$7,445,000	5.00%	4.21% ^(C)	PN5	2025	\$13,150,000	5.00%	4.28% ^(C)	PR6
2023	11,930,000	5.00	4.23 ^(C)	PP0	2026	13,810,000	5.00	4.30 ^(C)	PS4
2024	12,525,000	5.00	4.25 ^(C)	PQ8	2027	11,900,000	5.00	4.32 ^(C)	PT2

(c) Priced to Call at 100% on October 1, 2016.

\$50,000,000

Variable Rate Demand Revenue Bonds, Series 2006C (AMT)

\$50,000,000 Term Bonds; Dated: Date of Delivery; Due October 1, 2030; Price 100%; CUSIP[†] No.: 011842QY0

The Series 2006C Bonds (the "Variable Rate Bonds") will initially bear interest at a weekly rate from their date of issuance until maturity or until such Variable Rate Bonds are converted to another interest rate mode (as described herein). The weekly rate shall be determined on Tuesday of each week (or if such day is not a Business Day, on the immediately preceding Business Day) by UBS Securities LLC, as Remarketing Agent.

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\$104,860,000

Revenue Refunding Bonds, Series 2006D (Non-AMT)

Dated: Date of Delivery

Due: October 1, as shown below

The Series 2006D Bonds will be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2006D Bonds will be payable April 1 and October 1, commencing October 1, 2006.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND CUSIP[†]

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Cusip</u> [†] <u>011842</u>	<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Cusip</u> [†] <u>011842</u>
2007	\$130,000	3.50%	3.40%	PU9	2018	\$200,000	4.00%	4.10%	QJ3
2008	135,000	3.50	3.42	PV7	2018	6,950,000	5.00	4.10 ^(C)	QK0
2009	140,000	3.50	3.44	PW5	2019	550,000	4.125	4.13	QL8
2010	145,000	3.50	3.48	PX3	2019	6,955,000	5.00	4.13 ^(C)	QM6
2011	150,000	3.625	3.56	PY1	2020	7,875,000	5.00	4.15 ^(C)	QN4
2012	155,000	3.625	3.69	PZ8	2021	8,270,000	5.00	4.17 ^(C)	QP9
2013	160,000	3.75	3.77	QA2	2022	150,000	4.20	4.21	QQ7
2014	170,000	4.00	3.84	QB0	2022	8,530,000	5.00	4.21 ^(C)	QR5
2015	2,300,000	4.00	3.90	QC8	2023	9,110,000	5.00	4.23 ^(C)	QS3
2015	1,965,000	4.75	3.90	QD6	2024	9,570,000	5.00	4.25 ^(C)	QT1
2016	600,000	4.00	3.97	QE4	2025	8,860,000	5.00	4.28 ^(C)	QU8
2016	5,915,000	4.75	3.97	QF1	2026	250,000	4.25	4.30	QV6
2017	825,000	4.00	4.04	QG9	2026	9,050,000	5.00	4.30 ^(C)	QW4
2017	5,990,000	5.00	4.04 ^(C)	QH7	2027	9,760,000	5.00	4.32 ^(C)	QX2

(c) Priced to Call at 100% on October 1, 2016.

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STATE OF ALASKA
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Department of Revenue

Scott J. Nordstrand, Member
Commissioner
Department of Administration

DEPARTMENT OF TRANSPORTATION
AND PUBLIC FACILITIES
Mike Barton, Commissioner

John Torgerson, Deputy Commissioner of Aviation

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FEASIBILITY CONSULTANT

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Chicago, Illinois

* This inactive textual reference to the State's website is not a hyperlink and the State's website, by this reference, is not incorporated herein.

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The information contained in this Official Statement has been obtained from the State of Alaska and other sources deemed reliable. No representation is made, however, as to the accuracy or completeness of such information, and nothing contained in this Official Statement is, or shall be relied upon as, a promise or representation by the Underwriters. The information concerning DTC and its book-entry system has been obtained from DTC, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the State of Alaska. The information concerning MBIA Insurance Corporation (the "Insurer" or "MBIA") and its financial guaranty insurance policy, and the information concerning Lloyds TSB Bank plc, acting through its New York Branch (the "Liquidity Provider"), and its Series 2006C Standby Bond Purchase Agreement, has been obtained from the Insurer and the Liquidity Provider, respectively, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the State of Alaska.

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 respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy and completeness of such information.

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman or other person has been authorized by the State of Alaska, the Underwriters or any other person to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the State of Alaska, the Underwriters, or any other person. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 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 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE BOND RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

OFFICIAL STATEMENT

Relating to

State of Alaska

\$344,595,000

International Airports System Revenue and Refunding Bonds

consisting of:

\$118,975,000	\$70,760,000	\$50,000,000	\$104,860,000
Revenue Bonds	Revenue Bonds	Variable Rate Demand	Revenue Refunding Bonds
Series 2006A	Series 2006B	Revenue Bonds	Series 2006D
(AMT)	(Non-AMT)	Series 2006C	(Non-AMT)
		(AMT)	

INTRODUCTION

The purpose of this Official Statement, including the cover page and the appendices hereto, is to set forth certain information concerning the State of Alaska (the "State"), the Alaska International Airports System ("AIAS" or the "System"), the Ted Stevens Anchorage International Airport (referred to herein as "ANC" or "Anchorage International Airport"), the Fairbanks International Airport (referred to herein as "FAI" or "Fairbanks International Airport") and certain other matters in connection with the sale of \$118,975,000 principal amount of State of Alaska International Airports System Revenue Bonds, Series 2006A (AMT) (the "Series 2006A Bonds"), \$70,760,000 principal amount of State of Alaska International Airports System Revenue Bonds, Series 2006B (Non-AMT) (the "Series 2006B Bonds"), \$50,000,000 principal amount of State of Alaska International Airports System Variable Rate Demand Revenue Bonds, Series 2006C (AMT) (the "Series 2006C Bonds"), and \$104,860,000 principal amount of State of Alaska International Airports System Revenue Refunding Bonds, Series 2006D (Non-AMT) (the "Series 2006D Bonds," and together with the Series 2006A Bonds, the Series 2006B Bonds, and the Series 2006C Bonds, the "Bonds").

The Bonds are issued under Alaska Statutes 37.15.410 -- 37.15.550, inclusive (the "Act"). The Bonds are issued pursuant to, and are secured by, Resolution No. 68-4 of the State Bond Committee adopted April 11, 1968, as amended and restated by the State Bond Committee's Resolution No. 99-01 adopted January 28, 1999 (the "General Bond Resolution"), and as supplemented by the State Bond Committee's Fourth Supplemental Resolution No. 2006-01, adopted February 23, 2006 (the "Supplemental Bond Resolution," and together with the General Bond Resolution, the "Bond Resolution"). Under the terms of the Act and the Bond Resolution, the Bonds are secured by and are payable from (on a parity basis with all other bonds which have been issued (the "Outstanding Parity Bonds") and may be issued (the "Future Parity Bonds") under the General Bond Resolution) the Revenues derived by the State from the ownership, lease, use and operation of the System. Other than Revenues derived by the State from the System, Bond proceeds used to pay capitalized interest, funds held in the State's International Airports Construction Fund, and Passenger Facility Charges collected by the System, no money has been, or is expected to be, provided from any other source for the payment of the Bonds or of any other bonds issued under the Bond Resolution. See "SECURITY FOR THE BONDS -- Limited Liability."

The Bond Resolution does not limit the amount of future parity bonds that may be issued under the General Bond Resolution; however, the Act currently limits the cumulative principal amount of bonds authorized to not more than \$812,500,000 (excluding refunding bonds). The State Bond Committee has issued a total of \$517,445,000 principal amount of revenue bonds pursuant to the authority granted by the Act (excluding refunding bonds and not including the Bonds). As of February 1, 2006, there are \$404,175,000 of Outstanding Parity Bonds.

The Outstanding Parity Bonds, as of February 1, 2006, are as follows:

<u>Designation</u>	<u>Dated Date of Issue</u>	<u>Original Principal Amount</u>	<u>Current Outstanding Principal Amount (as of 2/1/06)</u>
International Airports System Revenue Bonds, Series 1999A(AMT)	1/15/99	\$162,500,000	\$143,115,000
International Airports System Revenue Bonds, Series 1999B	1/15/99	16,675,000	14,595,000
International Airports System Revenue Bonds, Series 1999C	10/1/99	25,000,000	22,530,000
International Airports System Revenue Bonds, Series 2002A (AMT)	4/1/02	13,060,000	6,605,000
International Airports System Revenue Bonds, Series 2002B	4/1/02	127,720,000	127,720,000
International Airports System Revenue Bonds, Series 2003A (AMT)	12/11/03	73,025,000	67,710,000
International Airports System Revenue Bonds, Series 2003B	12/11/03	21,900,000	<u>21,900,000</u>
			\$404,175,000

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE STATE, AND THE STATE DOES NOT PLEDGE ITS FULL FAITH AND CREDIT TO THE PAYMENT OF THE BONDS. THE ISSUANCE OF THE BONDS DOES NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO APPLY MONEY FROM, OR LEVY OR PLEDGE, ANY FORM OF TAXATION WHATEVER TO THE PAYMENT OF THE BONDS. THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE STATE PAYABLE OUT OF AND SECURED ONLY BY THE REVENUES DESCRIBED ABOVE.

The Bonds are being issued, in part, to provide a portion of the funds necessary for certain capital improvements at ANC and FAI. The Series 2006D Bonds are also being issued to refund certain Outstanding Parity Bonds, all as more fully described under the caption "USE OF 2006 BOND PROCEEDS."

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Certain capitalized terms used herein and not defined herein shall have the meaning given such terms in "APPENDIX C -- State Bond Committee of the State of Alaska, Resolution No. 99-01" and in "APPENDIX D -- State Bond Committee of the State of Alaska, Supplemental Resolution No. 2006-01."

DESCRIPTION OF THE FIXED RATE BONDS

General Description

The information in this section applies only to the Series 2006A Bonds, the Series 2006B Bonds, and the Series 2006D Bonds (herein referred to collectively as the "Fixed Rate Bonds").

The Fixed Rate Bonds will be dated the date of delivery, and will bear interest from their dated date to their respective maturities or prior redemption dates in the amounts and at the rates set forth on the inside cover pages of this Official Statement. Interest on the Fixed Rate Bonds will be payable semiannually on April 1 and October 1 of each year, commencing on October 1, 2006.

So long as the Bonds are in fully immobilized form, payments of principal and interest will be made as provided in the operational arrangements of DTC referred to in the Letter of Representation. See "Book-Entry Only System." The principal of and redemption premium, if any, on any Fixed Rate Bond will be payable to the Registered Owner thereof as shown on the registration records kept by the Registrar, upon maturity or prior redemption thereof and upon presentation and surrender at the designated office of the Registrar. If any Fixed Rate Bond is not paid upon presentation and surrender at or after maturity, it will continue to bear interest at the interest rate borne by the Fixed Rate Bond until the principal thereof is paid in full. Except as described in "APPENDIX H -- DTC and Book-Entry Only System," payment of interest on any Fixed Rate Bond will be made to the Registered Owner thereof by check or draft mailed by the Registrar, by first class mail on or before each interest payment date (or, if such interest payment date is not a business day, on or before the next succeeding business day), to the Registered Owner thereof at the Registered Owner's address as shown on the registration records kept by the Registrar on the 15th day of the calendar month, whether or not a business day, next preceding such interest payment date (the "Record Date"). If the Fixed Rate Bonds are no longer in book-entry form, payment of principal of and interest on the Bonds, and premium, if any, may, at the option of any Registered Owner of Fixed Rate Bonds in an aggregate principal amount of at least \$1,000,000, be transmitted by wire transfer to such owner.

Book-Entry Only System

The Fixed Rate Bonds will be executed and delivered in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Fixed Rate Bonds. The information in this section concerning DTC and DTC's book-entry only system has been obtained from DTC, and the State, the Underwriters and the Registrar take no responsibility for the accuracy thereof. See "APPENDIX H -- DTC And Book-Entry Only System" for a further description of DTC and its book-entry only system. Capitalized terms used under this caption and not otherwise defined shall have the respective meanings given to such terms in APPENDIX H. One fully-registered Fixed Rate Bond certificate will be issued for each year in which the Fixed Rate Bonds of a series mature in denominations equal to the aggregate principal amount of the Fixed Rate Bonds maturing in that year, and will be deposited with DTC. Individual purchases may be made in book-entry only form. Purchasers will not receive certificates representing their interest in the Fixed Rate Bonds purchased. So long as Cede & Co. is the registered owner of the Fixed Rate Bonds, as nominee of DTC, references herein to the owners of the Fixed Rate Bonds or Bondowners shall mean Cede & Co. and shall not mean the actual purchasers of the Fixed Rate Bonds (the "Beneficial Owners"). The principal, interest, and premium, if any, evidenced by each Fixed Rate Bond will be payable by wire transfer by the Registrar to Cede & Co., as nominee for DTC, which is required, in turn, to remit such amounts to the Participants for subsequent disbursement to the Beneficial Owners.

The book-entry only system may be discontinued by the State, and the Registrar will cause the delivery of Fixed Rate Bond certificates to Beneficial Owners of the Fixed Rate Bonds under the following circumstances:

A. DTC or its successor (or substitute Securities Depository or its successor) resigns from its functions and no substitute can be obtained; or

B. the Designated Representative determines that it is in the best interests of the Beneficial Owners to obtain certificates.

Redemption of the Bonds

Optional Redemption. The Fixed Rate Bonds maturing on or after October 1, 2017, are subject to redemption prior to maturity, in whole or in part (and if in part with maturities selected by the State) at the option of the State, on and after October 1, 2016, at a price of 100% of the principal amount thereof to be redeemed plus accrued interest to the date of redemption.

Partial Redemption. In the case of a partial redemption of Fixed Rate Bonds of a single maturity within a series, the selection of the Fixed Rate Bonds of such series and maturity to be redeemed shall be made in accordance with the operational arrangements in effect at DTC, so long as the Fixed Rate Bonds are held in fully immobilized form. Otherwise the selection of the particular Fixed Rate Bonds within a series and maturity shall be made by the Registrar by lot or in such other manner determined by the Registrar.

Notice of Redemption. Neither the State nor the Registrar will provide any notice of redemption to any Beneficial Owner. Unless waived by any Registered Owner of a Fixed Rate Bond to be redeemed, notice of redemption will be given by the Registrar, by first class mail, at least 30 days before the redemption date to the Registered Owner of any Fixed Rate Bond (initially Cede & Co.) all or a part of which is called for redemption at the Registered Owner's address as it last appears on the Register kept by the Registrar. The notice will identify the Fixed Rate Bonds and state that on such date the principal amount thereof and premium, if any, thereon will become due and payable and that after such redemption date interest will cease to accrue. After such notice and presentation of said Fixed Rate Bonds, the Fixed Rate Bonds called for redemption will be paid, except that in the case of notice of a conditional redemption, redemption shall be conditioned by the Registrar on receipt of sufficient funds. Actual receipt of mailed notice by the Registered Owner of Fixed Rate Bonds will not be a condition precedent to redemption of such Fixed Rate Bonds. Failure to give such notice by mailing to the registered owner of any Fixed Rate Bond designated for redemption, or any defect therein, will not affect the validity of the proceedings for the redemption of any other Fixed Rate Bond.

To the extent that Cede & Co. is the registered owner for DTC as described above and in APPENDIX H hereto, DTC will be responsible for notifying the DTC Participants of any notice of redemption, which in turn will be responsible for notifying the Beneficial Owners.

The Bond Insurance Policy

MBIA Insurance Corporation (the "Insurer") has committed to issue, simultaneously with the issuance of the Fixed Rate Bonds, a financial guarantee policy (the "Insurance Policy") insuring the payment of the principal and interest on the Fixed Rate Bonds as the same become due (not including redemption, except mandatory sinking fund redemption, if any). See "BOND INSURER" herein.

DESCRIPTION OF THE VARIABLE RATE BONDS

Disclaimer

The following description of the Variable Rate Bonds has been modified from the description included in the Preliminary Official Statement (February 15, 2006) for the Series 2006A, Series 2006B and Series 2006D Bonds. Investors of the Variable Rate Bonds should review and rely only on the description in this Official Statement.

General Description

The Variable Rate Bonds will be issued in the aggregate principal amount set forth on the cover page hereof and will accrue interest at Weekly Rates until converted to a different interest rate mode in accordance with the terms of the Fourth Supplemental Resolution. The Variable Rate Bonds will mature on the first Interest Payment Date to occur on or after October 1, 2030 and are subject to redemption, optional tender and mandatory tender for purchase prior to maturity as set forth below. The rate of interest on the Variable Rate Bonds during any particular Daily or Weekly Mode will be determined by the Remarketing Agent, initially UBS Securities LLC (herein, with its successors, the "Remarketing Agent").

Variable Rate Bonds that accrue interest at Daily or Weekly Rates shall be issued in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. All Variable Rate Bonds will initially be registered to DTC or its nominee, Cede & Co., to be held in DTC's book entry only system (the "Book Entry Only System"). So long as the Variable Rate Bonds are held in the Book Entry Only System, DTC (or a successor securities depository) or its nominee will be the Registered Owner of the Variable Rate Bonds. Payments of the Purchase Price, premium, if any, principal and interest on the Variable Rate Bonds will be made solely through the facilities of DTC. See "Book Entry Only System" above.

Interest Rate Modes

The permitted interest rate modes under the Fourth Supplemental Resolution are the Auction Mode, the Commercial Paper Mode, the Daily Mode, the Weekly Mode, the Long Term Mode, and the Fixed Mode. None of the Auction Mode, Long Term Mode, Commercial Paper Mode, or Fixed Rate Mode is discussed in detail in this Official Statement. Prior to a conversion to any of these Modes, the State will prepare and disseminate a supplement to this Official Statement. The following provides a brief overview of each of the Modes permitted under the Fourth Supplemental Resolution.

Weekly Mode. The Variable Rate Bonds will bear interest at Weekly Rates until converted to another Mode. Weekly Rates will be set on a weekly basis by the Remarketing Agent as described under the heading "Determination of Interest Rates on the Variable Rate Bonds and Manner of Payment." Variable Rate Bonds in the Weekly Mode may be tendered for purchase on any Business Day by giving at least seven days notice as described under the heading "Optional Tender for Purchase." Variable Rate Bonds are not subject to mandatory tender for purchase on the Mode Change Date in the event of a conversion to the Weekly Rate from the Daily Rate or vice versa.

Daily Mode. Upon conversion to the Daily Mode, the Variable Rate Bonds will bear interest at Daily Rates established by the Remarketing Agent as described under the heading "Determination of Interest Rates on the Variable Rate Bonds and Manner of Payment." Variable Rate Bonds are not subject to mandatory tender for purchase on the Mode Change Date in the event of a conversion to the Daily Rate from the Weekly Rate or vice versa. Variable Rate Bonds in the Daily Mode may be tendered for purchase on any Business Day as described under the heading "Optional Tender for Purchase."

Auction Mode. Upon conversion to the Auction Mode, the Variable Rate Bonds will bear interest at Auction Rates, established for successive one day, 7 day, 28 day or 35 day Auction Periods, as selected by the Designated Representative of the State. Each Auction Rate for Variable Rate Bonds in the Auction Mode will be equal to the interest rate determined by an Auction Agent that results from the implementation of the Auction Procedures. Interest on Variable Rate Bonds in the Auction Mode will be paid on the Business Day immediately following the end of an Auction Period. The Authorized Denomination for Variable Rate Bonds in the Auction Mode is \$25,000 or any integral multiple thereof.

Commercial Paper Mode. Upon conversion to the Commercial Paper Mode, the Variable Rate Bonds will bear interest at the Commercial Paper Rate and for the Interest Period determined by the Remarketing Agent. The Interest Period for Commercial Paper Bonds shall be a period of at least one day, but not more than 270 days. The Remarketing Agent is required to establish the Commercial Paper Rate and the Interest Period as it deems advisable in order to minimize the net interest cost on the Commercial Paper Bonds, taking into account prevailing market conditions. Interest on Commercial Paper Bonds will be paid on the Purchase Date (at the conclusion of an Interest Period). The Authorized Denomination for Commercial Paper Bonds is \$100,000 and any integral multiple of \$1,000 in excess thereof.

Fixed Mode. Upon conversion to the Fixed Mode, the Fixed Rate Bonds will bear interest at Fixed Rates through their final maturity or for a specified period of time. If Term Maturity Dates or Serial Maturity Dates are established for the Fixed Rate Bonds, a Fixed Rate will be set for each such maturity date. The Authorized Denomination for Fixed Rate Bonds is \$5,000 and any integral multiple thereof within a maturity.

Long Term Mode. Upon conversion to the Long Term Mode, the Long Term Bonds will bear interest at Long Term Rates for each Interest Period. The Remarketing Agent, with the consent of the Designated Representative, shall determine the length of each Interest Period for the Long Term Mode, which Interest Period shall be a period of one year or more. The Authorized Denomination for Long Term Bonds is \$5,000 and any integral multiple thereof within a maturity.

Determination of Interest Rates on the Variable Rate Bonds and Manner of Payment

The Variable Rate Bonds will initially accrue interest at Weekly Rates. Thereafter, the State, as described below under "Conversion of Interest Rate Modes," may elect that the Variable Rate Bonds will accrue interest at a Daily Rates, Auction Rates, Long Term Rates, Commercial Paper Rates or Fixed Rates. The rate of interest on the Variable Rate Bonds bearing interest at Weekly Rates or Daily Rates shall be that rate which, in the judgment of the Remarketing Agent, taking into account prevailing market conditions, would result in the market value of the Variable Rate Bonds as of the date of determination being 100% of the principal amount thereof.

Weekly Rate. While the Variable Rate Bonds are in the Weekly Mode, the Remarketing Agent will determine the Weekly Rate on each Tuesday (or, if Tuesday is not a Business Day, the next succeeding day or if such day is not a Business Day, then the Business Day next preceding such Tuesday). The interest rate for the Variable Rate Bonds shall be the rate established by the Remarketing Agent for such Variable Rate Bonds no later than 4:00 p.m. on each Rate Determination Date (ordinarily a Tuesday). Each Weekly Rate will remain in effect for a seven-day period commencing on Wednesday of each week to and including Tuesday of the following week (the commencement and ending dates may vary in the event of a conversion to or from a Weekly Rate). Interest on Variable Rate Bonds in the Weekly Mode will be calculated based on a 365 or 366 day year (based on the number of days actually elapsed in a calendar year), payable in immediately available funds on the first Business Day of each month to the Registered Owner shown on the Register on the preceding day.

Daily Mode. While the Variable Rate Bonds are in the Daily Mode, the Daily Rate determined by the Remarketing Agent established for the Variable Rate Bonds will remain in effect to, but not including, the next succeeding Business Day. The interest rate for the Variable Rate Bonds shall be the rate established by the Remarketing Agent no later than 10:00 a.m., New York City time, on each Business Day. Interest on Variable Rate Bonds in the Daily Mode will be calculated based on a 365 or 366 day year for the actual number of days elapsed, payable in immediately available funds on the first Business Day of each month to the Registered Owner shown on the Register on the preceding day.

Other. The Remarketing Agent shall notify the Registrar of new interest rates for the Variable Rate Bonds at the times and in accordance with terms set forth in the Fourth Supplemental Resolution. The interest rate in effect for Variable Rate Bonds during any interest rate period shall be available to the actual purchasers of the Variable Rate Bonds (each a "Beneficial Owner") on any Business Day from 1:00 p.m., New York City time, until the close of business from the Remarketing Agent or the Registrar. The determination by the Remarketing Agent of the interest rate on the Variable Rate Bonds shall be conclusive and binding on the Registered Owners and Beneficial Owners of the Variable Rate Bonds, the State and the Registrar.

Conversion of Interest Rates

At the option of the State and subject to certain conditions provided in the Fourth Supplemental Resolution, the Variable Rate Bonds may be converted to other Modes, including the Daily Mode, Auction Mode, Commercial Paper Mode, Long Term Mode and Fixed Mode. Variable Rate Bonds are subject to mandatory tender for purchase upon conversion to another mode, except in the case of conversions between the Daily and Weekly Modes. See "Mandatory Tender for Purchase."

The Registrar shall give notice of the proposed conversion not less than 10 days prior to the proposed Mode Change Date by first class mail to the Registered Owners of the Variable Rate Bonds in Daily and Weekly Modes. Such notice shall state: (A) the proposed Mode Change Date; (B) that the Variable Rate Bonds will be subject to mandatory tender for purchase on the Mode Change Date for such Variable Rate Bonds (except in the case of conversions between the Daily Mode and the Weekly Mode); (C) the conditions, if any, to the conversion; (D) if the Variable Rate Bonds are in certificated form, information with respect to required delivery of Variable Rate Bond certificates and payment of the Purchase Price; and (E) in the case of a Mode Change to the Auction Mode, that the interest rate will be adjusted to the Applicable Auction Rate, the proposed effective date of the Auction Interest Rate Period and the initial Auction Period. No conversion will become effective unless: (i) if the conversion is to a Long Term Mode or Fixed Mode, the Registrar has been provided, no later than three days before the Mode Change Date, with a Favorable Opinion of Bond Counsel with respect to the conversion; (ii) all conditions precedent thereto have been met and all such Variable Rate Bonds have been remarketed; (iii) no conversion to a New Mode, other than the Fixed Mode, Auction Mode, or Long Term Mode not requiring a Credit Facility or Liquidity Facility, shall be made if an Interest Period for the converted Variable Rate Bonds will extend beyond the Expiration Date of any Credit Facility or Liquidity Facility for such Variable Rate Bonds; (iv) in the case of any Mode Change to the Daily Mode, Weekly Mode, Commercial Paper Mode or Long Term Mode, prior to the Mode Change Date the State shall have appointed a Remarketing Agent and there shall have been executed and delivered a Remarketing Agreement; (v) in the case of any Mode Change to the Auction Mode, prior to the Mode Change Date the State shall have appointed an Auction Agent, Market Agent and one or more Broker Dealers and there shall have been executed and delivered an Auction Agreement and one or more

Broker Dealer Agreements; and (vi), except for conversions between the Weekly Mode and the Daily Mode, the State shall have received the prior written consent of the Series 2006 Insurer.

Optional Tender for Purchase

The Beneficial Owners of Variable Rate Bonds accruing interest at Daily or Weekly Rates may elect to have their Variable Rate Bonds (or portions thereof in Authorized Denominations, provided that the remaining Bonds held by such Beneficial Owner will continue to be in Authorized Denominations) purchased at a Purchase Price equal to 100% of the principal amount of such Variable Rate Bonds (or portions), plus accrued interest, if any, on the following Purchase Dates:

Weekly Mode. As long as Variable Rate Bonds are in a Weekly Mode, they may be tendered for purchase at a Purchase Price equal to 100% of the principal amount of such Variable Rate Bonds (or portions) plus accrued interest, if any, payable in immediately available funds on any Business Day by delivery of notice of tender by Electronic Means to the Registrar and the Remarketing Agent, directly or through the DTC Participants or Indirect Participants, no later than 4:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the Purchase Date.

Daily Mode. As long as Variable Rate Bonds are in the Daily Mode, they may be tendered for purchase at a Purchase Price equal to 100% of the principal amount of such Variable Rate Bonds (or portions) plus accrued interest, if any, payable in immediately available funds on any Business Day, upon notice of tender by telephonic or Electronic Means given to the Registrar and the Remarketing Agent, directly or through the DTC Participants or Indirect Participants (as hereinafter discussed), no later than 11:00 a.m., New York City time, on the Purchase Date.

Any notice of tender shall automatically constitute an offer to sell the Variable Rate Bond (or portion thereof) on the Purchase Date. The determination of the Registrar of whether a notice of tender has been properly delivered shall be conclusive and binding upon the Registered Owner.

Mandatory Tender for Purchase

The Variable Rate Bonds are subject to mandatory tender for purchase at a Purchase Price equal to 100% of the principal amount of such Variable Rate Bonds (or portions) plus accrued interest, if any, on:

Conversions between Modes. Variable Rate Bonds to be converted from one Mode to a different Mode are subject to mandatory tender for purchase on the Mode Change Date (except for conversions between the Daily and Weekly Modes) for such Variable Rate Bonds at a Purchase Price equal to the principal amount thereof plus accrued interest, if any. Owners shall be required to tender their Variable Rate Bonds to the Registrar at or prior to 11:00 a.m., New York City time, on the Mandatory Purchase Date for purchase.

Mandatory Purchase Upon Substitution or Expiration of Credit Facility. On or prior to (i) the Substitution Tender Date, or (ii) the Expiration Tender Date, if the State has failed to deliver to the Registrar an alternate Credit Facility (other than a bond insurance policy) and/or an alternate Liquidity Facility (unless the State has elected to convert such Variable Rate Bonds to a Fixed Mode, Auction Mode, or Long Term Mode not requiring a Credit Facility or Liquidity Facility, on or prior to the Expiration Date), then the Registrar is required to give notice to the Registered Owners of the mandatory tender.

Mandatory Purchase Upon Event of Default Under Reimbursement or Purchase Agreement. Variable Rate Bonds in a Daily Mode or Weekly Mode that are payable from a Credit Facility or Liquidity Facility are subject to mandatory purchase at the Purchase Price on the Default Tender Date. Default Tender Date means the Business Day that is five Business Days after receipt by the Registrar of notice from a Credit Facility Issuer or Liquidity Facility, as the case may be, that an event of default under the applicable Reimbursement Agreement or Purchase Agreement has occurred and requesting a mandatory tender of the Series 2006C Bonds or stating that the Credit Facility or Liquidity Facility, as applicable, will not be reinstated. No later than the third day next preceding the Mandatory Purchase Date, the Registrar shall give notice to the Registered Owners stating that the Variable Rate Bonds are required to be tendered for purchase on the specified Mandatory Purchase Date.

Mandatory Purchase on Resolution Tender Date. If the State proposes to amend the Fourth Supplemental Resolution, and if the Fourth Supplemental Resolution, by its terms, requires Registered Owner consent for such amendment, the State may elect to effect a mandatory purchase of the Variable Rate Bonds on a specified Resolution Tender Date. The State shall provide at least 10 days' written notice of the mandatory purchase.

Payment of the Purchase Price of Variable Rate Bonds to be purchased upon mandatory tender will be made by wire transfer by the Registrar in immediately available funds by 3:00 p.m, New York City time on the Mandatory Purchase Date.

The Standby Bond Purchase Agreement or Alternate Credit Facility will provide for a same day draw to make payment of the Purchase Price in the event of a failed remarketing of Variable Rate Bonds.

The failure to mail notice of mandatory tender for a Variable Rate Bond shall not affect the validity of notice mailed for any other Variable Rate Bond. Notice mailed is conclusively presumed given, whether or not actually received.

Remarketing and Purchase

In the event that notice is received of any optional tender, or if the Variable Rate Bonds become subject to mandatory tender, the Remarketing Agent shall use its best efforts to sell such tendered Variable Rate Bonds at a price of 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming optional or mandatory tender date. The Remarketing Agent shall give priority to remarketing of Bank Bonds.

The Purchase Price of Variable Rate Bonds tendered for purchase shall be paid by the Registrar from moneys derived from the remarketing of such Variable Rate Bonds by the Remarketing Agent and, if such remarketing proceeds are insufficient, from proceeds of a drawing on the Liquidity Facility. The State is not obligated to purchase any Variable Rate Bonds tendered for purchase in the event of an insufficiency of funds from the foregoing to pay the Purchase Price. An insufficiency of funds from the proceeds of remarketing the Variable Rate Bonds or from proceeds of a drawing on the Liquidity Facility to pay the Purchase Price will not constitute a Default under the Indenture.

Mandatory Sinking Fund Redemption

The Variable Rate Bonds are subject to mandatory sinking fund redemption at a price of par plus accrued interest to the date of redemption on October 1 of the following years in the following principal amounts:

2030 Term Bonds (Series 2006C)

<u>Years</u>	<u>Redemption Amounts</u>
2027	\$ 2,600,000
2028	15,200,000
2029	15,800,000
2030*	16,400,000

* Final Maturity

In addition, the Maturity Date of the Variable Rate Bonds (other than the Reimbursement Bond and Bank Bonds) may be converted in whole or in part to Serial Maturity Dates and/or Term Maturity Dates upon delivery of a Favorable Opinion of Bond Counsel prior to the commencement of a Long Term Mode or Fixed Mode for such Variable Rate Bonds and if so converted to Term Bonds shall be subject to mandatory sinking fund redemption as determined by the State on the Rate Determination Date for such Variable Rate Bonds.

Optional Redemption

Variable Rate Bonds in the Daily or Weekly Modes are subject to redemption by the State, in whole or in part (and in any Authorized Denomination), at the written direction of the State, on any Interest Payment Date at a redemption price equal to 100% of the principal amount thereof, together with accrued but unpaid interest to the redemption date.

Selection of Bonds for Redemption; Notice of Redemption

If fewer than all of the Variable Rate Bonds are called for redemption, the portion of Variable Rate Bonds to be redeemed shall be selected (i) by DTC, in accordance with its operational arrangements, as long as DTC or its nominee is the sole Registered Owner of the Variable Rate Bonds, or (ii) by a random selection method by the Registrar, when DTC or its nominee is not the sole Registered Owner of the Variable Rate Bonds, from among all the Variable Rate Bonds then Outstanding, and, for this purpose, each minimum increment of Authorized Denominations represented by any Variable Rate Bond shall be considered a separate Variable Rate Bond. Not less than 15 days prior to any redemption date, the Registrar shall cause notice of the call for redemption, identifying each Variable Rate Bond or portion thereof to be redeemed, given in the name of the State, to be sent by first class mail to the Registered Owner of each Variable Rate Bond to be redeemed at the address shown on the Register maintained by the Registrar. As long as DTC or its nominee is the sole registered owner of the Variable Rate Bonds under the Book Entry Only System, redemption notices will be sent to Cede & Co. Any failure on the part of DTC, a Direct Participant or an Indirect Participant to give such notice to the Beneficial Owner or any defect therein shall not affect the sufficiency or validity of any proceedings for the redemption of the Variable Rate Bonds. By the date fixed for any such redemption, due provision shall be made with the Registrar for the payment of the redemption price of, and interest on, the Variable Rate Bonds to be redeemed on the date of redemption. If notice of redemption is given and if due provision for payment of the redemption price and interest is made, all as provided in the Fourth Supplemental Resolution, the Variable Rate Bonds or portions thereof which are to be redeemed shall not accrue interest after the date fixed for redemption, and shall not be entitled to any benefit or security under the Fourth Supplemental Resolution, except for the right of the Registered Owner to receive the redemption price thereof and accrued interest thereon out of the funds provided for such payment. If at the time of mailing of notice of any optional redemption the State shall not have caused to be deposited

with the Registrar moneys sufficient to redeem all the Variable Rate Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of moneys sufficient to effectuate such redemption with the Registrar on or prior to the redemption date, and such notice shall be of no effect unless such moneys are so deposited. Notwithstanding the foregoing, Bank Bonds shall in all cases be redeemed first among the redemption of the Series 2006C Bonds.

The Bond Insurance Policy

MBIA Insurance Corporation ("Insurer") has issued its commitments to insure, simultaneously with the issuance of the Variable Rate Bonds, the scheduled payment of principal of (including mandatory sinking fund payments) and interest on the Variable Rate Bonds (the "Insurance Policy"). See "BOND INSURER" herein.

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DEBT SERVICE TABLE FOR OUTSTANDING PARITY BONDS*

The following table sets forth the debt service requirements for all Outstanding Parity Bonds.

Fiscal Year (Ending June 30)	Series 1999A	Series 1999B	Series 1999C	Series 2002A	Series 2002B	Series 2003A	Series 2003B	Total Debt Service
2006	\$ 11,761,609	\$1,180,746	\$2,015,139	\$3,625,216	\$6,834,951	\$6,613,965	\$1,094,250	\$33,125,876
2007	11,752,944	757,553	2,016,264	3,616,028	1,653,575	6,430,730	1,094,250	27,321,343
2008	11,752,583	756,953	2,015,274	3,270,400	2,373,324	6,490,858	1,094,250	27,753,640
2009	11,725,106	760,453	2,011,577	-	5,260,693	6,488,420	1,094,250	27,340,499
2010	11,722,811	757,696	2,010,164	-	5,253,438	6,491,158	1,094,250	27,329,516
2011	11,708,532	758,445	2,006,016	-	5,235,775	6,460,234	1,094,250	27,263,252
2012	11,701,487	757,620	2,008,141	-	5,226,588	6,469,243	1,094,250	27,257,328
2013	11,693,966	755,100	2,006,149	-	5,220,840	6,489,780	1,094,250	27,260,084
2014	11,685,869	755,723	2,000,610	-	5,207,736	6,495,658	1,094,250	27,239,845
2015	11,675,832	754,673	1,991,960	-	5,198,174	6,496,785	1,094,250	27,211,673
2016	11,668,536	751,905	1,997,909	-	1,266,184	6,469,884	1,094,250	23,248,667
2017	11,662,250	-	1,997,759	-	-	4,006,710	1,094,250	18,760,969
2018	11,655,625	-	1,993,339	-	-	4,006,730	1,094,250	18,749,944
2019	11,644,375	-	1,988,698	-	-	3,999,128	1,094,250	18,726,451
2020	11,632,625	-	1,988,329	-	-	3,991,550	1,094,250	18,706,754
2021	11,624,250	-	1,987,517	-	-	3,988,800	1,094,250	18,694,817
2022	11,613,125	-	1,981,107	-	-	3,994,875	1,094,250	18,683,357
2023	11,598,250	-	1,978,788	-	-	3,990,250	1,094,250	18,661,538
2024	11,588,375	-	1,975,093	-	-	3,981,750	1,094,250	18,639,468
2025	11,572,250	-	1,974,557	-	-	517,625	4,555,875	18,620,307
2026	-	-	-	-	-	-	5,066,125	5,066,125
2027	-	-	-	-	-	-	5,063,000	5,063,000
2028	-	-	-	-	-	-	5,058,875	5,058,875
2029	-	-	-	-	-	-	5,053,250	5,053,250
2030	-	-	-	-	-	-	-	-
2031	-	-	-	-	-	-	-	-
TOTALS:	<u>\$233,440,400</u>	<u>\$8,746,864</u>	<u>\$39,944,390</u>	<u>\$10,511,644</u>	<u>\$48,731,278</u>	<u>\$103,874,133</u>	<u>\$45,587,875</u>	<u>\$490,836,578</u>

* Figures are "net" of bonds refunded by the Series 2006 Bonds.

Note: Totals may not add due to rounding.

**DEBT SERVICE TABLE
FOR THE BONDS***

The following table sets forth the debt service requirements for the Bonds.

Fiscal Year (Ending June 30)	Outstanding Parity Bonds	Series 2006A	Series 2006B	Series 2006C ⁽¹⁾	Series 2006D	Series 2006 Total	All Parity Bonds
2006	\$33,125,876	-	-	-	-	-	\$33,125,876
2007	27,321,343	\$6,015,006	\$3,705,072	\$2,094,444	\$5,403,686	\$17,218,209	44,539,552
2008	27,753,640	7,385,960	3,538,000	2,000,000	5,287,744	18,211,704	45,965,344
2009	27,340,499	11,424,491	3,538,000	2,000,000	5,288,106	22,250,598	49,591,096
2010	27,329,516	11,415,366	3,538,000	2,000,000	5,288,294	22,241,660	49,571,176
2011	27,263,252	11,394,423	3,538,000	2,000,000	5,288,306	22,220,729	49,483,980
2012	27,257,328	11,392,373	3,538,000	2,000,000	5,288,050	22,218,423	49,475,750
2013	27,260,084	11,386,548	3,538,000	2,000,000	5,287,522	22,212,069	49,472,154
2014	27,239,845	11,381,848	3,538,000	2,000,000	5,286,713	22,206,560	49,446,405
2015	27,211,673	11,364,641	3,538,000	2,000,000	5,290,313	22,192,954	49,404,627
2016	23,248,667	11,354,648	3,538,000	2,000,000	9,289,244	26,181,891	49,430,559
2017	18,760,969	11,384,295	3,538,000	2,000,000	11,294,094	28,216,389	46,977,357
2018	18,749,944	11,334,968	3,538,000	2,000,000	11,275,363	28,148,330	46,898,274
2019	18,726,451	11,324,268	3,538,000	2,000,000	11,266,363	28,128,630	46,855,081
2020	18,706,754	11,310,405	3,538,000	2,000,000	11,258,394	28,106,799	46,813,552
2021	18,694,817	11,297,405	3,538,000	2,000,000	11,246,300	28,081,705	46,776,522
2022	18,683,357	11,284,280	3,538,000	2,000,000	11,237,675	28,059,955	46,743,312
2023	18,661,538	4,016,890	10,796,875	2,000,000	11,224,525	28,038,290	46,699,828
2024	18,639,468	-	14,797,500	2,000,000	11,210,375	28,007,875	46,647,343
2025	18,620,307	-	14,781,125	2,000,000	11,203,375	27,984,500	46,604,807
2026	5,066,125	-	14,764,250	2,000,000	10,032,625	26,796,875	31,863,000
2027	5,063,000	-	14,750,250	2,000,000	10,019,563	26,769,813	31,832,813
2028	5,058,875	-	12,197,500	4,548,000	10,004,000	26,749,500	31,808,375
2029	5,053,250	-	-	16,792,000	-	16,792,000	21,845,250
2030	-	-	-	16,772,000	-	16,772,000	16,772,000
2031	-	-	-	16,728,000	-	16,728,000	16,728,000
TOTALS:	<u>\$490,836,578</u>	<u>\$176,467,815</u>	<u>\$138,862,572</u>	<u>\$96,934,444</u>	<u>\$188,270,630</u>	<u>\$600,535,458</u>	<u>\$1,091,372,033</u>

* Figures are "net" of bonds refunded by the Series 2006 Bonds.

(1) Assumed interest rate of 4.00%.

Note: Totals may not add due to rounding.

SOURCES AND USES TABLE

The proceeds of the Bonds are expected to be applied as shown below.*

	<u>Series 2006A</u>	<u>Series 2006B</u>	<u>Series 2006C</u>	<u>Series 2006D</u>	<u>Aggregate</u>
Sources of Funds					
Par Amount of Bonds	\$118,975,000.00	\$70,760,000.00	\$50,000,000.00	\$104,860,000.00	\$344,595,000.00
Net Original Issue Premium/Discount	5,340,681.40	4,351,079.25	-	6,614,230.40	\$16,305,991.05
Other Funds	-	-	-	2,802,385.00	2,802,385.00
Total	<u>\$124,315,681.40</u>	<u>\$75,111,079.25</u>	<u>\$50,000,000.00</u>	<u>\$114,276,615.40</u>	<u>\$363,703,376.05</u>
Uses of Funds					
Construction Fund for Project Costs	\$121,089,425.37	\$73,027,862.00	\$48,748,455.63	\$ -	\$242,865,743.00
Capitalized Interest Account	1,691,221.90	1,041,744.44	588,888.89	-	3,321,855.23
Escrow Deposit	-	-	-	112,981,510.63	112,981,510.63
Costs of Issuance *	<u>1,535,034.13</u>	<u>1,041,472.81</u>	<u>662,655.48</u>	<u>1,295,104.77</u>	<u>4,534,267.19</u>
Total	<u>\$124,315,681.40</u>	<u>\$75,111,079.25</u>	<u>\$50,000,000.00</u>	<u>\$114,276,615.40</u>	<u>\$363,703,376.05</u>

* Costs of issuance include: cost of bond insurance and surety bond, legal fees, printing costs, underwriters' discount, rating agency fees and similar costs.

SECURITY FOR THE BONDS

General

The Bonds are secured under the Bond Resolution, which contains provisions for the equal security of the Bonds and the Outstanding Parity Bonds and any Future Parity Bonds. The Bonds are limited obligations of the State and are payable as to principal, interest, and premium, if any (except to the extent paid from bond proceeds or the income from investments), solely from, and are secured by a pledge of, the Revenues derived by the State from the operation of the System. The Bonds are not general obligations of the State and neither the full faith and credit nor the taxing power of the State are pledged for the payment of the Bonds. The State intends to apply passenger facility charge revenues to pay debt service annually ranging from \$2.0 million in FY 2006, increasing to \$3.4 million in FY 2010 and remaining at that level through FY 2015.

The Act, codified within the Alaska Statutes, establishes the International Airports Revenue Fund (AS 37.15.430) and mandates that "all revenue, fees, charges, and rentals derived by the [S]tate from the ownership, lease, use and operation of the [A]irports and all of the facilities and improvements of them and facilities and improvements used in connection with them, excepting only proceeds of any customer facility charge, and unless otherwise contractually required customer facility maintenance charge" ("Revenues") be deposited into the Revenue Fund. The Act provides that these Revenues may be used only for the payment of debt service on Parity Bonds and other enumerated purposes. Under the Bond Resolution, all Revenues have been pledged by the State first for the benefit of the owners of Parity Bonds, except that the Bond Resolution provides that maintenance and operating expenses may be paid from Revenues prior to debt service to the extent permitted under the Act.

The pledge of Revenues under the Bond Resolution is for the equal and pro rata benefit and protection of the owners of Parity Bonds. The Bond Resolution provides for the issuance of Future Parity Bonds on a parity with the Bonds and the Outstanding Parity Bonds. See "APPENDIX C -- State Bond Committee of the State of Alaska, Resolution No. 99-01" and "APPENDIX D -- State Bond Committee of the State of Alaska, Supplemental Resolution No. 2006-01."

Rate Covenant

Pursuant to the terms of the Bond Resolution, the Commissioner of the Alaska Department of Transportation and Public Facilities (also referred to herein as the "Commissioner") is required to fix and collect such fees, charges and rentals to be derived by the State from the ownership, lease, use and operation of the Airports, and all of the facilities and improvements thereof or used in connection therewith, as will provide Net Revenues (*i.e.* all Revenues less the maintenance and operating costs of the System) in each Fiscal Year at least equal to 1.25 times the sum of the Aggregate Annual Debt Service during such year plus any deposits required to be made during such year in the Reserve Account and the Repair and Replacement Reserve Account.

Reserve Account

Under the Bond Resolution, a Reserve Account is maintained within the Bond Fund to provide additional security for the repayment of all Parity Bonds. The Bond Resolution provides that the Reserve Account will be maintained in an amount equal to the lesser of (i) Maximum Annual Debt Service with respect to all Parity Bonds; (ii) 125% of Average Annual Debt Service with respect to all Parity Bonds, or (iii) 10% of the initial amount of each series of Parity Bonds then Outstanding (the "Reserve Account Requirement").

Under the Bond Resolution, all or any portion of the Reserve Account Requirement may be satisfied by the deposit of a surety bond. Upon the issuance of the Bonds, the State will cause to be delivered a surety bond in the amount of \$16,156,439, representing the increase in the Reserve Account Requirement balance resulting from the issuance of the Bonds. As of December 30, 2005, the Reserve Account had a cash balance of \$16,815,338; three surety bonds provided by MBIA Insurance Corporation ("MBIA") in the total amount of \$15,576,708; and a surety bond provided by Ambac Assurance Corporation ("AMBAC") in the amount of \$2,043,649. The Reserve Account is a pooled reserve, and the surety bonds are available to be drawn upon with respect to any shortfall, regardless of the particular series of Parity Bonds. The Registrar shall draw upon or otherwise collect amounts payable under any surety bonds held in the Reserve Account prior to any expiration or termination thereof or whenever moneys are otherwise required for purposes for which Reserve Account moneys may be applied under the Bond Resolution. Any draw on a surety bond shall be made only after all funds in the Reserve Account have been expended.

Future Parity Bonds

The State may issue Future Parity Bonds from time to time for any purpose permitted by law, to include refunding or defeasance of any bonds then outstanding. All Future Parity Bonds will have an equal lien and charge upon Revenues. Any such issuance for other than a refunding or defeasance of Outstanding Parity Bonds will require: (i) authorizing legislation amending the Act to increase the amount of bonds allowed to be issued; (ii) a finding by the Commissioner that the proceeds of the Future Parity Bonds will be expended on necessary projects, authorized by the Act; (iii) that the State is in compliance with all covenants of the Bond Resolution; and (iv) that the State certify that the Net Revenues during each of the three Fiscal Years following the earlier of (a) completion of the projects being financed with the proceeds of the Future Parity Bonds or (b) the date the capitalized interest of the Future Parity Bonds is expended, are projected to be equal to at least 1.25 times Aggregate Annual Debt Service for all Parity Bonds then Outstanding, including Future Parity Bonds then to be issued. The certification referred to above in (iv) shall not be required if the Future Parity Bonds are being issued to pay costs of facilities for which Parity Bonds have been issued previously and the principal amount of such Future Parity Bonds being issued for completion purposes does not exceed an amount equal to an aggregate of 15% of the principal amount of Parity Bonds theretofore issued for such facilities and reasonably allocable to the facilities to be completed as shown in a written certificate of a Designated Representative, and there is delivered a Consultant's certificate stating that the nature and purpose of such facilities has not materially changed. For refunding bonds, the State must certify as in (iv) above if the issuance increases Maximum Annual Debt Service (except for Future Parity Bonds issued to refund Parity Bonds within one year of maturity or for the payment of which sufficient Net Revenues or other moneys are not available). See "APPENDIX C -- State Bond Committee of the State of Alaska, Resolution No. 99-01" and "APPENDIX D -- State Bond Committee of the State of Alaska, Supplemental Resolution No. 2006-01."

Limited Liability

THE BONDS ARE NOT A GENERAL OBLIGATION OF THE STATE AND THE STATE DOES NOT PLEDGE ITS FULL FAITH AND CREDIT TO THE PAYMENT OF THE BONDS. THE ISSUANCE OF THE BONDS DOES NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO APPLY MONEY FROM, OR LEVY OR PLEDGE, ANY FORM OF TAXATION WHATEVER TO THE PAYMENT OF THE BONDS. THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE STATE PAID OUT OF AND SECURED ONLY BY THE REVENUES DERIVED BY THE STATE FROM THE OWNERSHIP, LEASE, USE AND OPERATION OF THE SYSTEM.

Historically, in Alaska, transfers by governmental units (including the State and its political subdivisions) are exempt from the provisions of Article 9 of the Uniform Commercial Code (relating to secured transactions). The security interest of Bondholders in the Net Revenues, therefore, arises as a result of a separate statutory grant of authority (see AS ch. 37.15). In 2000, the Alaska State Legislature adopted amendments to Article 9 of the Uniform Commercial Code. Although the new Article 9, in general, eliminated the exemption of governmental transfers from its terms, the Alaska State Legislature maintained the existing exemption. AS 45.29.109(d)(14) provides that "This chapter (Article 9) does not apply to . . . a transfer by a government or governmental subdivision or agency."

USE OF BOND PROCEEDS

Purpose

The Series 2006A Bonds, the Series 2006B Bonds and the Series 2006C Bonds (collectively, the "New Money Bonds") are being issued to finance certain capital improvements to the Airports' facilities further described under the caption "CAPITAL IMPROVEMENT PROGRAM," to pay capitalized interest, to satisfy the Reserve Account Requirement, and to pay costs of issuance of the New Money Bonds. The FY 2006 - FY 2009 CIP Projects, and cost estimates, are described in detail under the caption "CAPITAL IMPROVEMENT PROGRAM -- The FY 2006 - FY 2009 CIP Projects" and in the Report of Feasibility Consultant attached hereto as APPENDIX A.

The Series 2006D Bonds are being issued to provide for the defeasance and optional redemption of a portion of the \$14,595,000 outstanding principal amount of Alaska International Airports System Revenue Bonds, Series 1999B and a portion of the \$127,720,000 outstanding principal amount of Alaska International Airports System Revenue Bonds, Series 2002B (together, the "Refunded Bonds").

Plan of Refunding

The net proceeds of the Series 2006D Bonds will be applied, together with legally available funds, to refund the Refunded Bonds. Details of the Refunded Bonds are provided below.

<u>Bond Issue</u>	<u>Dated Date</u>	<u>Maturities to Be Refunded</u>	<u>Redemption Date</u>	<u>Price</u>
Revenue Bonds, Series 1999B	January 15, 1999	October 1, 2016 through October 1, 2024	April 1, 2009	101%
Revenue Bonds, Series 2002B	April 1, 2002	October 1, 2015 at 5.75% and October 1, 2016 through October 1, 2027	October 1, 2012	100%

The State will enter into an irrevocable Escrow Deposit Agreement with J.P. Morgan Trust Company, Seattle, Washington, as escrow agent for the Refunded Bonds. Funds held by the escrow agent in the bond fund for the Refunded Bonds will be invested in noncallable, direct obligations of the United States (the "Escrow Obligations") maturing on the applicable redemption date. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

THE STATE

The Alaska Constitution provides the organizational structure for the State government with legislative, judicial and executive branches. The Governor and Lieutenant Governor are the only elected executive officials and serve four-year terms. The Governor may not serve more than two full terms consecutively. Day-to-day operations are the direct responsibility of the Governor under whose office are 14 executive departments which provide State services. Each department head (except the Commissioner of Education and Early Development and the Commissioner of Fish and Game) is appointed by and serves at the pleasure of the Governor, subject to legislative confirmation. The Commissioner of Education and Early Development and the Commissioner of Fish and Game are appointed by the Board of Education and the Board of Fish and Game, respectively. Members of those Boards serve at the pleasure of the Governor.

The legislature is composed of the House of Representatives whose 40 members serve two-year terms, and the Senate whose 20 members serve four-year terms. Half of the Senate and all of the House is elected every even-numbered year.

The Judicial Branch is comprised of the Alaska Supreme Court with five justices having appellate jurisdiction, a three-judge Court of Appeals with jurisdiction to hear criminal appeals from the Superior and District Courts, and a Superior Court. Under the Superior Court is a system of district and magistrate courts for minor civil cases, misdemeanors, violations of political subdivision ordinances and similar matters.

The State Bond Committee is composed of the Commissioner of Commerce, Community and Economic Development, the Commissioner of Revenue and the Commissioner of Administration. Its primary responsibility is to obtain financing for State capital improvement projects.

By statute, the Department of Transportation and Public Facilities (the "Department") has responsibility for all State-owned airports, including the System.

State of Alaska Investment Policy

The State Bond Committee, on behalf of the State, has issued a total of \$591,150,000 in bonds for the System since the first bonds were issued under the Act in June 1968, with \$517,445,000 issued for capital projects and \$73,705,000 issued to refund bonds. The most recent series, \$94,925,000 aggregate principal of the 2003A and 2003B Bonds, was issued in 2003 pursuant to the General Bond Resolution and Supplemental Resolution No. 2003-10 to provide a portion of the moneys necessary to finance the redevelopment and improvement of ANC's facilities and refund the 1993 Series I Bonds.

Revenue Fund. All revenues, fees, charges and rentals derived by the State from State ownership, lease, use and operation of the System, other than customer facility charges and customer facility maintenance charges, must be deposited in the International Airports Revenue Fund (the "Revenue Fund") established under the Act and the Bond Resolution. See "SECURITY FOR THE BONDS." Money in the Revenue Fund may be invested in Permitted Investments. The State may invest the Revenue Fund assets through the State's investment pools as Permitted Investments. The State's investment pools include the State's Short-term Fixed Income Investment Pool and Intermediate-term Fixed Income Investment Pool.

The primary objectives of the investment policy for the Revenue Fund are to avoid material loss that could affect the ability to meet obligations and provide for the ongoing operation costs of the System. The Revenue Fund also seeks to achieve a relatively high investment return over an intermediate time horizon. The Department of Revenue has established a performance benchmark for the Revenue Fund comprised of the three-month United States Treasury Bill (15%) and the Merrill Lynch 1-5 year Government Index (85%).

Construction Fund. The net proceeds of the Series 2006A, Series 2006B, and Series 2006C Bond proceeds will be deposited into the International Airports Construction Fund ("Construction Fund") established under the Act and the Bond Resolution. The State segregates proceeds from outstanding bond issues through the use of subfunds within the Construction Fund. There are currently seven subfunds holding bond proceeds from the Series 1999A, 1999B, and 1999C Bonds, the Series 2002A and 2002B Bonds, and the Series 2003A and 2003B Bonds. Three additional subfunds will be created to hold the Series 2006A, Series 2006B, and Series 2006C Bond proceeds.

The State has historically invested the Construction Fund through the State's investment pools, which include the State's Short-Term Fixed Income Investment Pool and the Intermediate-Term Fixed Income Investment Pool. Older bond issues' subfunds may be withdrawn from the State's investment pools if short-term interest rates rise to the restricted yield levels of the bond issues. The State expects to invest the Series 2006A, Series 2006B, and Series 2006C Bond proceeds in the State's Short-Term Fixed Income Investment Pool.

The primary objective of the investment policies for subfunds of the Construction Fund is to avoid material loss that could affect the ability to meet the construction obligations. Each subfund of the Construction Fund carries its own investment guidelines and asset allocation. As the subfunds have accrued investment earnings, those portions of the subfunds have been shifted to the Intermediate-Term Fixed Income Pool to achieve a higher return with an associated higher exposure to principal loss.

Repair and Replacement Reserve Account. Money in the Repair and Replacement Reserve Account is invested in the State's Short-Term Fixed Income Investment Pool. The primary objectives of the investment policy for the Repair and Replacement Reserve Account are to avoid material loss and provide maximum liquidity. In addition, the State seeks moderate and steady investment returns. The Department of Revenue has established one performance benchmark (the three-month U.S. Treasury Bill) for the Repair and Replacement Reserve Account.

Development Fund. The State may invest the Development Fund in Permitted Investments which include the State's investment pools. The State's investment pools currently include the State's Short-term Fixed Income Investment Pool and Intermediate-term Fixed Income Investment Pool.

The objectives of the investment policy for the Development Fund are to incur a moderate exposure to principal loss for the possibility of somewhat higher returns, to maximize current income subject to constraints, and provide for the liquidity requirement of the airport system. The Department of Revenue has established a performance benchmark comprised of the Three-month U.S. Treasury Bill (15%) and the Merrill Lynch 1-5 Government Bond Index (85%).

Credit Risk. GASB Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the deposits or securities fails. Treasury's policy with regard to custodial credit risk is to collateralize state deposits to the extent possible. At June 30, 2005 all deposits of the Revenue Fund, Construction Fund, Development Fund, and Repair and Replacement Reserve Account were either collateralized or insured.

The Revenue Fund, Construction Fund, Development Fund, and Repair and Replacement Reserve Account participate in the State's investment pools, which creates an interest in a share of ownership in the pools rather than ownership of specific securities.

Bond Fund. The Registrar holds the Bond Fund and the money in the Bond Fund may be invested in Permitted Investments. The State does not expect material investment earnings from the Bond Fund because of the relatively small amount of money held in the Bond Fund and the short amount of time the Registrar holds the money.

Insurance

The Division of Risk Management's (the "Division") insurance program protects the physical assets and operations of all State agencies (including the Department's activities regarding the System) from accidental loss through a comprehensive program of self-insurance for normal and expected property and casualty claims of high frequency and low severity, combined with high limit broad form commercial insurance protection for catastrophic loss exposures for certain specialized risks, including the ownership and operation of airports.

The Division acts as an in-house insurance carrier and broker, funding all sudden and accidental property and casualty claims through a funded self-insurance risk pool up to a designated retention limit, and thereafter, for the Airports, through commercial coverage under policies listed below. The annual premiums allocated by the Division to each agency under the annual cost of risk allocation are the maximum the respective agency is called upon to pay. This planning for known and catastrophic losses forestalls the need for the affected state agency to seek supplemental appropriation or disrupt vital state services after a major property loss, significant workers' compensation claim, or adverse civil jury award for a covered claim.*

The following provides a brief overview of the current property/casualty insurance program for AIAS:

1. Airport & Aviation Liability comprehensive coverage; including airport premises liability and hangar-keepers liability. The limit of liability is \$500,000,000, with the Division funding the first \$250,000 self-insured retention (SIR).
2. All risk property coverage including earthquake and flood is provided on a replacement cost basis with coverage limits of \$100,000,000, with the Division funding the \$1,000,000 SIR.
3. Workers' compensation coverage is provided through the fully self-insured program administered by the Division. The State is an authorized self-insured employer under AS 23.30.090.

Willis Group Limited, a major risk management and insurance intermediary operating on a worldwide basis, provides marketing and brokering services to the Division.

The State insurance catastrophe reserve account of \$5 million established in the general fund under A.S. 37.05.289 provides reserve funding used to satisfy unanticipated large claims or judgments arising under the program.

The Division maintains a home page at http://www.state.ak.us/admin/drm** with further details and contact information.

THE ALASKA INTERNATIONAL AIRPORTS SYSTEM

Introduction

The System is owned and operated as an enterprise fund of the State and is managed by the Department. The System currently is comprised of two major international airports, ANC and FAI (together, the "Airports"). ANC also includes the Lake Hood/Lake Spenard Seaplane Base (the "Seaplane Base"). The United States Congress authorized construction of the Airports in 1948. The initial facilities were completed in 1951, and commercial operations began in that year. Passenger terminal facilities were not available at either airport until 1954, and upon opening, both facilities were operating at a level very close to their respective design capacity. The Alaska Statehood Act of 1959 provided, among other matters, that the Airports be transferred from the federal government to the State at no cost to the State. During the transition from territorial status, however, the State requested that the FAA continue to operate the Airports. The FAA continued to operate the Airports until 1960, at which time the State assumed the responsibility for the Airports. The Department has jurisdiction over the System.

An Aviation Advisory Board was established by Executive Order in January 2003 and made permanent by statute within the Department of Transportation and Public Facilities in May 2005. The 11 member Board, appointed by the Governor, meets at least once each year to provide recommendations on aviation policy issues to the Commissioner of the Department of Transportation and Public Facilities. The Board, with seats statutorily designated for a variety of aviation stakeholders, also has a statutory consultation role in the selection of the Chief Administrative Officer of ANC and FAI.

*The Division does not cover pollution, employment, or intellectual property claims.

** This inactive textual reference to the State's website is not a hyperlink and the State's website, by this reference, is not incorporated herein.

Following is biographical information of officials at the Department, AIAS, ANC and FAI.

Department of Transportation and Public Facilities

Mike Barton, *Commissioner, Department of Transportation and Public Facilities*

Mike Barton became the Commissioner of the Department of Transportation and Public Facilities on December 12, 2002. (Previously, he served as the Commissioner of the Department of Transportation and Public Facilities under then-Governor Hickel in 1994.) Mr. Barton came to Alaska in 1979. After 31 years with the United States Forest Service, Mr. Barton retired on April 28, 1994. His last position (10 years) was as the Alaska Regional Forester, based in Juneau, Alaska. As Regional Forester, he oversaw 22 million acres of national forest land in Alaska. From 1995-2002, Mr. Barton served as Chairman of the Board for the Juneau International Airport. He was active in the restoration of Prince William Sound following the Exxon Valdez oil spill. He was a founding member of the Oil Spill Trustee Council, representing the Secretary of Agriculture. He also represented the Secretary on the Federal Subsistence Board, which established the subsistence program for federal lands in Alaska. He has been active in professional and community service organizations in Alaska, including the Little League Baseball Program. Mr. Barton graduated from the University of Michigan with a bachelor's degree in Forestry in 1961. After serving in the United States Army, Mr. Barton returned to the University of Michigan to obtain a Master's Degree.

John Torgerson, *Deputy Commissioner, Aviation*

John Torgerson was appointed Deputy Commissioner of Aviation on November 21, 2005. Prior to that he was a special assistant to the Commissioner of the Department of Transportation and Public Facilities for marine highway issues ranging from negotiating labor contracts to generating many financial scenarios and business plans for the system. This followed his time as manager and acting Director of the Division of Agriculture for the Department of Natural Resources. Mr. Torgerson was elected to serve as a Senator in the Alaska State Legislature from 1994 through 2003 where he served as Co-Chair of the full finance committee, Chairman of the resources committee, Chairman of the international pipeline committee and Chairman of the joint committee of natural gas pipelines. From 1996 through 2000, he was Chair of the Finance Subcommittee for the Department of Transportation and Public Facilities. Prior to being elected to the Senate, Mr. Torgerson was elected as an assembly member for the Kenai Peninsula Borough. He is also a member of the Fee Arbitration Panel for the Alaska Bar Association. Other elected positions include President of the Alaska Municipal League, Board Member of the National Association of Development Organizations, and Borough Representative of the Economic Development Board, Board Member of the Alaska State Chamber and many other State and local boards.

The System

Michael Marting, *Controller, Alaska International Airports System*

Michael Marting assumed his role as Controller of the System in July 2003. Mr. Marting is a licensed CPA. He has both private and public accounting experience. He spent his first three years in public accounting, primarily serving rural Alaska governmental and not-for-profit entities. He then spent 10 years working in accounting positions within Alaska state government, including the Alaska Department of Revenue and the Department of Community and Economic Development. Immediately prior to his current position, Mr. Marting served as Administrative Manager for ANC, overseeing the airport's operating budget, in addition to managing personnel and contract activities. Mr. Marting holds a bachelor's degree in Business Administration from the University of Northern Colorado and a bachelor's degree in Accounting from the University of Alaska, Anchorage.

Anchorage International Airport

Morton V. Plumb Jr., *Airport Director*

Morton V. Plumb Jr., who became Director of ANC in May 1995, has served in key management positions for the United States Air Force ("USAF"), including service to the Joint Chiefs of Staff in Washington, D.C. During his USAF appointments in Alaska, as Vice Commander of the 11th Air Force, Chief of Staff, and Director for Operations for the Alaska Command, Mr. Plumb managed several operational organizations and supervised a broad range of special staff agencies, including directing the Department of Defense's military support for the 1989 Exxon Valdez oil spill clean-up.

Mr. Plumb holds a BA from Tusculum College, Tennessee and an MBA from Marymount University, Virginia. His post graduate work includes studies in project management and systems analysis. Mr. Plumb has also completed the Executive Management programs at the Harvard University Graduate School of Business Administration and the Wharton School at the University of Pennsylvania. Mr. Plumb is a command pilot with more than 4,100 total hours and 500 combat hours. His professional military education includes Squadron Officer School, Air Command and Staff College, and Air War College.

Fairbanks International Airport

Jesse VanderZanden, *Airport Manager*

Mr. VanderZanden was appointed Airport Manager on July 7, 2003. Prior to Mr. VanderZanden's appointment as Airport Manager, he served as the Executive Director of the Alaska Outdoor Council and Alaska Fish and Wildlife Conservation Fund. He also worked as a Legislative Assistant for the Tri-County Metropolitan Transportation District where he helped secure funding for Oregon's largest public works project on record – the Westside Light Rail. Pending project completion, he worked as Regional Manager for the Oregon Farm Bureau and then Natural Resource/Transportation Policy Advisor for United States Senator Gordon Smith. He currently serves on the Board of Directors of the Fairbanks Chamber of Commerce. Mr. VanderZanden graduated with honors from Oregon State University, double majoring in Human Resource Management and International Business.

AIR TRADE AREA

Anchorage Air Trade Area

The air trade area for ANC includes the areas immediately surrounding Anchorage as well as the entire State, except for the far southeast area of the State (which is served primarily by jet airports at Ketchikan, Juneau and Sitka and overlapped by the air trade area of the Seattle-Tacoma International Airport). The primary region within ANC's air trade area consists of the Municipality of Anchorage (the "Municipality" or "Anchorage") and the Matanuska-Susitna Borough ("Mat-Su" or the "Mat-Su Borough"). Because most of the region's population resides in Anchorage and the Mat-Su Borough, and because ANC is the only airport in that area with scheduled air carrier service, data for those two areas are used to represent the entire airport service area (primary and secondary).

In 2004, the estimated population of Anchorage and Mat-Su (together, the "Anchorage Region"), was 343,158. This accounted for approximately 52.4% of the State's estimated 655,435 residents.* Since the 1970's, both the State and Anchorage economies have been led by the petroleum industry. During the mid-1970's and early 1980's, periods of rapid growth occurred in the State because of the construction of the Trans-Alaska Pipeline System (the "Alaska Pipeline"), the development of the Prudhoe Bay oil fields and the State's expenditures of petroleum tax revenues. Following the oil boom in the early 1980's, the economy slowed as oil prices declined. Other sectors of Anchorage's economy include mining and fishing; government employment; the commercial and business sectors of the State; and tourism. In particular, tourism has become a significant factor in the passenger activity levels at ANC.

TABLE 1

EMPLOYMENT IN THE ANCHORAGE REGION BY SECTOR

INDUSTRY		CY 2004*
Services & Miscellaneous		39.3%
<i>Educational & Health Services</i>	<i>13.1</i>	
<i>Leisure & Hospitality</i>	<i>10.5</i>	
<i>Professional & Business Services</i>	<i>11.5</i>	
<i>Other Services</i>	<i>4.1</i>	
Government		21.4
<i>Local</i>	<i>7.6</i>	
<i>State</i>	<i>6.9</i>	
<i>Federal</i>	<i>6.9</i>	
Trade		15.7
Transportation/Warehouse/Public Utilities		7.9
Construction		6.6
Finance/Information		6.4
Natural Resources & Mining		1.5
Manufacturing		1.2
TOTAL EMPLOYMENT		100.0%

* Totals may not add due to rounding.

Source: *Alaska Department of Labor and Workforce Development*

* *Alaska Department of Labor and Workforce Development*

Fairbanks Air Trade Area

The air trade area for FAI is the interior region of the State, primarily the Fairbanks North Star Borough (the "Fairbanks Borough") and the City of Fairbanks (together, the "Fairbanks Region"). FAI also serves as the major commercial airport for many of the smaller communities located in interior and northern parts of the State. The Fairbanks Borough lies in the Tanana Valley in the interior of the State at the northern terminus of the Alaska Highway and the Alaska Railroad. It is about 230 nautical miles by air (about 360 highway miles) northeast of Anchorage and 80 miles south of the Arctic Circle. In 2004, the estimated population of the Fairbanks Region was 86,284. This accounted for approximately 13.2% of the estimated State population.*

In 1968, oil and gas reserves were discovered on Alaska's North Slope, and the Fairbanks Borough became the staging, service and supply center for the construction of the \$7 billion, 809-mile Alaska Pipeline. The discovery of oil and the construction of the transmission pipeline accelerated growth in nearly all sectors of the Fairbanks Borough's economy. Two refineries currently operate within the Fairbanks Borough. No single project on a comparable scale has affected the Fairbanks Borough since the pipeline; however, since 1980, the Fairbanks Borough has experienced moderate growth in population, income and employment throughout the economy, specifically the construction, finance, services and trade industries. Military and defense establishments also constitute an important segment of the Fairbanks Borough's economy as does the University of Alaska - Fairbanks. Both Fort Wainwright and Eielson Air Force Base are located within the Fairbanks Borough.

Fort Greely, about 150 miles southeast of the City of Fairbanks, was selected (in 2001) as the primary site for national missile defense system installations. Through FY 2005, approximately \$680 million had been spent in the State on construction related to the missile defense system, a majority of which was done at Fort Greely. Approximately \$140 million is expected to be spent for construction for the missile defense system in the State through 2008; however, the actual final scope of the project cannot be determined. Although Fort Greely has its own airfield constructed for use by heavy aircraft, that airfield is not open to commercial air service.

TABLE 2
EMPLOYMENT IN THE FAIRBANKS REGION BY SECTOR

INDUSTRY	CY 2004*
Services & Miscellaneous	32.5%
<i>Educational & Health Services</i>	<i>11.3</i>
<i>Leisure & Hospitality</i>	<i>11.3</i>
<i>Professional & Business Services</i>	<i>6.1</i>
<i>Other Services</i>	<i>3.9</i>
Government	31.7
<i>Local</i>	<i>8.3</i>
<i>State</i>	<i>14.3</i>
<i>Federal</i>	<i>9.1</i>
Trade	13.8
Construction	7.7
Transportation/Warehouse/Public Utilities	6.3
Finance Information	3.9
Natural Resources & Mining	2.5
Manufacturing	1.7
TOTAL EMPLOYMENT	100.0%

* Totals may not add due to rounding.

Source: Alaska Department of Labor and Workforce Development

* Alaska Department of Labor and Workforce Development

Population Trends

Table 3 illustrates the historical population for the Anchorage Region, the Fairbanks Region, the State and the United States.

TABLE 3
SUMMARY OF HISTORICAL POPULATION
THE AIR TRADE AREA, THE STATE AND THE UNITED STATES
1990-2004

<u>Year</u>	<u>Anchorage Region⁽¹⁾</u>	<u>Fairbanks Region⁽¹⁾</u>	<u>Total Area</u>	<u>State of Alaska⁽¹⁾</u>	<u>United States⁽²⁾</u> (in millions)
1990	266,021	77,720	343,741	550,043	249.44
1995	300,464	81,557	382,021	601,581	266.28
2000	320,117	82,670	402,787	626,931	282.18
2004	343,158	86,284	429,442	655,435	293.54

(1) Alaska Department of Labor and Workforce Development

(2) Woods & Poole Economics

CURRENT AIRPORTS FACILITIES

Anchorage International Airport

ANC serves as the primary passenger airport in the State and an important cargo airport globally. ANC is classified by the FAA as a medium-hub airport on the basis of passenger enplanement levels. ANC is ranked 60th in the nation based on Calendar Year ("CY") 2004 passenger levels (enplanements plus deplanements) according to the Airports Council International ("ACI"). In terms of cargo activity levels, ANC is ranked as the number one cargo airport in North America by the ACI in CY 2004 based on all-cargo gross aircraft landed weight, with approximately 10.8% more than the second ranked airport (Memphis), and 124.3% more than the third ranked airport (Louisville).

ANC, including both domestic and international terminals and a general aviation and air taxi base around Lake Hood, covers approximately 4,837 acres of land. ANC is located approximately three miles southwest of the principal business district of the Municipality.

ANC airfield facilities include three major air carrier runways, two of which are oriented east-west, and one which is oriented north-south; a gravel runway for general aviation; and seaplane facilities with two waterlanes. Two of the major runways are equipped with precise instrument landing systems and are capable of serving all types of commercial aircraft currently in service as well as future aircraft such as the A380F which is expected to be operating at ANC by FY 2010. Additional facilities include sixteen taxiways; aircraft parking aprons with hydrant-fueling positions for 78 wide-body and narrow-body aircraft; and various runway lighting and air navigational systems. Forty-one of the 78 aircraft parking aprons are State-owned and 37 are on private leaseholds. Of these 78 aprons, 48 are dedicated to cargo aircraft, with eight more North Terminal aprons for overflow cargo aircraft parking.

ANC's passenger terminal facilities include an approximately 834,000 square-foot domestic South Terminal and an approximately 312,000 square-foot North Terminal used primarily for international flights. Additional facilities include a control tower owned by the FAA, privately-owned maintenance hangars, fueling facilities and catering facilities, State-owned parking facilities for approximately 4,200 vehicles (including a 1,200 space parking garage, 450 rental car ready/return lot, 1,250 employee parking spaces and 1,300 spaces for long-term and short-term parking), and land leased to the United States Post Office and the Alaska National Guard.

The South Terminal consists of three concourses. Concourse A provides six regional carrier ground-load gates with approximately 18 regional aircraft parking positions and four jet gates. Concourse B has nine jet gates leased to airlines and Concourse C has nine jet gates leased to airlines.

The North Terminal facility has eight jet bridge-equipped gates and more than 25,600 square feet of concession space. During recent terminal redevelopment projects at the South Terminal, a portion of this North Terminal was adapted for, and continues to be used successfully for domestic traffic. The North Terminal also services charter flights as well as intermittent overflow all-cargo activity.

ANC is a strategically positioned cargo refueling and transloading hub averaging 628 international and domestic wide-body cargo operations weekly in FY 2005 due in part to its favored location on the great circle routes (see "AVIATION ACTIVITIES AND ACTIVITY LEVELS -- Polar Perspectives Map"). Cargo activity at ANC includes traffic between the United States, Asia, and Europe. Additionally, three United States carriers -- FedEx, UPS and Northwest Airlines -- operate international hub and spoke cargo routes from bases at ANC.

Private investment in cargo infrastructure at ANC continues to reflect market growth. Since 1996 the private sector has invested a total of approximately \$200 million, and additional new cargo facilities costing an estimated \$150 million are in the proposal or design stages as of January 2006. Alaska CargoPort completed \$20 million in cargo apron, warehouse and distribution center facilities from 1999 to 2005, with Northwest Airlines Cargo, its major tenant, having relocated its air cargo hub from Tokyo to the Alaska CargoPort facility. Taking advantage of recently liberalized air cargo rights of foreign air carriers operating via Alaska, Northwest Cargo, Korean Air Cargo and other code share partners have increased efficiency and market penetration by employing on-line and interline cargo transfers at the facility. Alaska Airlines and Northern Air Cargo have also completed cargo facility improvements since 1996. FedEx has invested in excess of \$100 million in Anchorage facilities and uses ANC as its hub for clearing incoming packages from Asia through U. S. Customs and Border Protection. FedEx completed in 2005 the first phase in a major development of aircraft parking and package handling facilities to be completed by 2008. UPS tripled the size of its hub facility in 1996 from 30,000 to 90,000 square feet to allow Customs clearance of a portion of its Asia-United States packages at ANC, and further expanded its route structure through ANC when the U. S. Department of Transportation ("USDOT") in 2001 and again in 2004 awarded UPS significant new route authority via ANC to China. In 2005 UPS added two wide-body parking aprons as the first phase in a program to double aircraft parking capacity by 2008. Polar Air Cargo increased its activity significantly in 1997 as a result of winning new traffic rights to Japan and, with its sister company, Atlas, is expected to continue to rely on ANC as a hub since emerging from structured bankruptcy. A third-party cargo facilities developer, AGLAD Postmark, LLC, managed by Anchorage Global Logistics Airpark Development, Inc., was granted a lease in November 2005 for approximately 40 acres adjacent to FedEx providing for construction of nine wide-body cargo parking aprons and support facilities over the next three years.

Enplanements over the long term have grown from 2,050,784 in FY 1996 to 2,392,920 in FY 2005, despite a decrease of approximately 2.0% from FY 2001 through FY 2003, which was a smaller decline than the national decrease of approximately 12.7% for the same period. From FY 1996 to FY 2005, total commercial landings grew from 110,763 in FY 1996 to 126,202 in FY 2005 despite a decrease of approximately 0.5% from FY 2001 through FY 2003. However, due to the greater proportion of heavy cargo aircraft, total certificated maximum gross takeoff weight, the basis upon which landing fees are charged, increased by approximately 16.0% from FY 2001 through FY 2005. A further description of aviation activity at ANC is presented herein under the heading "AVIATION ACTIVITIES AND ACTIVITY LEVELS."

The Seaplane Base is located to the northeast of, and adjacent to the jet airport facilities of ANC. With approximately 800 based aircraft and approximately 47,564 landings in FY 2005, the Seaplane Base is one of the most active seaplane facilities in the world. The facility operates on a year-round basis, but weather conditions in the winter months dictate that the Seaplane Base operate as a ski-plane facility for part of the year.

ANC Rental Car Facility

In 2001, the Act was amended to allow the Commissioner to require certain airport tenants to charge their customers a customer facility charge (the "Customer Facility Charge") to pay debt service on indebtedness those tenants incurred to construct or improve State-owned facilities those tenants occupy. The Act, as amended, generally states that a Customer Facility Charge set by the Commissioner under AS 02.15.090, be remitted by the tenants directly to a bond trustee to satisfy the obligation that is secured by the pledge of those proceeds and that such amounts are not to be considered Revenues. Collection of Customer Facility Charges commenced in June 2005.

In 2005, the State Legislature further amended AS 02.15.090 to provide that the Commissioner may also require the tenants of a State-owned airport facility to collect a uniform customer facility maintenance charge (the "Facility Maintenance Charge") in order to provide funds to pay for all or a portion of the costs, fees and expenses required to maintain and operate the State-owned airport facility, including insurance costs and maintenance reserves. Proceeds of the Facility Maintenance Charge are neither pledged nor available to pay principal and interest on Outstanding Parity Bonds or Future Parity Bonds indebtedness. Collection of Facility Maintenance Charges commenced in February 2006.

Using the special facility financing made possible by these revisions to the Act, construction of a new rental car facility (the "ANC Rental Car Facility") is currently getting underway, with completion scheduled in 2007. The ANC Rental Car Facility is to be located on an approximately six acre site at ANC, directly across from and attached to ANC's renovated and expanded South Terminal. The ANC Rental Car Facility will consolidate all rental car customer operations at ANC into a single

consolidated facility. It generally consists of a new parking garage for the rental car operators, an underground passenger tunnel connecting the garage with ANC's South Terminal and certain other infrastructure improvements. The ANC Rental Car Facility is being developed by a private contractor, not the State, though the State will hold title when construction is completed. Project development, design and construction is being paid with proceeds of bonds issued by the Alaska Industrial Development and Export Authority (the "AIDEA Bonds").

The AIDEA Bonds were issued in 2005 in the principal amount of \$62,824,573 (Taxable Revenue Bonds (Rental Car Facility at Ted Stevens Anchorage International Airport)). The AIDEA Bonds are payable from Customer Facility Charge proceeds collected; collection of Customer Facility Charges began in June 2005 from rental car customers and remitted by the rental car companies to the trustee for the AIDEA Bonds. The general maintenance of the ANC Rental Car Facility is expected to be paid by amounts received from Facility Maintenance Charge proceeds; collection of Facility Maintenance Charges began in February 2006.

Bill Sheffield Alaska Railroad Corporation Depot

In December 2002, the Alaska Railroad Corporation ("ARRC") completed construction of the Bill Sheffield Alaska Railroad Corporation Depot, which is located immediately adjacent to the ANC parking structure and is connected to the terminal core area via pedestrian tunnel. This depot began passenger service in 2003. The Federal Railroad Administration funded this project in its entirety through a grant of \$28.0 million. The depot is used as a key intermodal link between cruise ship passengers that embark or disembark in Seward, Alaska and are transferred via the ARRC to ANC for air transportation. If commuter rail service is further developed in south-central Alaska, it is envisioned this facility may experience greater year-round use as ANC workers and other travelers take advantage of service from downtown Anchorage and the outlying Mat-Su. The depot, which is owned and operated by ARRC, totals 17,300 square feet.

Fairbanks International Airport

Situated within the Fairbanks Borough, FAI is located approximately five miles southwest of the principal business center of the City of Fairbanks. It serves as a critical transportation and distribution center for interior and northern Alaska and features extensive civil and commercial general aviation facilities. FAI is classified by the FAA as a small hub airport, having 459,005 enplanements in FY 2005. It is the 107th largest airport in the United States according to ACI CY 2004 passenger statistics and ranked by the FAA as 35th in the nation in CY 2004 for all-cargo aircraft gross landed weight. Further discussion of the aviation activity at FAI is presented in the following section.

FAI is capable of serving all types of commercial aircraft currently in operation, as well as future aircraft such as the A380F. Airfield facilities include an air carrier runway that is 11,800 feet in length and fully instrumented with new precision approach facilities and equipment. The north-south runway operation serves the needs of FAI because crosswind conditions (where crosswind components exceed 15 miles per hour) are typically encountered less than 2% of the year. Together with four hard-stands for heavy jet freighters, these facilities provide both a diversion alternative to ANC and an independent capacity to offer mid-route fueling for all models of cargo aircraft currently operating. Additional facilities include two general aviation runways (6,500 feet paved/2,900 feet gravel), a float plane base that supports over 500 based aircraft, parallel and crossing taxiways, extensive aircraft parking space, and various runway lighting and air navigation systems.

The passenger terminal facility is currently 134,000 square feet. Regional and major domestic carriers utilize a combination of five gates and four jetways; two jetways are owned by the Airport and two are owned by the airlines. FAI is embarking on a Terminal Area Development Project that will substantially expand, renovate and upgrade the terminal area (see "CAPITAL IMPROVEMENT PROGRAM -- Terminal Area Development - Fairbanks International Airport."

AVIATION ACTIVITIES AND ACTIVITY LEVELS

System Overview

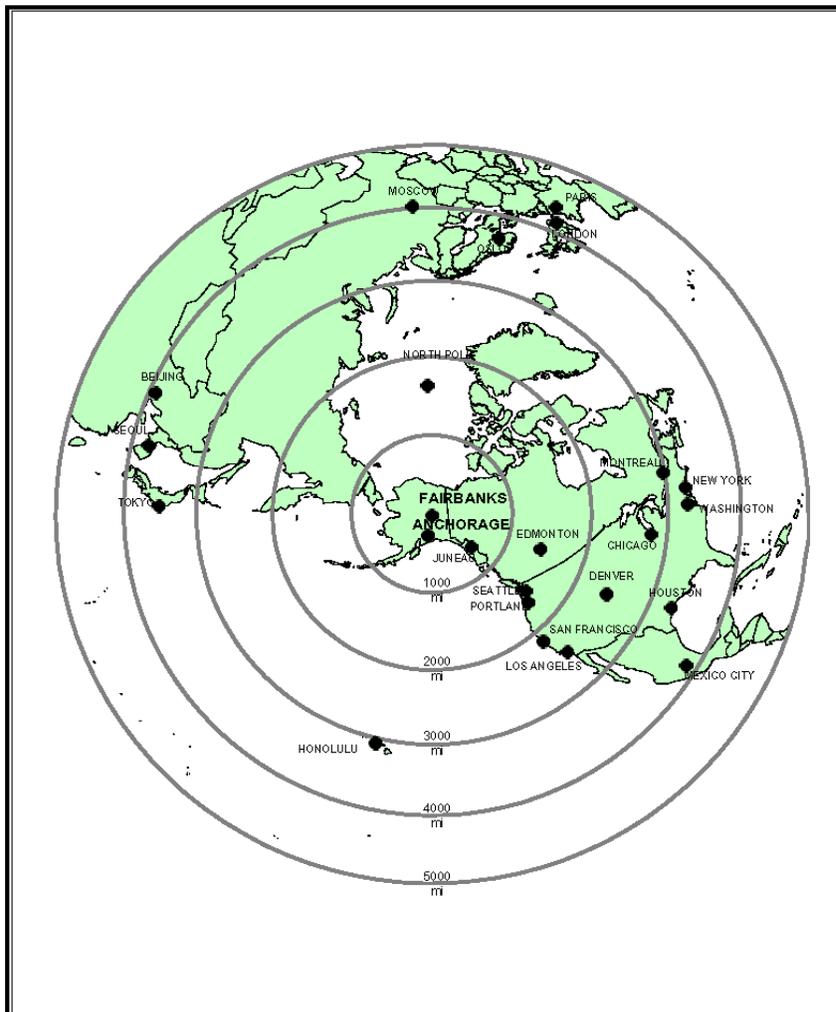
The System plays a significant role in the State, national and international aviation systems. The State owns 260 airports, many of which are rural airports providing the only reasonable means of access to the many communities not connected to the primary Alaska road system. Given the geography and weather of Alaska, as well as the distances between rural off-road communities, aviation and the network of State-owned airports provides a practical, and in many cases the only, transportation substitute for a road network -- the primary transportation network in the United States outside Alaska and Hawaii. The System is the heart of Alaska's airport network, providing the foundation for general aviation activity as well as a gateway or hub for commercial aviation.

The Airports also are an integral part of the national aviation system. In FY 2005, the System served approximately 5.7 million passengers at the Airports, collectively. Of these passengers, 394,324 were in-transit passengers -- those who made a required stop in Alaska, primarily for purposes of refueling -- on a flight to their ultimate destination. Internationally, the System currently serves more than 50 European, Asian and North American cities with direct cargo flights.

The Polar Perspectives map (below) illustrates the geographic advantage of the System in serving the principal passenger and cargo destinations of the national and international aviation systems:

Polar Perspectives Map

Alaska International Airports System
Global Projection Centered on Anchorage and Fairbanks



Source: Alaska International Airports System

TABLE 4

**Alaska International Airports System
Estimated Distance and Flight Times from ANC and FAI**

International Market	Distance from ANC (Nautical Miles)	Estimated Flight Time from ANC	Distance from FAI (Nautical Miles)	Estimated Flight Time from FAI
Beijing	3,431	7.5 hours	3,393	7.5 hours
Chicago	2,465	5.5 hours	2,413	5.5 hours
Frankfurt	4,048	9.0 hours	3,822	8.5 hours
Hong Kong	4,405	10.0 hours	4,399	10.0 hours
Los Angeles	2,035	4.5 hours	2,138	5.0 hours
Louisville	2,713	6.0 hours	2,665	6.0 hours
Memphis	2,733	6.0 hours	2,711	6.0 hours
Mexico City	3,281	7.5 hours	3,334	7.5 hours
New York	2,932	6.5 hours	2,839	6.5 hours
Paris	4,072	9.0 hours	3,832	8.5 hours
Seoul	3,292	7.5 hours	3,295	7.5 hours
Shanghai	3,743	8.5 hours	3,741	8.5 hours
Tokyo	2,976	7.0 hours	3,026	7.0 hours

Source: Great Circle Mapper at <http://gc.kls2.com>*. The sources of data utilized by this mapping tool include ICAO and the FAA.

Anchorage Passenger Activity

Passenger activity at ANC has increased from 4.76 million in FY 1996 to 5.12 million in FY 2005. Total passengers include passenger enplanements, passenger deplanements and in-transit passengers.

Set forth below are tables showing passenger activity levels for the fiscal years ended June 30, 1996 through 2005 for ANC:

TABLE 5

**Anchorage International Airport
ANNUAL PASSENGER ACTIVITY
(thousands)**

Fiscal Year	Passenger Enplanements	Passenger Deplanements	In-Transit	Total*
1996	2,051	2,034	679	4,764
1997	2,137	2,135	782	5,054
1998	2,126	2,124	767	5,017
1999	2,136	2,116	694	4,946
2000	2,191	2,183	656	5,031
2001	2,243	2,238	626	5,107
2002	2,233	2,217	464	4,914
2003	2,197	2,195	399	4,791
2004	2,251	2,251	379	4,481
2005	2,393	2,385	346	5,124

* Totals may not add due to rounding.

Source: Ted Stevens Anchorage International Airport Certified Activity Reports Fiscal Years - July 1 - June 30

* This inactive textual reference to Great Circle Mapper's website is not a hyperlink and the Great Circle Mapper's website, by this reference, is not incorporated herein.

TABLE 6
Anchorage International Airport
ANNUAL PASSENGER ENPLANEMENTS
(thousands)

<u>Fiscal Year</u>	<u>Domestic Enplanements</u>	<u>International Enplanements</u>	<u>Total*</u>
1996	2,018	33	2,051
1997	2,099	38	2,137
1998	2,093	32	2,126
1999	2,094	42	2,136
2000	2,154	37	2,191
2001	2,209	34	2,243
2002	2,198	35	2,233
2003	2,164	33	2,197
2004	2,224	27	2,251
2005	2,371	22	2,393

* Totals may not add due to rounding.

Source: Ted Stevens Anchorage International Airport Certified Activity Reports Fiscal Years - July 1 - June 30

Passenger Enplanements and Origin and Destination Traffic. A large percentage of domestic passengers using ANC are either beginning or ending their trips at ANC. This type of passenger activity is commonly referred to as origin and destination ("O&D") passenger traffic. Scheduled domestic O&D enplanements at ANC are estimated to have reached 1.6 million in FY 2005, which equates to approximately 67.2% of total scheduled domestic enplanements at ANC. Connecting traffic in the System should be viewed differently from the connecting traffic at typical hub airports in the lower 48 states. Connecting traffic at a typical hub airport, in theory, could be transferred to another airport by rerouting traffic. In the case of the System, ANC, for example, serves as a primary commercial service airport providing flights to the lower 48 states and international destinations; connecting traffic through ANC most likely cannot be routed to another airport. ANC's large domestic O&D passenger base can be attributed to the lack of any significant airport competition within the region and the lack of alternative modes of transportation to other domestic and international destinations. For domestic passengers in particular, Alaska is primarily an origin and destination rather than a route to anywhere else. ANC serves as the primary instate air center. For additional discussion on O&D passenger traffic see "APPENDIX A -- Report of the Feasibility Consultant."

Passenger enplanements, both O&D and connecting, at ANC increased from 2.1 million in FY 1996 to approximately 2.4 million in FY 2005, an AACGR of 1.7%. This compares to the national rate of 2.3% experienced over the same period as reported by the Air Transport Association.

The majority of passenger enplanements are domestic, accounting for 99.1% of total enplanements in FY 2005. According to AIAS, the domestic traffic segment has grown at an AACGR of 1.8% since FY 1996. International enplanements, however, decreased from a peak of 41,582 in FY 1999 to 21,874 in FY 2005 as reported by the AIAS. This decrease in large part resulted from a trend to offer non-stop Asia-North America flights by utilizing extended range passenger aircraft. It is anticipated that international passenger enplanements will stabilize in the future.

In-Transit Passenger Traffic. ANC is a major world air center serving numerous scheduled passenger and cargo carriers, largely because of its "crossroads" position on polar air routes connecting Europe, Asia and North and South America. As shown on Table 5 above, in-transit passenger activity was relatively steady from FY 1996 through FY 2000 and then fell from 656,468 in FY 2000 to 345,594 in FY 2005, a decrease of approximately 47.3%, due primarily to world economic conditions, terrorist concerns, post September 11 security measures, and longer range aircrafts. The resulting financial impact was relatively insignificant because international in-transit activity comprises only a small percentage of total activity and therefore did not substantially affect growth in total passengers during that period. Additionally, concurrent increases in ANC's revenues from transit cargo aircraft and aircraft associated with expansion of cargo handling facilities contributed to significant gains. For further discussion on in-transit passenger traffic see "APPENDIX A -- Report of the Feasibility Consultant."

Fairbanks Passenger Activity

According to the System data for FY 2005, the number of enplaned passengers at FAI now exceeds 459,000 per year. From FY 1996 to FY 2005, total enplanements grew at an AACGR of approximately 2.3%. This growth has been fueled by expansion of both the State population and its economy, along with growth in the tourist industry in the Fairbanks area and throughout the State.

Set forth below are tables showing passenger activity levels for FY 1996 through FY 2005 at FAI.

TABLE 7

**Fairbanks International Airport
ANNUAL PASSENGER ACTIVITY
(thousands)**

<u>Fiscal Year</u>	<u>Enplanements</u>	<u>Deplanements</u>	<u>In-Transit</u>	<u>Total*</u>
1996	378	379	21	778
1997	410	414	21	845
1998	406	408	13	827
1999	403	406	41	851
2000	403	406	47	856
2001	415	416	49	880
2002	402	407	49	857
2003	411	419	47	877
2004	435	446	47	928
2005	459	464	49	972

* Totals may not add due to rounding.

Source: Fairbanks International Airport Certified Activity Reports Fiscal Years - July 1 - June 30

TABLE 8

**Fairbanks International Airport
ANNUAL PASSENGER ENPLANEMENTS
(thousands)**

<u>Fiscal Year</u>	<u>Domestic</u>	<u>International</u>	<u>Total*</u>
1996	375	3	378
1997	409	1	410
1998	405	1	406
1999	401	2	403
2000	402	1	403
2001	413	2	415
2002	399	2	401
2003	409	2	411
2004	433	2	435
2005	456	3	459

* Totals may not add due to rounding.

Source: Fairbanks International Airport Certified Activity Reports Fiscal Years - July 1 - June 30

Base Alignment and Closure Commission

A less significant but noteworthy event was the Base Realignment and Closure Commission decision in 2005 to relocate Kulis Air National Guard Base from its location in the South AirPark at ANC to Elmendorf Air Force Base in north Anchorage, and the partial relocation of personnel from Eielson Air Force Base and the transfer of Army personnel into Fort Wainwright in Fairbanks. The move of the current fleet of C130 Hercules aircraft and deployment by the Air National Guard of newly acquired C17 aircraft at Elmendorf is dependent on availability of Defense Department funding to modify facilities at Elmendorf. The vacated Kulis site and its modern facilities are anticipated to create new aviation business opportunities for ANC. The Eielson relocation and Wainwright transfer results in a net gain of military personnel in Fairbanks.

Anchorage Cargo Activity

Air cargo and express package services continue to be the most significant portion of the overall activity at ANC, accounting for over two-thirds of operating revenues in recent years. ANC is the major air gateway to the State for both passengers and cargo, and its strategic global location has made it an important express package sorting, cargo transfer and cargo technical stop center for air cargo freighters flying between Asia and North America, between Asia and Europe, and between Europe and North America. ANC enjoys a broad base of cargo business, as evidenced by the large number and global diversity of its cargo carriers (as detailed in Table 13) and the fact that the largest cargo operator by landed weight, Korean Air, represented less than 6.7% of AIAS's operating revenues in FY 2005.

The number of all-cargo aircraft landings at ANC increased from 511 per week in 1996 to approximately 884 in 2005. During that same period, annual all-cargo certificated maximum gross takeoff weight at ANC (measured in 1,000 lb. units) increased from 14,154,000 to 26,732,000, for an AACGR of 7.3%. This growth has been driven both by expansion of international cargo handling activity and to a lesser extent growth of the State economy, as reflected in the strong increases in both domestic and international landings. The seasonal pattern of landings reflects fluctuations in the international cargo market, rather than in the Alaska economy. The primary advantage ANC offers international air cargo remains the economic savings to the carriers by adding effective payload on long distance flights via ANC. Midpoint refueling at ANC minimizes what is commonly referred to in the industry as a "payload penalty," or the reduction of cargo capacity due to the greater volume of fuel needed for flights that overfly a midpoint refueling stop such as ANC. A second advantage is the low cost to the carrier to use ANC as compared with many other airports, due in part to airlines' ability to break cargo flights into shorter segments so that one crew alone can fly each segment. A third advantage is the opportunity to increase aircraft utilization by balancing payloads between aircraft arriving from and departing to multiple points. A fourth advantage is that carriers are able to use transfers to combine loads and reach more markets without adding aircraft.

Anchorage Airfield Infrastructure. The ANC airfield consists of three air carrier runways and a system of aircraft taxiways. Runway 7L/25R, which is 10,600 feet long, and Runway 7R/25L, which is 10,897 feet long, are parallel runways oriented in an east/west direction and are separated by 700 feet, centerline to centerline. The third runway, Runway 14/32 is 11,584 feet long and is oriented in a north/south direction. The western end of Runway 7R/25L and the northern end of Runway 14/32 have precision instrument landing system ("ILS") capabilities. The ILS capability allows ANC to operate year-round in almost all weather conditions, and along with runway length, allows the freighter fleets of transpacific cargo operations to maximize payload. In addition, an extensive taxiway system has been improved in recent years to prevent taxiing delays as activity grows in both the passenger and cargo businesses.

International Cargo Traffic. The list of international cargo operators at ANC in Table 13 reflects ANC's proximity to Europe, Asia and other parts of North America. ANC continues its eleven year record as the top-ranked air cargo airport in North America, as measured by ACI all-cargo aircraft gross landed weight statistics. Over 50 European, Asian and North American cities are now linked by direct cargo flights to and from ANC. A 1996 ruling by the USDOT, in response to an application from the State, granted expanded cargo transfer authorities for foreign carriers transiting the State, including change of gauge operations (*e.g.*, change of plane size). With the exception of carriers from the United Kingdom, the foreign carriers' rights to transfer cargo at ANC and FAI were reaffirmed and expanded in 1999 and again in 2000.

Federal law was amended as part of the FAA Reauthorization Bill enacted on December 12, 2003 to grant foreign air cargo carriers operating via the State liberalized authority to transfer cargo to other foreign carriers to complete the international journey to or from the United States. The law allows the carriage of international origin and destination cargo on a foreign air carrier between Alaska and other points in the United States in the course of continuing international transportation. In February 2005, Northwest Air Cargo and Korean Air Cargo commenced operation of a cargo hub at ANC on the basis of this legislation. This legislation represents a large departure from air service rights at ANC in the past. ANC continues to seek new ways to remain the most strategic air cargo hub in North America.

ANC's cargo facilities include over 14.0 million square feet located in four cargo air parks, with an additional 6.0 million square feet available for future expansion. Nationally-recognized air cargo facility developers continue to express interest in leasing property at ANC for air cargo transfer and handling facilities. In December 2005, a third-party cargo facility developer, AGLAD Postmark, LLC, managed by Anchorage Global Logistics Airpark Development, Inc., was granted a lease

of a 1.8 million square feet site at the Postmark Cargo Site near Fed Ex. The lease provides for construction of nine wide body cargo aircraft parking aprons and a warehouse/office building of at least 50,000 square feet.

TABLE 9
Anchorage International Airport
ANNUAL ALL-CARGO AIRCRAFT LANDINGS

<u>Fiscal Year</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
1996	9,453	17,099	26,552
1997	11,986	19,393	31,379
1998	13,152	20,851	34,003
1999	12,912	21,040	33,952
2000	13,784	24,407	38,191
2001	14,782	25,099	39,881
2002	14,769	24,587	39,356
2003	13,819	27,561	41,380
2004	17,839	24,512	42,351
2005	18,526	26,008	44,534

Source: Ted Stevens Anchorage International Airport Certified Activity Reports Fiscal Years - July 1 - June 30

TABLE 10
Anchorage International Airport
ANNUAL ALL-CARGO AIRCRAFT CERTIFICATED
MAXIMUM GROSS TAKEOFF WEIGHT
(thousands of pounds)

<u>Fiscal Year</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
1996	1,954,000	12,155,000	14,154,000
1997	2,190,000	13,657,000	15,846,000
1998	2,722,000	14,748,000	17,430,000
1999	2,352,000	15,047,000	17,318,000
2000	2,610,000	17,698,000	20,307,000
2001	2,575,000	18,566,000	21,140,000
2002	2,550,000	18,370,000	20,921,000
2003	3,125,000	20,848,000	23,973,000
2004	5,511,000	18,948,000	24,459,000
2005	6,483,000	20,249,000	26,732,000

Source: Ted Stevens Anchorage International Airport Certified Activity Reports Fiscal Years - July 1 - June 30

Fairbanks Cargo Activity

Air cargo remains a significant portion of the overall activity at FAI. FAI was the 35th largest United States airport for total international and domestic all-cargo certificated maximum gross takeoff weight in CY 2004, according to the FAA. Its strategic global location has made it an important technical stop for air cargo freighters flying between Asia and Europe.

Air cargo tonnage at FAI decreased at an AACGR of 1.2% from 1996 to 2005. After increasing to a peak of 166,693 (in thousands of pounds) in FY 2002, all-cargo certificated maximum gross takeoff weight at FAI between FY 2002 and FY 2005 declined by approximately 26.7%. The decrease in air cargo activity from FY 2002 to FY 2005 is related to Air France's termination of flights via FAI in April 2003, reduction in cargo landings by Lufthansa Cargo of 16.3% from FY 2004 to FY 2005, and a change in fleet mix by Lufthansa from 747-400 to MD-11. Cargo landings in FY 2005 were 7,749.

Fairbanks Infrastructure. During 1996 and 1997, FAI extended its air carrier runway to a length of 11,800 feet. This enables the wide-body freighter fleets of transpacific and transatlantic cargo carriers to operate year-round and to minimize payload penalty. In addition, the FAA constructed a completely new instrument landing system, precision approach facilities and equipment in conjunction with the runway extension project. Most recently, FAI expanded the smaller east ramp paved general aviation runway from 3,200 feet long and 60 feet wide to 6,500 feet long and 100 feet wide. This was done to accommodate Design Group II aircraft (aircraft with a wingspan between 49-79 feet) that operate from the east ramp but previously taxied across the airfield to use the main air carrier runway. These types of aircraft include the Beechcraft 1900, and are used predominately in serving rural Alaska. Not only does the expanded general aviation runway reduce taxi time and costs, it also reduces exposure to hazardous runway crossings and increases the capacity of the main air carrier runway for larger aircraft.

Domestic Cargo Activity. Domestic cargo activity -- interstate and intrastate service -- is essential to the State's entire population. FAI serves as the cargo hub for interior Alaska and much of the North Slope. Lack of surface infrastructure or surface transportation alternatives and distances between in-State destinations continue as primary drivers of activity.

International Cargo Traffic. The scheduled international cargo operators at FAI are Cargolux and Lufthansa. Operators of Boeing 747 and MD-11 freighters and other wide-body aircraft maximize payload and avoid payload penalties by using FAI as a refueling stop. Nine European and Asian cities are linked by non-stop cargo flights to and from FAI. FAI is also a beneficiary of the November 1996 USDOT order and the 2003 federal legislation (discussed above) granting expanded cargo transfer authorities for foreign carriers transiting the State, including change of gauge operations (*e.g.*, changing plane size) and interline transfers of cargo enroute between the lower 48 states and international origins or destinations.

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TABLE 11**Fairbanks International Airport
ANNUAL ALL-CARGO AIRCRAFT LANDINGS**

<u>Fiscal Year</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
1996	5,686	1,065	6,751
1997	4,932	1,070	6,002
1998	5,238	1,022	6,260
1999	5,199	1,247	6,446
2000	5,103	1,382	6,485
2001	6,871	1,573	8,444
2002	6,802	1,574	8,376
2003	6,839	1,480	8,319
2004	7,437	1,012	8,449
2005	6,750	999	7,749

Source: Fairbanks International Airport Certified Activity Reports Fiscal Years - July 1 - June 30

TABLE 12**Fairbanks International Airport
ANNUAL ALL-CARGO AIRCRAFT CERTIFICATED MAXIMUM GROSS TAKEOFF WEIGHT
(thousands of pounds)**

<u>Fiscal Year</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
1996	206,286	709,173	1,205,065
1997	190,555	712,503	1,100,769
1998	217,578	679,881	1,090,405
1999	204,951	831,005	1,263,653
2000	195,793	1,124,629	1,320,422
2001	226,960	1,213,640	1,440,600
2002	284,852	1,229,434	1,514,286
2003	277,964	1,126,724	1,404,688
2004	261,462	759,773	1,021,235
2005	260,647	729,493	990,836

Source: Fairbanks International Airport Certified Activity Reports Fiscal Years - July 1 - June 30

Airline Service

The following tables list the air carriers reporting enplaned passengers and/or enplaned cargo at the Airports during FY 2004-05.

TABLE 13
Anchorage International Airport
COMMERCIAL AIR CARRIERS⁽¹⁾

As of November 2005 (Some service may be seasonal)

Scheduled Domestic Passenger Service

Alaska Airlines	Grant Aviation
American Airlines	Hageland Aviation Services
Conoco Phillips	Hawaiian Airlines
Continental Airlines	Kenai Express
Delta Air Lines	Northwest Airlines
Era Aviation	PenAir
F.S. Air Service	Security Aviation
Frontier Airlines	United Airlines
Frontier Flying Service	US Airways ⁽²⁾

Scheduled International Passenger Service

Air Canada	Korean Air
Cathay Pacific Airways⁽³⁾	Mavial/Magadan Airlines
China Airlines	Thomas Cooke/Condor (Seasonal)

Non-Scheduled Passenger Service

Japan Airlines

All-Cargo Operators

ABX Air	Everts Air Cargo
Air Atlanta Icelandic	FedEx
Air Canada	Gemini Air Cargo
Air China	Japan Airlines
Air Macau	Kalitta Air
Air Transport International	Korean Air
Alaska Airlines	Lynden Air Cargo
Alaska Central Express	Nippon Cargo Airlines
Asiana Airlines	Northern Air Cargo
Atlas Air	Northwest Air Cargo
Cathay Pacific Airways	Polar Air
China Airlines	Qantas
China Cargo Airlines	Singapore Airlines Cargo
China Southern Airlines	Southern Air
Desert Air	Tradewinds Airlines
Dragon Air	Transmile Air
Empire Airlines	United Parcel Service
EVA Airways	World Airways
Evergreen International Airlines	

- (1) Bold type indicates Signatory Airlines of the Operating Agreement, as such terms are defined below.
- (2) Formerly America West Airlines, the carrier merged with US Airways, Inc. of Arlington, VA, on September 27, 2005, to form a new carrier - US Airways.
- (3) Airline conducts technical refueling stops only and does not enplane or deplane passengers at ANC.

Source: Alaska International Airports System Management Records and the Official Airline Guide

TABLE 14

**Fairbanks International Airport
COMMERCIAL AIR CARRIERS***

As of November 2005 (Some service may be seasonal)

Scheduled Domestic Passenger Service

40-Mile Air	Frontier Flying Service
Air North	Northwest Airlines (Seasonal)
Alaska Airlines	Tatonduk Outfitters
Delta Air Lines (Seasonal)	Warbelow Air Ventures
Era Aviation	Wright Air

Scheduled International Passenger Service

Thomas Cooke/Condor (Seasonal)

Non-Scheduled Passenger Service

Japan Air Lines

All-Cargo Operators

Alaska Airlines	FedEx
Arctic Circle Air	Lufthansa Cargo
Cargolux Airlines	Lynden Air Cargo
Everts Air Cargo	Northern Air Cargo

* Bold type indicates Signatory Airlines of the Operating Agreement.

Source: Alaska International Airports System Management Records and the Official Airline Guide

SYSTEM FINANCIAL OPERATIONS

The Department manages the System as a self-sufficient enterprise fund. The books and accounts of the Airports are consolidated for purposes of reporting System financial operations. Financial performance for the System is presented in the table below.

ALASKA INTERNATIONAL AIRPORTS SYSTEM AUDITED FINANCIAL INFORMATION FOR THE SYSTEM

Historical Financial Results	2001	2002	2003	2004	2005
Operating Revenues					
Airfield Operations					
Landing Fees	\$16,281,780	\$21,517,414	\$23,817,471	\$20,770,902	\$36,198,793
Fuel Flowage Fees	26,172,730	17,927,309	21,623,153	23,624,384	26,161,864
Aircraft Docking Fees	1,065,420	855,088	749,399	619,629	774,124
Federal Inspection Services Fees	501,705	633,707	707,345	711,106	798,081
Aircraft Parking Fees	724,549	2,367,258	3,312,197	4,607,841	4,639,499
Aircraft Ramp Fees	0	822,421	789,967	798,259	971,550
Concession Fees	8,484,722	7,836,113	9,108,738	8,029,543	9,236,737
Terminal Rents	8,318,032	8,900,823	10,014,520	10,408,865	12,321,949
Vehicle Parking Fees	5,304,174	3,269,179	2,994,631	2,853,106	3,333,895
Passenger Facility Charges ⁽¹⁾	3,809,502	0	0	0	0
Land Rental Fees	2,948,292	3,122,919	3,141,866	3,657,924	3,738,534
Other Revenues	310,879	683,488	493,696	385,546	1,199,666
Total Operating Revenues⁽¹⁾	\$73,921,785	\$67,935,719	\$76,752,983	\$76,467,105	\$99,374,692
Operating Expenses					
Facilities (Building Maintenance)	\$11,850,165	\$12,789,761	\$13,338,524	\$14,089,639	\$22,272,369
Field and Equipment Maintenance	11,066,513	11,168,454	11,981,927	12,018,853	13,690,208
Safety	7,681,975	8,211,904	9,094,883	8,271,064	9,167,847
Homeland Security	0	66,427	332,916	0	0
Administration	6,690,964	8,354,586	8,599,966	7,864,304	9,007,145
Operations	2,561,884	3,191,031	3,459,870	3,369,522	3,671,117
Environmental Expenses	2,176,285	2,176,194	5,187,806	1,907,437	1,493,820
Vehicle Parking and Curbside Services	2,050,083	1,091,738	969,448	1,008,680	1,121,240
Risk Management	720,144	728,574	726,690	708,344	706,276
Depreciation and amortization ⁽²⁾	0	19,915,023	21,732,751	27,259,159	30,273,373
Total Operating Expenses	\$44,798,013	\$67,693,692	\$75,424,781	\$76,497,002	\$91,403,395
Operating Income (Loss)⁽¹⁾⁽²⁾	\$29,123,772	\$242,027	\$1,328,202	(\$29,897)	\$7,971,297
Depreciation and Amortization Expense⁽¹⁾					
On Assets Acquired with IARF funds	\$12,591,014	\$0	\$0	\$0	\$0
On Assets Acquired with Capital Grants	7,082,471	0	0	0	0
Income (Loss) from Operations	\$9,450,287	\$242,027	\$1,328,202	(\$29,897)	\$7,971,297

Non-Operating Revenue (Expense)					
Investment Income	\$8,242,848	\$5,724,661	\$6,566,924	\$1,057,074	\$5,162,884
Interest Expense	(1,759,990)	(1,189,843)	(1,473,267)	(645,481)	(17,810,930)
Arbitrage Rebate	0	0	(5,452,969)	1,203,962	108,355
Sound Insulation Program	0	0	(993,527)	(4,332,812)	(3,136,057)
Insurance Recovery	0	0	0	0	13,000,000
BJA Drug Enforcement	0	13,564	154,087	612,960	769,960
Reimbursable Service Income	1,743,696	443,374	1,196,874	875,941	251,158
Reimbursable Service Expense	(1,743,696)	(443,374)	(1,196,874)	(875,941)	(251,158)
Total Non-Operating Revenue (expense)	\$6,482,858	\$4,548,382	(\$1,198,752)	(\$2,104,297)	(\$1,905,788)
Income (Loss) before capital contributions	\$35,606,630	\$4,790,409	\$129,450	(\$2,134,194)	\$6,065,509
Capital Contributions:					
Corporate	\$16,000,000	0	0	0	0
Federal Aviation Administration	12,023,859	18,757,487	37,883,268	43,874,121	50,529,888
Passenger Facility Charges ⁽²⁾	0	4,638,481	4,251,820	4,736,195	5,288,290
Total Capital Contributions	28,023,859	23,395,968	42,135,088	\$48,610,316	\$55,818,178
Net Income (Loss)	\$43,957,004	\$28,186,377	\$42,264,538	\$46,476,122	\$61,883,687

Source: Alaska International Airports System, Audited Financial Statements FY01, FY02, FY03, FY04 and FY05

- (1) In FY 2001, PFC revenues were reported as operating revenues. For FY 2002 and beyond PFC revenues were reported as Capital Contributions.
- (2) AIAS implemented Government Account Standards Board ("GASB") Statement No. 34, Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments, as amended; and GASB Statement No. 38, Certain Financial Statement Disclosures, as of July 1, 2001. As a result of these standards, depreciation is no longer segregated between assets acquired with capital grants and assets acquired from International Airports Revenue Funds in AIAS' Financial Statements.

Management Discussion of System Operating Results

System Operations. The System is fulfilling its mission of providing a critical air transportation component of the State's intermodal transportation system while simultaneously supporting economic development, general business activity, trade and tourism. Activity was robust in FY 2004 and FY 2005, attributable much to growth in international cargo flights.

System Financials. The FY 2005 audited financial statements reflect strong liquidity and manageable debt levels. Audited results for FY 2005 demonstrate an increase in revenues of about 30% as compared with FY 2004. This is primarily the result of increases in landing fees and fuel flowage fees. The System continues to apply for federal reimbursement for additional security expenditures and capital outlays required to comply with new federal security requirements.

ANC. ANC has committed to accommodate growing demand, particularly by cargo traffic. ANC requested and received a Letter of Intent from the FAA in 2003 to fund major upgrades for the airfield to accommodate the New Large Aircraft ("NLA"), the A380F. Both FedEx and UPS intend to have that aircraft operating in Anchorage within the next two to four years. ANC constructed Taxiway Y to these new standards and recently completed Taxiway R. Taxiway K and interlinks are currently in construction, with Runway 7R/25L reconstruction to NLA standards set to begin in 2008. Other airfield projects will be funded through the FAA Airport Improvement Program. These include, but are not limited to, Taxiway U to NLA Taxilane standards, North Terminal Gates Pavement Rehabilitation, Remote Overnight Parking 7-11 Rehabilitation, Taxiway T to NLA Taxilane standards, Remote Overnight Parking 12-14 Rehabilitation and Runway 7L/25R Rehabilitation.

FAI. Through projects recently completed, currently in progress, and soon to begin, FAI will improve upon and/or expand facilities and infrastructure to meet safety and capacity needs in order to better serve the traveling public, airlines, tenants, and the broad commercial and private general aviation community, as well as provide airside and landside access to aeronautical activity land yet to be developed. Also, in reciprocal fashion, FAI serves as the primary alternate airport in support of flights which from time to time are unable to land at ANC.

System Operating Revenue

The following paragraphs describe the significant sources of revenue generated within the System as reported in the System's audited financial statements for the years ended on June 30, 2005 and 2004.

Airline Operations. The System generates two principal revenue items from the airlines serving the Airports: landing fees and fuel flowage fees. These fees are established system-wide and are applied uniformly to AIAS with minor exceptions.

In FY 2005, airport landing fees represented approximately 36.4% of total operating revenue. Landing fees are charged on the basis of a landing fee rate calculated in accordance with certain provisions of the Alaska International Airports System Operating Agreement and Passenger Terminal Lease (the "Operating Agreement"). The current Operating Agreement became effective October 1, 2001 (formally adopting rate calculations that became effective July 1, 2001). Under a Master Supplement that became effective in September 2004, the current Operating Agreement runs through June 30, 2007, conditioned upon adequate progress being made on ANC's Concourse A and B Retrofit Project (discussed below), such as funding approval and design. The landing fee rate for FY 2004 was \$0.66 per 1,000 pounds, up from \$0.63 per 1,000 pounds in FY 2002. The landing fee rate for FY 2005 was \$1.07 per 1,000 pounds. The current (FY 2006) rate is \$1.11 per 1,000 pounds. While the airlines that have entered into the Operating Agreement (the "Signatory Airlines") account for the most significant share of landing fee revenue, a fee is charged based on the certificated maximum gross takeoff weight ("CMGTOW") for all landed aircraft in excess of 6,000 pounds CMGTOW.

Under the provisions of the Operating Agreement, landing fees are calculated according to the "residual cost" methodology, taking into consideration all System costs (as defined in the Operating Agreement) and all revenues other than from landing fees. The calculated landing fee rate is determined for each fiscal year as that rate which, if applied to the expected volume of landed CMGTOW for that year, will generate the total landing fee revenue necessary, after considering expected revenues from all other sources, to satisfy the total revenue requirements of the System, including the Rate Covenant. These fees may also be adjusted at mid-fiscal year, as a matter of course, and any other time during the year under certain circumstances to ensure the collection of sufficient revenue in the event CMGTOW takeoff volume or other revenues fall below, or if costs exceed, expectations. See "APPENDIX A -- Report of the Feasibility Consultant" for further discussion concerning airport landing fees.

Fuel flowage fees have traditionally accounted for a substantial portion of System revenue. In FY 2005, fuel flowage fees represented approximately 26.3% of total operating revenue. The fuel flowage fee in FY 2006 is \$0.027 per gallon for Signatory Airlines as established under the Operating Agreement, and \$0.033 per gallon for all other aviation fuel purchasers, as established by order of the Commissioner. The fee is levied on all commercial fueling without regard to type of aircraft. Consequently, the large volume of international traffic refueling at the Airports contributes significantly to fuel flowage fees.

The System also collects aircraft parking charges for use of aircraft parking positions either adjacent to airport-owned passenger terminals or remote. These charges are set annually to cover 10% of projected airfield expenses and, for the remote positions, are graduated based on size of aircraft and length of time parked.

Concession Fees. In FY 2005, concession revenues represented approximately 9.3% of total operating revenue. Primary concession revenues are from food and beverage, news and gifts, duty free, and rental car operations. Concession revenues are earned primarily by charging a percentage of concession gross revenues.

Terminal Rents. Passenger terminal building space rentals for the Signatory Airlines are charged on the basis of rates developed in accordance with various provisions of the Operating Agreement. Rentals derived from sources other than the Signatory Airlines are charged at a rate not less than that calculated under the Operating Agreement, with the exception of one federal agency rental at FAI to provide revenue from otherwise vacant space. In FY 2005, terminal building space rentals represented approximately 12.4% of total operating revenue. The Operating Agreement provides for the annual recalculation of terminal rental rates designed to recover total financial requirements associated with or allocated to the rented portions of the passenger terminal facilities.

Vehicle Parking Fees. ANC recently altered the management structure of its vehicle parking, airport shuttle, and parking lot maintenance operations. Prior to September 1, 2005 all parking, shuttle and parking lot maintenance operations were managed, and all related expenses paid, by a concessionaire under a concession agreement. The concessionaire collected all revenues and paid ANC a graduated fee that escalated annually from 44.9% in year 1 to 57.8% in year 3. Under the current management agreement, effective September 1, 2005, ANC receives all parking revenues and pays all related expenses; the contractor manages all parking operations at ANC for a management fee.

Parking revenue in FY 2005 represented approximately 3.4% of total System operating revenue. ANC is in the process of instituting a fee for private, off-airport parking services, the first of which opened during 2003 and resulted in a loss of parking revenue. This fee has been protested by an off-airport parking operator, and on February 21, 2006, legislation was introduced in the Alaska Legislature that may, if enacted, block the fee. It is unknown how much of revenue this off-airport

parking service fee, if allowed to go into effect, will provide. FAI contracts parking as a concession and reports income as concession fees.

Land Rental Fees. The System rents land at the Airports to approximately 170 tenants. Prior to the 2001 Operating Agreement, the System's standard rental rates were generally not less than \$0.06 per square foot per year for aviation users and not less than \$0.08 for auxiliary and non-aviation users. The 2001 Operating Agreement authorized increases to \$0.09 and \$0.12 per square foot per year for aviation and auxiliary uses, respectively. In 2003, the Commissioner adopted an order to adjust the System's standard land rents accordingly, as well as establishing the non-aviation rate at fair market rent in accordance with FAA guidance. Implementation of the new standard land rental rates went into effect July 1, 2003, but phase-in as to individual leases is based on rate review clauses. Rents are generated pursuant to these individual leases, the terms of which range between one year and fifty-five years. Regardless of the term, the leases are subject to rate review at least every five years. Subject to the individual lease terms, the System is in the process of implementing the fair market rental rate through an appraisal process. In 2005, land rental represented approximately 3.8% of total operating revenue. In general, tenants lease land from the System at the Airports to construct and maintain their own facilities. The System has no investment in these facilities except for the taxiways, roadways, terminals and utilities. The System provides land for certain governmental agencies that benefit the Airports (the FAA, the National Weather Service, and select federal, State, and local entities) and utility permits for utility suppliers at no charge.

Other. The other sources of operating revenue for the System include fees for various miscellaneous charges (such as airport charges, lease of state personal property, flight service station rental and electric energy fees) derived at both Airports, and Airport identification badge and fingerprint clearance fees. Other sources typically represent less than 1% of total operating revenue.

Other Revenues of the System

Passenger Facility Charges. The Aviation Safety and Capacity Expansion Act of 1990 enabled airports to impose a passenger facility charge ("PFC") of \$1.00, \$2.00, or \$3.00 on enplaning passengers. Beginning in 2000, the "Wendall H. Ford Aviation Investment and Reform Act for the 21st Century" ("AIR-21") allows a public agency to apply to the FAA for authority to increase the PFC to \$4.00 or \$4.50. A PFC of \$3.00 requires a reduction in federal Airport Improvement Program passenger entitlement funds of 50%. Increasing the authority to \$4.00 or \$4.50 changes the reduction in passenger entitlements from 50% to 75%. In 2004, ANC analyzed the impact of increasing the PFC authority from \$3.00 to \$4.00 or \$4.50 and the result was a net loss of revenue. At that time, ANC decided to stay with the \$3.00 PFC. However, ANC is again looking at the concept of increasing the PFC authority and analyzing whether it would be a net benefit at this time. No decision has been made on whether to increase the PFC at ANC. Currently, ANC has authority to impose and use a total of \$14.0 million from PFCs and to collect a PFC through FY 2009. FAI's authority to impose and use PFCs totals approximately \$5.5 million at the \$4.50 level through March 1, 2006. In January 2006, FAI submitted its latest PFC application to the FAA at the \$4.50 level. FAI expects to use the new application receipts to offset the debt service associated with its Terminal Area Development Project (discussed below). The System collected approximately \$5.3 million in PFC revenue from the implementation of its PFC charge for FY 2005 (\$4.2 million at ANC and \$1.1 million at FAI).

Letter of Intent Grants. ANC has received approval for additional funding from the FAA through two separate Letter of Intent ("LOI") discretionary grants. In August 1998, the FAA awarded ANC a \$48.1 million LOI that is comprised of \$16.1 million of entitlement funds and \$32.0 million in discretionary funds. The projects approved for LOI funding include South Terminal apron replacement, reconstruction of the remain-overnight parking positions, cargo apron reconstruction, a new remote cargo fueling apron and reconstruction of Runway 7L/25R.

In February 2003, ANC was awarded a second LOI, for a total of \$51.3 million for the construction of Taxiway Y, including interlinks, and upgrades to Runway 7R/25L and Taxiways J, C, and K. The discretionary amount approved under the second LOI totals approximately \$39.4 million, and entitlement funds allocated under this LOI equal approximately \$11.8 million. Both the first LOI and the second LOI provide annual grant reimbursements over a period of 10 years for expenditures against pre-approved LOI projects. The System is also seeking an LOI from the federal Transportation Security Administration (the "TSA") to reimburse the System for capital costs associated with the installation of the TSA's new baggage screening equipment.

System Operating Expenses

The following paragraphs describe the expenses generated within the System as reported in the System's audited financial statements for the fiscal years ended on June 30, 2005, 2004, 2003 and 2002.

Safety. Safety expenses include general security, law enforcement and crash-fire-rescue services. This category of expense has historically accounted for a significant expenditure in the System budget. Security expenses have risen from a level of \$8.2 million in FY 2002 to \$9.2 million in FY 2005. The System anticipates security-related expenses to increase an

estimated \$500,000 to \$1.0 million annually system-wide, depending largely on the specifics of evolving federal directives under the TSA.

Field and Equipment Maintenance. Field and equipment maintenance includes all costs associated with the maintenance of airport equipment, runways, taxiways, aircraft parking aprons and airport grounds. Maintenance expenses have grown from a level of \$11.2 million in FY 2002 to \$13.7 million in FY 2005.

Administration. The administration expenses category includes the direct expenses of the staff of each of the Airports together with legal and audit expenses and the costs of the Department allocable to the System. Administrative costs have increased from a level of \$8.4 million in FY 2002 to \$9.0 million in FY 2005. Controls are used to clearly account for and restrict costs allocated to the System for services provided by the Department. Actual administration has remained relatively constant.

Operations. Operations expenses include all costs associated with the operation of the computerized security access control system, central airport communications and engineering oversight of airport construction activities. Operations expenses increased from \$3.2 million in FY 2002 to \$3.7 million in FY 2005.

Vehicle Parking. Vehicle parking represents costs associated with maintaining the parking facilities. These expenses saw little change from FY 2002 to FY 2005, staying at approximately \$1.1 million. Beginning in FY 2002, part of this lack of growth is attributed to the parking management concession, which was changed in September 2005, as discussed in the previous section.

Environmental Expenses. Environmental expenses represent System environmental assessment and clean-up costs associated with capital projects. These costs have averaged \$2.7 million over the past four years, with a high of \$5.2 million in FY 2003 and a low of \$1.5 million in FY 2005.

Facility Maintenance. Facility Maintenance includes the maintenance of terminal building facilities at the Airports. Over the period from FY 2002 through FY 2005, Facility Maintenance grew from \$12.8 million to \$22.3 million. The increase is primarily attributable to the maintenance of the new Concourse C, which opened in 2004 and nearly doubled the terminal space at ANC. The State provides custodial services at the Airports through its own staff and contracted services.

Risk Management Expenses. Risk management costs or insurance expenses are relatively unchanged from FY 2002 through FY 2005, at approximately \$0.7 million each fiscal year. What appears to be steady insurance costs despite recent premium increases in the industry reflects the State's large self-insurance component.

Employees and Pension Benefits

Substantially all the employees of the System participate in the State of Alaska Public Employees' Retirement System ("PERS"), a defined benefit agent multiple-employer cost-sharing public employee retirement system, including health care. These employees fall into either the "police/fire" category or the "other" category. Different contribution rates are assigned to each category. Please refer to the notes to the System's audited financial statements for the fiscal years ended on June 30, 2005 and 2004 in APPENDIX B for additional information relating to the pension budget matters.

The System's police/fire participants in PERS contribute 7.5% and "other" participants contribute 6.75% of their salaries to PERS on a pre-tax basis. The employer contribution rate for the State of Alaska (which includes the System) is 17.75% (a blended rate of 18.42% for police/fire and 17.65% for others) effective July 1, 2005, which includes provision for the amortization of unfunded liabilities. This rate will increase to a blended rate of 22.75% effective July 1, 2006, and is expected to increase in the future. The rates have been historically capped by regulation to increase no more than 5% in a year. In PERS, the assets and liabilities attributable to each participating group remain separately identified as to employer. As of June 30, 2004, the funding liability of PERS (including health care obligations) was reported at 70.2%.

Recent State legislation (Chapter 9 FSSLA 2005) will affect retirement benefits for new employees. The legislation will require all newly eligible employees, hired on or after July 1, 2006, to be participants in a newly created defined contribution retirement plan. Under the new plan, public employees will contribute 8% of compensation and employers will contribute 10.05% of compensation plus additional amounts (not all of which have yet been set) for certain medical insurance, disability and death benefits. As part of the legislation, the then-existing rate-setting and investment boards were eliminated and replaced with the Alaska Retirement Management (ARM) Board on October 1, 2005. Employees hired prior to July 1, 2006 will continue to accrue benefits under the existing defined benefit plans and, with respect to those plans, the employer will pay contribution rates set by the ARM Board. Non-vested employees who are hired before July 1, 2006 may elect to switch from the defined benefit to the appropriate defined contribution plan.

Beginning in FY 2006, Buck Consultants, a nationally recognized human resources consulting firm specializing in the establishment and valuation of pension plans, will serve as the new actuary for the State's retirement system. Its first report

is expected in FY 2007 for the FY ended June 30, 2005. It is not known whether this change of actuaries will have a material effect on determinations concerning the funded liability of PERS, amounts of employer contributions required for the amortization of unfunded liabilities or other matters concerning the State's retirement system.

SYSTEM BUDGET PROCESS

According to the Alaska Aeronautics Act of 1949, the Department is responsible for the maintenance and operation of all State-owned airports, including the System. Once money is received by the State, it may not be withdrawn except in accordance with an appropriation made by law. An appropriation is an authorization to spend money and to incur obligations. Each appropriation is limited as to purpose, time and amount, and each of these limitations is legally binding. As an agency of the State, the System is guided by the Executive Budget Act that lays out directions for planning and approval of State programs and their financial management. Budget requests for appropriations to pay debt service on the Bonds are not discretionary with the Department but are automatically included in the proposed budget by the Department of Revenue in the same manner as appropriations for the payment of State general obligation debt, except payments may be taken only from the International Airports Revenue Fund or, in limited circumstances, from the International Airports Construction Fund. Under the current Operating Agreement, the Signatory Airlines originally approved a five-year capital improvement program (the "Original CIP"). As more fully described below, in September 2004, the parties executed an amendment to the Operating Agreement, revising the Original CIP and extending the Operating Agreement by one year to June 30, 2007. For projects not included in the Operating Agreement, the System may either proceed using funding that does not affect airline rates and fees, or submit them for the Signatory Airlines to vote on the acceptance or one-year deferral of those projects. Also, the Operating Agreement requires the System to submit to the Signatory Airlines annually the proposed operating budget for the following year. This proposed budget must contain estimated System expenses for such areas as maintenance, operation and administrative expenses, and estimated System revenues.

According to the Executive Budget Act, each agency must annually submit to the Governor's Office proposed operating and capital budget requests. These requests include goals and objectives, proposed modifications to existing program services, addition of new program services and resources needed to carry out the proposed plan. By December 15, the Governor's Office submits the proposed State budgets for the next FY to the Alaska Legislature. The Alaska Legislature is required to complete its public review and approval of expenditures through the appropriation process.

Budget Process for Debt Service

Under a section of the Act codified as AS 37.15.415, "[t]he amounts required annually to pay the principal, interest, and redemption premium on all issued and outstanding international airports revenue bonds of the state are appropriated each fiscal year from the international airports revenue fund to the state bond committee to make all required payments of principal, interest, and redemption premium." The State Bond Committee, as the issuer of the Bonds, is the payor of the Bonds. The System is responsible for making available all necessary funds required by the Bond Resolution in a timely manner.

Federal Restrictions on Airport Revenue Transfers

From time to time the State transfers funds, generally through the legislative appropriation process, from one arm of State government to another using various methods such as budget increases and decreases, declaration of dividends from public corporations back to the State, and the reallocation of revenue or expense cash flows. While the System is an arm of State government and ANC and FAI are State-owned assets, System funds may not be used for general governmental purposes under State law and FAA grant restrictions. Alaska Statute 37.15.430 does not permit the use of International Airports Revenue Fund ("IARF") monies other than for support of ANC and FAI and their bonded indebtedness. Federal funds must be used in accordance with federal grant limitations. Since 1982, although there are major exceptions, airports that have accepted Federal Airport Improvement Program ("AIP") grants have been required to agree to use airport-generated revenues only for the capital and operating costs of the airport, the airport system, or other facilities owned and operated by the airport and directly related to air transportation. See 49 U.S.C. §47107(b). Both ANC and FAI are grant recipients bound by these requirements. The 1996 FAA Reauthorization Act created a direct statutory prohibition against revenue diversion by any federally assisted airport, required audit certification of compliance with revenue use restrictions, and added new provisions on civil penalties, expedited procedures for recovery of illegally diverted revenues, repayment of past contributions to an airport, and interest on diverted funds. The System annually submits financial reports to the FAA that reflect the expenditures and revenues of ANC and FAI and payments to and from other governmental agencies. The State Legislative Budget and Audit Committee's Legislative Audit Division is responsible for the preparation of the statewide Single Audit for the State. Part of that audit report is a review and an opinion regarding compliance with the federal prohibition of revenue diversion. No statewide Single Audit report for the State has ever identified diversion of System revenues to uses outside the System in violation of the federal prohibitions. The most recent State Single Audit report covers the State fiscal year ending June 30, 2005.

OPERATING AGREEMENT

The Department, owner and operator of the System and its components, ANC and FAI, is party to an airline Operating Agreement with the Signatory Airlines. This Operating Agreement, referred to at many airports as a "use agreement," covers both facility rental, and the setting of landing fee rates and other charges by the agreement with the Signatory Airlines. A separate Operating Agreement is executed between the Department and each of the Signatory Airlines. In nearly every case, the Operating Agreement executed with the passenger-carrying airlines and some cargo airlines includes provisions for leasing space in the ANC domestic or international terminals and/or the FAI terminal. Otherwise, each Operating Agreement, covering both ANC and FAI, contains terms and conditions that are substantially identical.

Among other things, the current Operating Agreement grants the Signatory Airlines operating rights at ANC and FAI. In the case of passenger-carrying Signatory Airlines, the lease portions of the Operating Agreement conveys some exclusive leasehold interests for administrative offices and airline club facilities, but ticket counters, boarding gate holdrooms and baggage make-up are preferentially leased. The Operating Agreement provides for a common leasehold interest to baggage claim areas. Aircraft parking areas on the apron adjacent to preferentially leased holdrooms (gate area) are subject to a Preferential Use privilege. The Airports may authorize the subordinate use of a Signatory Airline's terminal facilities and aircraft parking positions including, under certain circumstances, both exclusive and preferential space, by another air carrier when the Signatory Airline has no activity scheduled, provided that reasonable and appropriate arrangements for compensation have either been agreed to between the airlines involved or are imposed by the Airport. The Operating Agreement sets forth specific procedures under which the Airports can require Signatory Airlines to accommodate new entrants or expanding incumbent airlines. These provisions were highlighted in the Airport Competition Plan required and most recently approved by the USDOT for ANC in September 2004.

The Operating Agreement contains provisions that govern the rights and obligations of the parties. The Operating Agreement spells out, for example, the methodology described in "SYSTEM FINANCIAL OPERATIONS -- System Operating Revenue" for annually setting terminal rents and landing fees, and re-adjusting fees mid-year if necessary to meet total revenue requirements. Expense and revenue factors in the landing fee calculation achieve the overall residual cost coverage plan of the Operating Agreement.

Through the Operating Agreement negotiations, the Signatory Airlines agreed to a 5-year Capital Improvement Program for FY 2002 - FY 2006 (the "Original CIP"). Provisions were included allowing the Airports to add Capital Improvement Program ("CIP") projects that cost less than \$500,000 but not more than \$3 million per year cumulative without Signatory Airline approval. A newly proposed capital improvement project beyond the range of \$500,000 to \$3 million must be submitted for a Signatory Airline ballot, but is deemed approved unless 67% of Signatory Airlines vote to withhold approval. With a handful of exceptions, if the Signatory Airlines have once withheld approval for a project, the System needs no approval to carry out the project after a one-year deferral. Because there is no requirement to seek Signatory Airline approval of each year's annual CIP during this five-year period, the System can plan and program multi-year projects more efficiently.

Among other things, the Operating Agreement also provides for application of System Revenues consistent with the Bond Resolution, regular certified activity reporting by the Signatory Airlines, and prohibition of relinquishment, assignment or sublease of Signatory Airline interests without the written consent of the Airport Director or Manager.

Copies of the master form of the Operating Agreement are available from Ted Stevens Anchorage International Airport, Director, P.O. Box 196960, Anchorage, AK 99519-6960, telephone (907) 266-2525.

Revisions to Existing Operating Agreement

In September, 2004, the Department and the Signatory Airlines executed a Master Supplement, changing the Operating Agreement and the Original CIP incorporated in that document. The Master Supplement, responding to the conditions of the airline industry and other unanticipated costs associated with certain terminal redevelopment projects at ANC, deferred \$58.8 million in capital projects originally scheduled for construction in FY 2004 - FY 2006. This deferral created the additional funding needed to substantially complete the ANC Concourse C by 2004. As previously noted, this revision also extended the Operating Agreement to June 30, 2007, conditioned on adequate progress on the Concourse A & B Retrofit, such as funding approval and design. This agreement also reduced the annual deposit requirement to the Airports System Development Fund by \$1.0 million (from \$6.0 million to \$5.0 million, adjusted annually based on the Consumer Price Index) beginning in FY 2004, through FY 2007. Additionally, both parties agreed to apply \$2.0 million in annual PFC revenues towards eligible debt service over the same period. The method for calculating airline rates and fees was not changed.

Future Operating Agreement

The Department and the Signatory Airlines have begun negotiating the terms of a new Operating Agreement, which will replace the current Operating Agreement upon its expiration, if not sooner. Although the specific terms and conditions of the new Operating Agreement, including the manner of cost allocation and recovery for certain types of costs, may differ from those currently in place, neither the AIAS nor the Signatory Airline negotiators have indicated any desire or intent to alter the residual nature of the System's rates and charges methodology. In December 2005, the Signatory Airlines and the Department exchanged initial general proposals for revisions to the current Operating Agreement as part of the negotiation process. As of February 1, 2006, no further negotiations between the Department and the Signatory Airlines have occurred, although additional meetings will be held. Negotiations are expected to conclude prior to the start of FY 2007.

CAPITAL IMPROVEMENT PROGRAM

Under the current Operating Agreement, both Airports prepared 5-year capital improvement programs which were approved by the Signatory Airlines. As discussed earlier, the Master Supplement executed in September 2004 extended the Operating Agreement by one year and deferred a portion of the Original CIP projects. Nevertheless, a number of factors can still influence the actual capital expenditures in any one year or series of years. Examples include: (1) the level of emergency capital expenditures; (2) the prioritization of safety improvements; (3) management of capacity needs; (4) the level of past and future anticipated improvements; (5) the availability of private sector capital to assist in capital expenditure requirements; (6) funding levels for FAA programs and pilot initiatives; (7) the opportunity for the System to qualify for discretionary and pilot programs of the FAA; and (8) the general economic climate in the aviation community and the willingness of the airlines to support or defer capital improvements in any given year. In addition, the current amended Operating Agreement provides for the System to place \$5.0 million (indexed to the Consumer Price Index) into the Airport System Development Fund through the landing fee rate formula for use by the System as determined by Management - subject to legislative appropriation.

The FY 2006 – FY 2009 Capital Improvement Program (the "FY 2006 - FY 2009 CIP"), which is shown below under the caption "FY 2006 - FY 2009 CIP Projects," contains all of the projects that the System is planning to fund with the Series 2006A Bonds, the Series 2006B Bonds, the Series 2006C Bonds, and other funding sources. The FY 2006 - FY 2009 CIP was approved by the Department and the Signatory Airlines in September 2004, with the amendment to the Operating Agreement discussed above and subsequent Signatory Airline ballots, and represents a continuation of the Original CIP.

The total estimated cost of the FY 2006 - FY 2009 CIP is approximately \$644.1 million and includes approximately \$463.7 million in projects for ANC and \$180.4 million in projects for FAI.

The Department, the Airports and the Signatory Airlines believe the deferred financing of projects found within the Original CIP does not impact passenger safety and security, nor risk any of the federal funding allocated to the System.

Following are general descriptions of two of the major projects included in the FY 2006 - FY 2009 CIP. For additional discussion, see "APPENDIX A -- Report of the Feasibility Consultant."

Concourse A and B Retrofit Project - Anchorage International Airport

The Concourse A and B Retrofit Project (the "A/B Project") upgrades and corrects existing seismic and code-related deficiencies, enhances life safety and security systems, and generally renovates the older portion of ANC's South Terminal. Engineering evaluations of Concourse A and B determined the need for significant modification and upgrades; coupled with new TSA security and baggage screening requirements, the level of renovations required for the existing Concourses A and B and ticket lobby area are significant. This portion of the terminal consists of approximately 360,000 square feet and encompasses Concourses A and B, associated ticket counters, baggage claim, baggage make-up, gate lounges, airline operations areas and retail concession space.

Based upon revised estimates for the project, it is anticipated the A/B Project will cost an estimated \$176.8 million. The following improvements are currently planned:

- Structural upgrades and retrofit of the older portions of the South Terminal that are seismically deficient;
- Replacement and reconfiguration of three outbound baggage belt systems to accommodate centralized TSA baggage screening;
- Replacement and configuration of three inbound baggage systems and two baggage claim carousels;
- Upgrading and replacement of code-deficient heating, ventilation, electrical and life safety systems;
- Enhancement of access control and building security systems;

- Reconfiguration and expansion of passenger gate lounges and airside aprons to better match aircraft fleet mix and accommodate future growth;
- Finalize ticket lobby renovations and relocation of airline ticket counters and airline ticket offices;
- Relocation of the TSA's centralized passenger screening area and reconfiguration of retail concession space; and
- Architectural enhancements and updating of interior finishes.

The A/B Project is currently under design with construction scheduled to begin in October 2006 using a phased approach to minimize passenger and operational disruptions, with completion expected in June 2009.

Terminal Area Development - Fairbanks International Airport

FAI completed a Terminal Master Plan to (i) address a number of existing operational and functional deficiencies, (ii) plan for future needs, and (iii) meet new TSA requirements (collectively, the "Terminal Area Development Project"). The Terminal Master Plan is now in the design phase with construction scheduled to begin in July 2006 and completion in September 2009. The Terminal Area Development Project includes the renovation and upgrade of the FAI terminal which will correct seismic deficiencies and demolish and rebuild the terminal core. The old terminal is 134,000 square feet and the new terminal is expected to be 146,000 square feet. The Terminal Area Development Project addresses existing operational and functional deficiencies, plans for future needs, and meets new TSA requirements. Based on cost estimates of the project, it is anticipated that the Terminal Area Development Project is expected to cost \$99,260,000.

Some of the major operational and functional deficiencies at FAI include international passenger processing, air carrier terminal gate usage considering aircraft fleet mix versus FAA transitional surface conflicts, antiquated HVAC systems and controls, baggage handling system deficiencies, passenger flow conflicts, and limited capacities for heavy seasonal tour passenger operations. New security requirements will impact baggage conveyor system layouts for installations of in-line automated inspection equipment and blast protection to better accommodate passenger vehicle public parking.

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The FY 2006 - FY 2009 CIP Projects

The following table breaks out the estimated costs of the FY 2006 - FY 2009 CIP projects to be financed with proceeds of the Series 2006A Bonds, Series 2006B Bonds, Series 2006C Bonds and other funds that are expected to be used to pay costs of such projects.

	<u>2006 Bond Proceeds</u>	<u>Other Funding*</u>	<u>Total Cost Estimates</u>
<u>Anchorage International Airport</u>			
Concourse A and B Retrofit Project	\$91,500,000	\$85,300,000	\$176,800,000
Second Level Moving Walkway	-0-	12,000,000	12,000,000
Concourse C 3rd Floor Build-Out	-0-	5,500,000	5,500,000
Consolidated Facilities Center	5,000,000	-0-	5,000,000
Airfield Pavement Maintenance	1,089,362	66,582,888	67,672,250
Roads/Utilities/Grounds Construction and Upgrades	6,200,000	-0-	6,200,000
Snow Storage Facilities	3,000,000	-0-	3,000,000
Taxiway/Runway Improvements	-0-	10,870,629	10,870,629
Site Development Preparation	-0-	2,000,000	2,000,000
Engine Run-up Pad	-0-	3,947,000	3,947,000
Land Acquisition and Mitigation	1,947,000	4,200,000	6,147,000
Equipment	10,977,000	15,056,000	26,033,000
Environmental Compliance and Cleanup	-0-	4,423,000	4,423,000
Noise Abatement Program	714,000	26,236,000	26,950,000
Security/Safety/Access Control Improvements	-0-	5,500,000	5,500,000
Deicing System	-0-	6,178,000	6,178,000
Information Technology Improvements	4,500,000	-0-	4,500,000
Energy & Terminal Systems Upgrades	1,269,000	-0-	1,269,000
Terminal Rehabilitation	8,570,000	1,000,000	9,570,000
GA Parking & Taxiway Relocation	330,000	5,000,000	5,330,000
Annual Improvements	-0-	6,546,000	6,546,000
Master Plan	400,000	4,000,000	4,400,000
Advanced Project Design	6,500,000	3,158,000	9,658,000
First LOI	1,200,000	14,776,250	15,976,250
Second LOI	3,230,000	25,847,000	29,077,000
Dept. of Homeland Security Renovations	3,650,000	-0-	3,650,000
ARFF Bldg. Rehabilitation	4,019,000	1,500,000	5,519,000
ANC Total	<u>\$154,095,362</u>	<u>\$309,620,767</u>	<u>\$463,716,129</u>
<u>Fairbanks International Airport</u>			
Terminal Area Redevelopment	\$83,248,881	\$16,011,119	\$99,260,000
Runway Reconstruction	2,587,500	49,162,500	51,750,000
Equipment	2,934,000	2,248,700	5,182,700
GA Ramp Expansion	-0-	4,000,000	4,000,000
Taxiway A Expansion	-0-	17,500,000	17,500,000
Annual Improvements	-0-	1,650,000	1,650,000
Environmental Assessment and Cleanup	-0-	1,000,000	1,000,000
FAI Total	<u>\$88,770,381</u>	<u>\$91,572,319</u>	<u>\$180,342,700</u>
Total Costs	<u>\$242,865,743</u>	<u>\$401,193,086</u>	<u>\$644,058,829</u>

* Prior bond issues, amounts from deferred and reprogrammed capital projects, additional AIP funding, interest earnings on previously issued bonds, and insurance proceeds.

The cost and completion schedule of the FY 2006 - FY 2009 CIP projects are subject to uncertainties and are affected by a number of factors discussed in other sections of this Official Statement. If the costs of the projects are greater than estimated, or if levels of other funding are less than estimated, one or more of the projects may be scaled down or eliminated. See also "SECURITY FOR THE BONDS" and "INVESTMENT CONSIDERATIONS -- Financial Assumptions."

SUMMARY OF OTHER ONGOING PLANNING ACTIVITIES AND PROGRAMS

Anchorage International Airport

Strategic Business Planning. ANC is currently engaged in updating its Strategic Business Plan to provide a business analysis of how the Airport's market is changing relative to global air cargo and passenger markets and how ANC can position its resources most effectively. This analysis is timed to serve as a basis not only for the marketing program but also for Master Plan decisions.

Cargo Marketing Program. ANC has retained the services of a cargo and passenger marketing services consultant to retain, expand, and attract activity. In addition, the Anchorage Economic Development Corporation is under contract to promote economic growth and develop new business with a major emphasis on creating new origin and destination cargo through development of logistics centers in Anchorage and air shipment of Alaska fish products.

Airport Master Plan Update. ANC proposes to conduct a substantial revision to the 1996 Airport-wide Master Plan starting in 2006. The current Master Plan, accepted in November 2002, emphasized cargo development and illustrates cargo growth. A primary emphasis for this new Master Plan Update is an alternative north-south runway to the west of Runway 14/32. The Master Plan Update will include a feasibility study for the new runway. Additionally, there will be a Redevelopment Plan for East Airpark and a Development Plan for lands south of Runway 7R/25L and West Airpark as well as a plan for landside development in the terminal areas. The Master Plan will also include a conceptual Redevelopment Plan for Kulis Air National Guard Base facilities for when the Base's lease terminates and the facilities transfer to the Airport under the Base Realignment and Closure Commission's decision.

Lake Hood and ANC General Aviation Master Plan. The Lake Hood and ANC General Aviation Master Plan activities have been ongoing since April 2004. Facility inventory, demand forecasts, facility requirements and draft alternatives have been developed. A draft "preferred alternative" was brought before the public in January 2006 for review and comment. The review process is expected to be completed by the summer of 2006.

Transportation Security Agency Letter of Intent. ANC is working with the TSA on a Letter of Intent ("LOI") for security equipment at ANC.

Part 150 Noise Compatibility Program. The Noise Program addresses operational and land-use measures ANC and the community can implement to reduce the effects of ANC noise on the community. This program includes the Residential Sound Insulation Program ("RSIP") and the Airport Noise and Operations Monitoring System ("ANOMS"). The RSIP rehabilitates noise-affected homes located within the approved noise contour with noise attenuating windows, doors and other fixtures. There are 750 homes within the approved contour, 248 homes of which have been rehabilitated. The ANC will continue this program over the course of the next several years until all of the approved homes have been rehabilitated. The ANOMS allows real-time monitoring of aircraft and associated noise. The noise monitor continuously records the noise levels and events. Flight data from the air traffic control radars are received and processed so that flights can be matched to noise events. This ongoing effort will allow better and quicker response to the public as well as provide for feedback to the airlines.

Fairbanks International Airport

General Aviation Development. FAI provides facilities for commercial commuter and air taxi passenger and cargo, helicopter operations, and private wheeled, ski-equipped and float-equipped aircraft. Combined, these have averaged approximately 83,000 operations per year for the last ten years and form a transportation system for the Interior portion of the State that serves numerous communities and areas to which air travel is the only viable option. In support of these varied operations, FAI provides the infrastructure necessary for its overall general aviation demands. Recently completed improvements include a lengthened and widened general aviation runway to better facilitate commuter and air taxi operations, expanded float plane parking slips, extension of water/sewer mains to tenant lease lots, and electrification of general aviation ramp tie down parking.

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds may involve investment risk. Prospective purchasers of the Bonds should give careful consideration to the information set forth in this Official Statement, including, in particular, the matters referred to in the following summary. In considering the matters set forth in this Official Statement, prospective investors should carefully review all investment considerations set forth throughout this Official Statement and should specifically consider risks associated with the Bonds. The System's ability to derive Revenues from operation of the System sufficient to pay debt service on the Bonds depends upon many factors, most of which are not subject to the control of the System. These factors include the financial strength of the air transportation industry in general and the financial strength of the firms in the industry that operate at the Airports.

Certain Events Affecting the Air Transportation Industry and the Airports

The Revenues of the Airports may be affected substantially by the economic health of the airline industry and the airlines serving the Airports. Among the factors that may materially affect the Airports and the airlines include, but are not limited to, growth of population and the economic health of the region and nation, airline service and route networks, national and international economic and political conditions, changes in demand for air travel, service and cost competition, mergers, the availability and cost of aviation fuel and other necessary supplies, levels of air fares, fixed costs and capital requirements, the cost and availability of financing, the capacity of the national air traffic control system, national and international disasters and hostilities, the cost and availability of employees, labor relations within the airline industry, regulation by the federal government, environmental risks and regulations, noise abatement concerns and regulation, the financial health and viability of the airline industry, bankruptcy and insolvency laws, acts of war or terrorism and other risks. Many airlines, as a result of these and other factors, have operated at a loss in the past and many have filed for bankruptcy, ceased operations and/or merged with other airlines.

The financial difficulties of most domestic airlines, including the bankruptcy of several airlines operating at the Airports, the recent general economic downturn of the U.S. economy, the significant fluctuations in fuel prices, the September 11, 2001 events and the threat of future terrorist attacks, the conflicts in the Middle East and increased security requirements in air transportation, have significantly adversely affected the North American transportation system, including operations of the Airports, and the financial condition of the airlines. Certain airlines have filed for protection under the U.S. Bankruptcy Code and most other airlines report continuing financial difficulties. Potential investors are urged to review the airlines' financial information on file with the Securities and Exchange Commission and the USDOT. Like many airport operators, the System has experienced increased operating costs due to compliance with federally mandated and other security and operating changes. The System cannot predict the likelihood of future incidents similar to the September 11, 2001 events, the likelihood of future air transportation disruptions or the impact on the Airports or the airlines from such incidents or disruptions. See "INFORMATION ABOUT CERTAIN AIRLINES SERVING THE AIRPORTS."

Cost of Aviation Fuel

The price of aviation fuel continues to be an important and uncertain determinate of an air carrier's operating economics. According to the Air Transportation Association, airlines are expected to have spent more than \$30 billion on fuel in 2005, double what they spent in 2003, and up from \$21 billion in 2004. Fuel prices increased approximately 14.3% per year (in current dollars) from 1998 through 2004. In July 2005, the price of fuel was approximately 48% higher than the price of fuel in July 2004. The average price of jet fuel reached record high levels before Hurricane Katrina hit the Gulf Coast, causing severe damage to oil rigs and refineries in the Gulf of Mexico, shutting down 10% of U.S. refining capacity and cutting daily jet fuel production by 13%. As a result, according to the Air Transportation Association, jet fuel prices hit a record high of \$1.99 per gallon following Hurricane Katrina, a 25% increase over the prior week. Hurricane Rita's effect on Houston and Galveston, Texas, home to 12% of the U.S. refining capacity, was less destructive than feared and the 15 refineries that closed as this hurricane approached are resuming operations. Significant and prolonged increases in the cost of aviation fuel have had and are likely to continue to have an adverse impact on the air transportation industry by increasing airline operating costs, hampering airline recovery plans and reducing airline profitability.

Aviation Security Concerns and Related Costs

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of the current hostilities in Iraq and elsewhere in the Middle East, other potential hostilities and the threat of terrorist attacks, may influence passenger travel behavior and air travel demand. These concerns remain intense in the aftermath of the September 11, 2001 events with the ongoing war in Iraq. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, which may give rise to the avoidance of air travel generally.

Government agencies, airlines and airport operators have escalated security precautions since the September 11, 2001 events. These precautions include the strengthening of aircraft cockpit doors, the federal program to allow and train domestic

commercial airline pilots to carry firearms during flights, changes to prescribed flight crew responses to attempted hijackings, increased presence of armed air marshals, federalization of airport security functions under the TSA, revised procedures and techniques for the screening of baggage for weapons and explosives and technology for the screening of passengers, such as the United States Visitor and Immigration Status Indicator Technology ("US VISIT"). No assurance can be given that these precautions will be successful. Also, the possibility of international hostilities and/or further terrorists attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

Because of the implementation of a Congressional mandate, effective January 1, 2003, requiring the screening of all checked baggage for explosives, as well as the impact on airport operations of procedures mandated under "Code Orange" (high) or "Code Red" (severe) national threat levels are declared by the Department of Homeland Security under the Homeland Security Advisory System, there is the potential for significantly increased inconvenience and delays at many airports.

The System's financial condition could be adversely affected if the System incurs substantial increases in security costs in the future. There can be no assurance that the System will have sufficient resources to absorb the impact of such costs. In addition, if the airlines are required to pay substantial security costs, it would place an additional financial burden on many already financially troubled airlines which, in turn, could have a negative impact on the operations of the Airports and the System's Revenues. The System cannot predict the likelihood or impact of any future government-required security measures.

Airline Bankruptcy

When an airline that has an operating agreement with the System seeks bankruptcy protection or has bankruptcy proceedings initiated against it, the airline or bankruptcy trustee must determine within a time period determined by the court whether to assume or reject the applicable operating agreement or other lease arrangement. In the event of an assumption, the airline would be required to cure any prior defaults and to provide adequate assurance of future performance under relevant agreements. Rejection of a lease or executory contract by such an airline would give rise to an unsecured claim of the System for damages, the amount of which in the case of a lease is limited by the United States Bankruptcy Code.

In December 2003, enactment of Section 124 of Vision 100--Century of Aviation Reauthorization Act (Vision 100) (49 U.S.C. 40117 (m) (1-7)) imposed new requirements for air carrier management of PFC revenue collected by the carrier after it files for bankruptcy protection. Through this provision, Congress has specifically protected post-bankruptcy filing PFC revenues from creditor claims by recognizing and protecting the trust fund status of PFC revenue and prohibiting air carriers from using PFCs as security for liabilities to third parties. Nevertheless, it is unclear at this time whether the System would be afforded the status of a secured creditor with regard to PFCs collected or accrued from the airline *before* it filed for bankruptcy protection. Although the airlines serving the System have generally not gotten significantly behind on PFCs and bankruptcy courts and the FAA have helped prevent loss of PFCs in the past, the System cannot predict whether an airline in bankruptcy protection would have properly accounted for the PFCs owed to the System or whether the bankruptcy estate would have sufficient moneys to pay the System in full the PFCs owed by such airline.

As explained above, the Operating Agreement is a residual cost agreement whereby any shortfalls in revenues, even those resulting from bankruptcies, would result in the remaining Signatory Airlines collectively being required to pay higher rates and charges to make up for the deficit. There can be no assurance, however, that the remaining Signatory Airlines would be able, individually or collectively, to meet their obligations under the airline leases.

Loss of PFCs

The FAA has the power to terminate the authority to impose PFCs if the System's PFCs are not used for approved projects, if project implementation does not commence within the time period specified in the FAA's regulations or if the System otherwise violates FAA regulations. It is not possible to predict whether future restrictions or limitations on airport operations will be imposed, whether future legislation or regulations will affect anticipated federal funding or PFC revenue collections for capital projects for the Airports or whether such restrictions or legislation or regulations would adversely affect Revenues.

Additional Funding Needs of the System

The estimated costs of, and the projected schedule for, the FY 2006 - FY 2009 CIP projects depend on various sources of funding, including federal and State grants, and are subject to a number of uncertainties. The ability of the System to complete the various projects may be adversely affected by various factors including: (i) increased project costs for the projects, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation, (xi) environmental issues, including environmental approvals that the System has not obtained at this time, and (xii) estimate errors. A delay in the completion of certain projects could delay the collection of revenues in respect of such projects, increase the costs for such projects, and may cause the rescheduling of other projects. There can be no assurance that the cost of the projects will not exceed the currently projected dollar amount or that the completion of the projects will not be delayed beyond the currently projected completion dates. Any schedule delays or cost

increases could result in the need to issue additional bonds and may result in increased costs per enplaned passenger to the airlines.

Regulations and Restrictions Affecting the System

The operations of the System are affected by a variety of contractual, statutory and regulatory restrictions and limitations including, without limitation, the provisions of the Operating Agreement, the federal acts authorizing the imposition and collection of PFCs and extensive federal legislation and regulations applicable to all airports in the United States. In the aftermath of the September 11, 2001 events, the Airports also have been required to implement enhanced security measures mandated by the FAA, the TSA and Airport management. See "INVESTMENT CONSIDERATIONS - Aviation Security Concerns and Related Costs."

Traffic Patterns

The System participates significantly in international air traffic patterns.

International passenger traffic consists of year round service to Asia and additional seasonal traffic to Asia and to Europe. Due to greater passenger preference for non-stop Asia to North America flights, use of ANC for intermediate fueling stops has generally decreased since the early 1990's, when the passenger industry began taking advantage of longer range aircraft technology, access to Russian airspace and polar air routes. Year round passenger service to Asia continues to be available to Taiwan. Seasonal international passenger service is growing, with direct flights to Japan, Korea, Germany, Russian Far East, and Canada. The current forecast is for international passenger traffic to grow at an AACGR of 0.8% in the Forecast Period (Feasibility Report, Table II-17).

International air cargo, including express and heavy cargo sectors, began to grow just as international passenger carriers slowly converted to non-stop flights. FedEx and UPS hubs were created, and foreign flag cargo carriers expanded to serve the growing Asia-North America time definite air trade. From 2000 to 2005 international cargo tonnage at ANC grew an AACGR of 7.2%. The System believes the Feasibility Report Consultant appropriately forecasts continued cargo growth in the Forecast Period (Feasibility Report, Table II-20). Recently constructed and announced air carrier and developer investment in cargo hub infrastructure may be a gauge of carrier commitment and expectations for System cargo activity.

Geopolitical Risks

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

Environmental Regulation

The FAA has jurisdiction over flying operations generally, including personnel, aircraft, ground facilities and other technical matters, as well as certain environmental matters. Under the FAA's airport noise regulations, most recently revised in the Airport Noise and Capacity Act of 1990 ("ANCA"), the industry is striving to reduce airport noise impacts on local communities while maintaining a safe and efficient national aviation system. Airport noise remains a significant federal and local issue, which may require substantial capital investments by the industry from time to time to meet applicable standards. Although it cannot guarantee that noise issues will remain a minor cost consideration, ANC is currently implementing its updated Part 150 Noise Compatibility Program and believes that, working with the FAA and the Municipality of Anchorage, it can continue to manage noise issues effectively. FAI also has a Part 150 Noise Compatibility Program in the process of implementation in cooperation with the Fairbanks Borough.

ANC has identified on its land certain areas of soils contaminated by aviation fuel. Although it is possible that environmental response costs could increase in the future, the airline fueling service consortium and other responsible parties are engaged in cleanup and remediation planning at their own expense and ANC is in discussion with the State Department of Environmental Conservation ("ADEC") to develop clean-up levels that acknowledge the industrial character of much of ANC's land.

The Environmental Protection Agency (the "EPA"), under the Clean Water Act ("CWA"), has jurisdiction for water quality protection regulations. EPA with assistance from the ADEC administers water pollution control regulations affecting operation of the System. Water quality is a significant federal, state, and local issue which may require significant capital investments by the industry to meet discharge standards. ANC in partnership with its tenants, federal, state, and local regulatory agencies has established an active watershed management program to comply with the objectives of the CWA. This group

addresses waste water control, water quality protection, and prevention of pollution to waters of the United States. In addition, the System has an Aviation Industry National Pollutant Discharge Elimination System ("NPDES") permit program in place. The State believes that the necessary filings and strategies for compliance with the EPA regulations are being satisfied.

Status of Operating Agreement and Rates and Charges Policy

The current Operating Agreement became effective October 1, 2001 and was originally set to expire June 30, 2006. With the execution of the previously described Master Supplement, the term of the Operating Agreement was extended to June 30, 2007, assuming there has been adequate progress, such as funding approvals and design on the A/B Project. The System is currently negotiating a new agreement with the airlines. Inasmuch as the current Operating Agreement was extensively negotiated over a two-year period and replaced an expired agreement that had been in place for 16 years, management believes the framework of the current Operating Agreement is likely to form the basis for an extended or replacement agreement beyond 2007, but cannot offer any assurance in that respect. In any event, the System has covenanted to comply with the Rate Covenant established in the Bond Resolution. The System's discretion to establish airline rates and charges is subject to federal law and regulations. In establishing any new rates and charges methodology for the Airports, the System intends to comply with federal law.

Section 113 of the Federal Aviation Administration Authorization Act of 1994 (the "1994 Act"), entitled "Resolution of Airport-Air Carrier Disputes Concerning Airport Fees," and codified at 49 U.S.C. §47129, continues the basic federal requirement that airport fees be "reasonable" and provides a mechanism by which the Secretary of Transportation can review rates and charges complaints brought on by air carriers. Pursuant to Section 113, in February 1995, the USDOT issued its Final Ruling outlining the procedures to be followed in determining the reasonableness of airport rates and charges; the USDOT also issued its Policy in June 1996 relating the "fees charged by federally-assisted airports to air carriers and other aeronautical users."

Section 47129 specifically states that the section does not apply to (1) a fee imposed pursuant to a written agreement with air carriers using airport facilities, (2) a fee imposed pursuant to a financing agreement or covenant entered into prior to the date of enactment of the section, or (3) any other existing fee not in dispute as of August 23, 1994. The section goes on to provide that nothing in the section shall adversely affect (1) the rights of any party under any existing written agreement between an air carrier and the owner of an airport, or (2) the ability of an airport to meet its obligations under a financing agreement or covenant that is in force as of August 23, 1994.

Both the Final Ruling and the Final Policy acknowledge that Section 47129 excludes from the rates and charges review process of Section 47129 those rates and charges established pursuant to written agreements, pursuant to a pre-enactment bond covenant, or in existence and undisputed as of August 23, 1994. The Final Policy states specifically that a dispute over such rates and charges will not be processed under the procedures mandated by Section 47129.

The USDOT Policy was the subject of a lawsuit in the United States Court of Appeals for the D.C. Circuit brought by the Air Transport Association. On October 15, 1997, the Court ordered the Secretary to reconsider certain enumerated sections of the Policy relating to calculation of the airfield, permissible components of the airfield rate base, use of any "reasonable methodology" for valuation of non-airfield assets, and recovery of imputed interest on the airfield rate base. The decision did not, however, modify the exclusions contained in the 1994 Act. Although USDOT took comments regarding revision of the portions of the Final Policy rejected by the Court, USDOT withdrew the comment request in early 2003 pending its study of airport congestion issues. USDOT has yet to take further action on the matter.

If, as expected, the existing Operating Agreement is replaced at the end of the current Operating Agreement term, June 30, 2007, by a new written agreement, any uncertainty regarding USDOT's Policy is likely to have little relevance to the System due to the 1994 Act's inapplicability to fees imposed by written agreement. The State believes the Operating Agreement falls within the provisions mentioned above that preclude air carriers from contesting such rates under Section 47129. So long as the Signatory Airlines operate under the Operating Agreement, as they may be extended or amended, or replaced by other written agreements, the State believes the Signatory Airlines will not be able to invoke successfully the rates and fees dispute provisions of Section 47129 to challenge rates properly set as provided under the Operating Agreement. It is conceivable, however, that the Secretary would entertain a complaint by a non-signatory aeronautical user, and that the Secretary's review might result in a reduction of fees paid by non-signatory carriers.

Financial Assumptions

The State's Plan of Finance for the System is based on a number of assumptions, including assumptions relating to (i) the projected levels of aviation activity at the Airports, (ii) availability of federal funding, (iii) the estimated costs of construction of the projects funded with proceeds of the Bonds and the ability of the State to complete construction of the projects funded with proceeds of the Bonds on schedule, and (iv) projections of operation and maintenance expenses, airline revenues and non-airline revenues for the Airports. Although the State believes each of these assumptions to be based on reasonable and prudent judgments, one or more of these assumptions may prove incorrect. Any significant variation of any of the assumptions described above could have a material adverse effect on use of Bond proceeds for the System and the financial condition of the Airports. Please refer to the Report of Feasibility Consultant included as APPENDIX A to this Official Statement for a detailed discussion of the assumptions and projections utilized to develop the use of Bond proceeds.

Forward Looking Statements

This Official Statement, and particularly the information contained under the captions "INTRODUCTION," "DESCRIPTION OF FIXED RATE BONDS," "DESCRIPTION OF THE VARIABLE RATE BONDS," "USE OF 2006 BOND PROCEEDS," "INVESTMENT CONSIDERATIONS," and "APPENDIX A -- Report of the Feasibility Consultant," contains statements relating to future results that are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "intend," "expect," "projected," and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Among the factors that may cause projected revenues and expenditures to be materially different from those anticipated include an inability to incur debt at assumed interest rates, construction delays, increases in construction costs, general economic downturns, factors affecting the airline industry in general or specific airlines, federal legislation and/or regulations, and regulatory and other restrictions, including but not limited to those that may affect the ability to undertake, the timing or the costs of certain projects. Any forecast is subject to such uncertainties. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

INFORMATION ABOUT CERTAIN AIRLINES SERVING THE AIRPORTS

The information provided below regarding the financial condition of certain airlines serving the Airports has been obtained from publicly available information available as of the date hereof, including information publicly filed by such airlines or their parent corporations with the Securities and Exchange Commission. The information below, however, is not a complete summary of such publicly filed information. Information publicly filed by the airlines or their parent corporations may be examined and copies may be obtained at the places and in the manner set forth in the section captioned "Airline Information" below. Neither the System nor the Underwriters undertake any responsibility for and make no representations as to the accuracy or completeness of the content of such information or undertake any obligation to update such information, whether as a result of new information, future events or otherwise.

General

The System derives a substantial portion of its operating revenues from landing and facility rental fees paid by airlines using the System. The financial strength and stability of these airlines, together with the underlying strength of the System's passenger and cargo markets and numerous other factors, influence the level of aviation activity within the System and revenues, including PFCs, realized by the System. Since September 11, 2001, substantially all airlines' credit ratings have been downgraded by the rating agencies, several have declared Chapter 11 bankruptcy, including United Airlines, Delta Air Lines, Northwest Airlines, and Era Aviation, and many airlines have implemented service reductions and layoffs of employees in response to a reduction in passenger demand.

Airline Bankruptcies

United Airlines

On December 9, 2002, UAL Corporation, the parent company of United Airlines, and United Airlines (as well as certain other subsidiaries of UAL Corporation) filed Chapter 11 petitions for federal bankruptcy protection, but United Airlines ("United") continues to operate at ANC during reorganization. The bankruptcy court confirmed United's plan of reorganization on January 20, 2006, and on February 1, 2006, reorganized United emerged from bankruptcy. United's confirmed plan of reorganization assumes United's AIAS Operating Agreement and Passenger Terminal Lease, the terms of curing a small outstanding obligation having been stipulated in advance between United and ANC. However, in part because United's plan of reorganization allows a 30-day period within which United may revise its schedule of leases and contracts assumed or rejected, there is still no complete assurance of United's assumption of its Operating Agreement and Passenger Terminal Lease or that it will maintain its current level of operations at the Airports. United accounted for approximately 4.5% of the total enplanements at the Airports for FY 2005.

Delta Air Lines

On September 14, 2005, Delta Air Lines ("Delta") filed a Chapter 11 petition for federal bankruptcy protection, but Delta continues to operate at ANC during reorganization. Delta accounted for approximately 5.0% of the total enplanements at the Airports for FY 2005. Although Delta has not indicated to the AIAS that Delta intends to alter its operations at ANC or FAI, there can be no assurance that Delta will maintain its current level of operations at the Airports.

Northwest Airlines

On September 14, 2005, Northwest Airlines ("Northwest") filed a Chapter 11 petition for federal bankruptcy protection, but Northwest continues to operate at the Airports during reorganization. Northwest accounted for approximately 7.9% of the total enplanements at the Airports for FY 2005. Among cargo carriers, Northwest accounted for approximately 4.8% of all-cargo aircraft landings at the Airports in FY 2005. Although Northwest has not indicated to the AIAS that Northwest intends to alter its operations at ANC or FAI, there can be no assurance that Northwest will maintain its current level of operations at the Airports.

Era Aviation

In December 2005, Era Aviation, Inc., filed a Chapter 11 petition for federal bankruptcy protection. The airline represents 7.5% of the ANC commercial airline market and primarily serves Southcentral and Western Alaska, with seasonal service to Canada. Although Era has indicated to ANC that it does not intend to alter its operations at ANC, and that it will formally assume its Operating Agreement and Passenger Terminal Lease, there can be no assurance that Era will maintain its current level of operations at the Airports. Era Aviation accounted for approximately 6.4% of enplaned passenger traffic at the Airports in FY 2005.

Other airlines that serve ANC and that have recently reorganized through Chapter 11 bankruptcy, or the Canadian equivalent, include passenger carriers Air Canada, Hawaiian Airlines, and US Airways and cargo carriers Atlas Air, Polar Air, and Southern Air. Of the foregoing, only Polar Air was an AIAS Signatory Airline before its Chapter 11 reorganization. Although Polar Air did not assume its Operating Agreement, Polar Air continued its operations at ANC and is in the process of again becoming a Signatory Airline.

The System is not able to predict with certainty how long any airline in bankruptcy protection will continue operating at the Airports or whether any of these airlines will liquidate or substantially restructure their operations. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. Further, the System cannot predict nor can it give any assurance that the airlines serving the Airports System will continue to make timely payment of their obligations under the Operating Agreement. Further, the System cannot predict the likelihood of future incidents similar to the events of September 11, 2001, the likelihood of future air transportation disruptions or the impact on the Airports System or the airlines from such incidents or disruptions.

Market Share by airport is presented in the Report of the Feasibility Consultant - Tables II-13 and II-14.

Airline Information

Airlines at the Airports are subject to the periodic reporting requirements of the Exchange Act and, in accordance therewith, file reports and other information with the Securities and Exchange Commission. Certain information, including financial information, as of particular dates concerning such airlines or their respective parent corporations is disclosed in certain reports and statements filed with the Commission. Such reports and statements can be inspected in the Public Reference Room of the Commission at 450 Fifth St., N.W., Washington, D.C. 20549, and at the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661; and copies of such reports and statements can be obtained from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Additional information with respect to the filings of the airlines may be retrieved at the SEC.gov site using EDGAR. In addition, each airline is required to file periodic reports of financial and operating statistics with the USDOT. Such reports can be inspected at the following location: Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs Administration, Department of Transportation, 400 7th Street, S.W., Washington, D.C. 20590.

The System or the Underwriters undertake no 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 USDOT as discussed in the preceding paragraph, including, but not limited to, updates of such information or links to other internet sites accessed through the Commission's website.

REPORT OF THE FEASIBILITY CONSULTANT

AXIS Consulting has included in its Report which is attached hereto as APPENDIX A, forecast economic and demographic statistics, as well as aviation activity statistics.

The Report should be read in its entirety for a complete understanding of the assumptions and projections contained therein. The prospective financial information presented herein and in APPENDIX A was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants, but, in the view of the System's management, was prepared on a reasonable basis, reflecting the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the System.

The Report incorporates numerous assumptions as to the utilization of the Airports and other matters and cautions that any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. See "APPENDIX A -- Report of the Feasibility Consultant."

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TABLE 15
ALASKA INTERNATIONAL AIRPORTS SYSTEM
FORECASTED DEBT SERVICE COVERAGE
(as of February 6, 2006)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Operating Revenues										
AIAS Landing Fees	\$40,179,950	\$33,272,706	\$47,644,212	\$56,327,389	\$56,069,403	\$55,619,039	\$55,238,722	\$54,814,989	\$54,317,903	\$53,751,860
Signatory Airline Terminal Rentals	10,255,630	10,726,656	12,055,274	13,613,604	13,206,655	13,299,638	13,422,567	13,548,255	13,673,183	13,797,652
Common Use Premises Charge - ANC	1,584,476	1,657,052	1,862,072	2,102,447	2,039,360	2,053,583	2,072,356	2,091,616	2,110,687	2,129,754
Common Use Premises Charge - FAI	1,018,390	1,065,163	1,197,096	1,351,839	1,311,429	1,320,662	1,332,869	1,345,350	1,357,755	1,370,115
FIS Per use Service Fee	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470
Preferential Use Aircraft Parking Rates	934,934	953,633	972,705	1,026,770	1,059,591	1,080,783	1,102,399	1,124,447	1,146,936	1,169,875
Airport Administered Use Charge - ANC	819,870	799,594	904,863	1,033,601	1,031,591	1,060,332	1,093,027	1,126,862	1,161,616	1,197,336
Airport Administered Use Charge - FAI	98,558	102,829	114,520	128,567	125,394	126,422	127,713	129,032	130,350	131,669
Aircraft Parking Charges	1,896,705	1,934,639	1,973,332	2,083,013	2,149,598	2,192,590	2,236,442	2,281,171	2,326,794	2,373,330
Fuel Flowage Fee - AIA	23,276,381	26,121,670	27,114,294	28,144,637	29,214,133	30,324,270	31,476,593	32,672,703	33,914,266	35,203,008
Fuel Flowage Fee - FAI	1,046,948	1,050,994	1,090,932	1,132,388	1,175,418	1,220,084	1,266,447	1,314,572	1,364,526	1,416,378
Ground Lease ANC/FAI	1,068,459	1,089,829	1,111,625	1,133,858	1,156,535	1,179,665	1,203,259	1,227,324	1,251,870	1,276,908
Non-Airline Revenues (1)	19,721,879	20,179,701	20,643,209	21,117,713	21,603,419	22,071,867	22,551,698	23,048,917	23,558,015	24,079,224
Excess Revenues	7,770,569	8,089,978	8,034,210	10,350,869	8,667,614	8,656,994	8,812,998	8,972,121	9,134,428	9,299,980
Total Operating Revenues	\$110,484,219	\$ 110,855,913	\$125,529,814	\$140,358,163	\$139,620,611	\$141,017,398	\$142,748,559	\$144,508,830	\$146,259,799	\$148,008,559
Expenses										
M&O Expenses										
Administration	\$ 8,478,200	\$ 8,647,764	\$ 8,820,719	\$ 9,362,141	\$ 9,635,930	\$ 9,828,649	\$ 10,025,222	\$ 10,225,726	\$ 10,430,241	\$ 10,638,846
Field and Equipment Maintenance	14,360,700	14,647,914	14,940,872	15,824,124	16,321,708	16,648,142	16,981,105	17,320,727	17,667,141	18,020,484
Facilities/Building Maintenance	21,474,500	21,903,990	22,342,070	23,773,728	24,406,924	24,895,062	25,392,964	25,900,823	26,418,839	26,947,216
Safety	10,028,600	10,229,172	10,433,755	11,022,821	11,398,043	11,626,004	11,858,524	12,095,695	12,337,608	12,584,361
Operations	6,758,100	6,893,262	7,031,127	7,444,836	7,680,944	7,834,563	7,991,254	8,151,079	8,314,101	8,480,383
Environmental	0	0	0	0	0	0	0	0	0	0
Other	3,544,128	3,578,898	3,650,475	3,723,485	3,797,955	3,873,914	3,951,392	4,030,420	4,111,028	4,193,249
Total M&O Expenses	\$ 64,644,228	\$ 65,901,000	\$ 67,219,020	\$ 71,151,134	\$ 73,241,504	\$ 74,706,334	\$ 76,200,460	\$ 77,724,470	\$ 79,278,959	\$ 80,864,538
Net Revenues Available to Pay Debt Service	\$ 45,839,991	\$ 44,954,914	\$ 58,310,794	\$ 69,207,029	\$ 66,379,107	\$ 66,311,065	\$ 66,548,099	\$ 66,784,361	\$ 66,980,840	\$ 67,144,021

Debt Service										
Series 1999A	\$ 11,853,773	\$ 11,752,944	\$ 11,752,583	\$ 11,725,106	\$ 11,722,811	\$ 11,708,532	\$ 11,701,487	\$ 11,693,966	\$ 11,685,869	\$ 11,675,832
Series 1999B	1,190,896	757,553	756,953	760,453	757,696	758,445	757,620	755,100	755,723	754,673
Series 1999C	2,033,139	2,016,264	2,015,274	2,011,577	2,010,164	2,006,016	2,008,141	2,006,149	2,000,610	1,991,960
Series 2002 A and B	10,521,938	5,269,603	5,643,724	5,260,693	5,253,438	5,235,775	5,226,588	5,220,840	5,207,736	5,198,174
Series 2003 A and B	6,760,166	6,936,791	7,585,108	7,582,670	7,585,408	7,554,484	7,563,493	7,584,030	7,589,908	7,591,035
Series 2006 ⁽²⁾	0	5,403,686	13,649,838	22,250,598	22,241,660	22,220,729	22,218,423	22,212,069	22,206,560	22,192,954
Total Debt Service	\$ 32,359,910	\$ 32,136,840	\$ 41,403,477	\$ 49,591,096	\$ 49,571,176	\$ 49,483,980	\$ 49,475,750	\$ 49,472,154	\$ 49,446,405	\$ 49,404,627
Net Revenues	\$ 13,480,081	\$ 12,818,074	\$ 16,907,317	\$ 19,615,933	\$ 16,807,931	\$ 16,827,084	\$ 17,072,349	\$ 17,312,207	\$ 17,534,434	\$ 17,739,394
Debt Service Coverage Ratio	1.42	1.40	1.41	1.40	1.34	1.34	1.35	1.35	1.35	1.36

(1) Excludes airline-only ground leases.

(2) Debt Service Requirement in FY 06 and FY 07 are assumed to be funded in whole or in part with capitalized interest and other AIAS funds.

Source: AIAS and AXIS Consulting Inc.

Airline Payments per Enplanement

The Report of the Feasibility Consultant projects airline landing fees, terminal rentals and other use charges, expressed on a cost per enplanement ("CPE") basis for the period from FY 2006 to FY 2015. As further discussed in the "Airline Payments per Enplanement" section of the Report, CPE at the AIAS benefits from the large contribution of cargo activity toward overall revenue requirements, including a share of passenger terminal requirements. Although cargo activity is expected to remain an AIAS mainstay, negotiations for extension of the Operating Agreement offer some indication that a gradual transition to reduce cargo activity's contribution toward covering terminal costs may be ahead. If and to the extent such transition occurs, CPE would show a corresponding increase. The table on the following page which has been extracted from the Report shows projected CPE from FY 2006 to FY 2015.

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TABLE 16
FORECASTED AIR CARRIER COSTS PER ENPLANEMENT FOR THE SYSTEM
FY 2006 TO FY 2015
(as of February 6, 2006)

	Forecast									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Airline Cost Per Enplanement Calculation										
Signatory Airline Terminal Rentals	\$10,255,630	\$10,726,656	\$12,055,274	\$13,613,604	\$13,206,655	\$13,299,638	\$13,422,567	\$13,548,255	\$13,673,183	\$13,797,652
Common Use Premises Charges - ANC	1,584,476	1,657,052	1,862,072	2,102,447	2,039,360	2,053,583	2,072,356	2,091,616	2,110,687	2,129,754
Common Use Premises Charges - FAI	1,018,390	1,065,163	1,197,096	1,351,839	1,311,429	1,320,662	1,332,869	1,345,350	1,357,755	1,370,115
FIS Fees	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470
Aircraft Ramp Rental Rates	934,934	953,633	972,705	1,026,770	1,059,591	1,080,783	1,102,399	1,124,447	1,146,936	1,169,875
Airport Administered Premises Charges - ANC	819,870	799,594	904,863	1,033,601	1,030,591	1,060,332	1,093,027	1,126,862	1,161,616	1,197,336
Airport Administered Premises Charges - FAI	98,558	102,829	114,520	128,567	125,394	126,422	127,713	129,032	130,350	131,669
Aircraft Parking Charges	1,896,705	1,934,639	1,973,332	2,083,013	2,149,598	2,192,590	2,236,442	2,281,171	2,326,794	2,373,330
Ground Leases (Airline only)	1,068,459	1,089,829	1,111,625	1,133,858	1,156,535	1,179,665	1,203,259	1,227,324	1,251,870	1,276,908
Fuel Flowage Fees - ANC	23,276,381	26,121,670	27,114,294	28,144,637	29,214,133	30,324,270	31,476,593	32,672,703	33,914,266	35,203,008
Fuel Flowage Fees - FAI	1,046,948	1,050,994	1,090,932	1,132,388	1,175,418	1,220,084	1,266,447	1,314,572	1,364,526	1,416,378
Signatory Airline Landing Fees	33,657,799	30,193,988	39,576,228	46,698,867	46,687,182	46,258,531	45,848,814	45,412,419	44,929,855	44,406,039
Total Air Carrier / Cargo Revenues	\$76,469,620	\$76,507,516	\$88,784,410	\$99,261,059	\$99,967,358	\$100,928,030	\$101,993,956	\$103,085,221	\$104,179,309	\$105,283,533
Less:										
All - Cargo Revenues (1)	(51,098,332)	(50,700,833)	(59,332,186)	(66,247,953)	(67,243,936)	(67,937,038)	(\$68,685,433)	(\$69,451,848)	(\$70,221,706)	(\$71,000,536)
Total Passenger Airline Revenue	\$25,371,288	\$25,806,684	\$29,462,224	\$33,013,106	\$32,723,422	\$32,990,992	\$33,308,523	\$33,633,373	\$33,957,604	\$34,282,997
Total Enplanements	2,942,000	3,000,000	3,060,000	3,121,000	3,183,000	3,241,000	3,300,000	3,361,000	3,423,000	3,486,000
Airline Cost Per Enplaned Passenger	\$8.62	\$8.60	\$9.63	\$10.58	\$10.28	\$10.18	\$10.09	\$10.01	\$9.92	\$9.83

(1) All-Cargo Revenues include the allocated portion of Aircraft Ramp Rental Rates, Aircraft Parking Charges, Ground Leases, Fuel Flowage Fees, and Signatory Airlines Landing Fees.

Source: AIAS and AXIS Consulting

Based on the information provided in the Report of the Feasibility Consultant and upon the Feasibility Consultant's experience in providing consulting services to a variety of airports, the Feasibility Consultant believes the projected airline payments are reasonable.

The Report of the Feasibility Consultant has been included herein in reliance upon the knowledge and experience of the Feasibility Consultant. As noted in the Report of the Feasibility Consultant, any projection is subject to uncertainties. Some assumptions used to develop the projections may not be realized, and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the projection period may vary, and the variations may be material.

FINANCIAL STATEMENTS OF THE SYSTEM

The financial statements for the years ended June 30, 2005 and 2004, set forth in APPENDIX B hereto, have been audited by Mikunda, Cottrell & Co., independent auditors, as stated in their report thereon appearing in APPENDIX B.* Neither the System's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information presented herein or contained in the Report of the Feasibility Consultant appearing in APPENDIX A, nor have they expressed any opinion or given any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

LITIGATION

As of the date of this Official Statement there is no controversy or litigation of any nature, to the knowledge of the State in its capacity as issuer of the Bonds, pending or threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or in any way contesting or affecting the authority of the State or the validity of the Bonds or any actions or proceedings of the State taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds or any other bonds issued under the General Bond Resolution, the Fourth Supplemental Bond Resolution, or the use of the Bond proceeds.

In the normal course of its activities, the System is or may become involved in the defense of various claims, administrative proceedings and litigation arising out of the ownership and operation of the System. Some of these claims may be covered by the State's self-insurance pool or by commercially purchased insurance, both as described above under the caption "THE STATE - Insurance." Other matters, such as project-related condemnation or construction claims, may be fully funded with project funds. System management is not aware, as of the date of this statement, of any pending or threatened litigation, claims, assessments or governmental investigations, including environmental clean-up actions against the System, that, individually or in the aggregate in the opinion of System management pose a reasonably probable risk of a material adverse effect on the financial position of the System.

RATINGS

Series 2006A Bonds, Series 2006B Bonds, and Series 2006D Bonds

Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), and Standard & Poor's, a Division of The McGraw-Hill Companies ("Standard and Poor's"), are expected to assign the Series 2006A Bonds, the Series 2006B Bonds, and the Series 2006D Bonds their municipal bond ratings of "AAA," "Aaa," and "AAA," respectively, based on the issuance of the standard policy of the Insurer insuring the timely payment of principal and interest on the Series 2006A Bonds, the Series 2006B Bonds, and the Series 2006D Bonds upon their delivery.

Series 2006C Bonds

It is anticipated that Fitch, Moody's and Standard and Poor's will assign the Series 2006C Bonds their municipal bond ratings of "AAA/F1+," "Aaa/VMIG 1," and "AAA/A-1+," respectively. These ratings are contingent upon the issuance of a Series 2006C standby bond purchase agreement and the issuance of the standard policy of the Insurer insuring the timely payment of principal and interest on the Series 2006C Bonds upon their delivery.

* Subsequent to the issuance of the System's June 30, 2005 financial statements, two errors were noted in the financial statement footnotes:

- Note 8 incorrectly reported the System's 2003 Series A and Series B Revenue Bonds as 2004 Series A and Series B.
- Note 11 (b) incorrectly reported the System's contribution rates and other actuarial information related to the retirement plan.

These errors were limited to disclosure items only. Both footnotes have been corrected in the reissued financial statements set forth in Appendix B, with no change to the originally issued Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Fund Net Assets, and Statements of Cash Flows.

Underlying Ratings

Fitch, Moody's and Standard and Poor's have assigned underlying ratings of "AA-," "Aa3," and "A+," respectively, based on their research and investigation of the State, the Department and the System. Each rating agency has also assigned a "stable outlook" to the System. Such ratings and outlook reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch, One State Street Plaza, New York, New York 10004, (212) 908-0500; Moody's, 99 Church Street, New York, New York 10007, (212) 553-0300; Standard & Poor's, 55 Water Street, New York, New York 10041, (212) 438-2124.

There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such change in or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The Underwriters have no responsibility to bring to the attention of the Beneficial Owners of the Bonds any proposed change in or withdrawal of any rating or to oppose any such revision or withdrawal.

BOND INSURER

The MBIA Insurance Corporation Insurance Policy

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

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the headings "DESCRIPTION OF THE FIXED RATE BONDS - The Bond Insurance Policy" and "DESCRIPTION OF THE VARIABLE RATE BONDS - The Bond Insurance Policy." Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

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

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

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

MBIA Insurance Corporation

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

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

Regulation

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

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

Financial Strength Ratings of MBIA

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

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

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

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

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

MBIA Financial Information

As of December 31, 2004, MBIA had admitted assets of \$10.3 billion (unaudited and restated), total liabilities of \$7.0 billion (unaudited and restated), and total capital and surplus of \$3.2 billion (unaudited and restated) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2005 MBIA had admitted assets of \$10.8 billion (unaudited), total liabilities of \$7.1 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K/A of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2005 and for the nine month periods ended September 30, 2005 and September 30, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

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

Incorporation of Certain Documents by Reference

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

- (1) The Company's Annual Report on Form 10-K/A for the year ended December 31, 2004; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

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

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K/A for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 (included as restated in third quarter 10-Q) and September 30, 2005) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

SUMMARY OF THE LIQUIDITY FACILITY

The initial liquidity facility will be in the form of the Series 2006C Standby Bond Purchase Agreement among the Registrar, the State and the Liquidity Provider. Certain provisions of the Series 2006C Standby Bond Purchase Agreement are summarized below, and such summary is qualified in its entirety by reference to the Series 2006C Standby Bond Purchase Agreement.

General

The State has requested that in order to provide liquidity support for the Variable Rate Bonds, the Liquidity Provider establish, for the benefit of the Owners from time to time of the Variable Rate Bonds, the liquidity facility pursuant to the Series 2006C Standby Bond Purchase Agreement.

The following definitions apply to the summary of the Series 2006C Standby Bond Purchase Agreement under this caption:

"Available Commitment" as of any day, means the sum of the Available Principal Commitment and the Available Interest Commitment, in each case as of such day.

"Available Interest Commitment" initially means \$479,453 (an amount equal to 35 days' interest on the Variable Rate Bonds, computed as if the Variable Rate Bonds bore interest at the rate of 10% per annum) on the basis of a 365- or 366 day year for the number of days actually elapsed based on the calendar year. The Available Interest Commitment may be adjusted from time to time as follows: (a) downward by an amount that bears the same proportion to such amount as the amount of a reduction in the Available Principal Commitment pursuant to the definition of "Available Principal Commitment" bears to the Available Principal Commitment prior to such reduction; and (b) upward by an amount that bears the same proportion to such amount as the amount of any increase in the Available Principal Commitment pursuant to clause (c) of the definition of "Available Principal Commitment" bears to the Available Principal Commitment prior to such increase; provided that after giving effect to such adjustment the available interest commitment shall never exceed \$479,453. Any adjustments pursuant to clauses (a) and (b) above shall occur simultaneously with the event requiring such adjustment.

"Available Principal Commitment" initially means \$50,000,000 and thereafter shall mean such initial amount adjusted from time to time as follows: (a) upon any reduction in the Available Principal Commitment pursuant to the Series 2006C Standby Bond Purchase Agreement, downward by the amount of such reduction; (b) downward by the principal amount of any Bonds purchased by the Liquidity Provider pursuant to the Series 2006C Standby Bond Purchase Agreement; and (c) upward by the principal amount of any Variable Rate Bonds previously purchased by the Liquidity Provider pursuant to the Series 2006C Standby Bond Purchase Agreement, which a Liquidity Provider Bondholder elects to retain pursuant to the Series 2006C

Standby Bond Purchase Agreement or that are sold or deemed sold by a Liquidity Provider Bondholder pursuant to the Series 2006C Standby Bond Purchase Agreement (regardless of the Purchase Price received for such Variable Rate Bonds). Any adjustment to the Available Principal Commitment pursuant to clauses (a), (b) or (c) above shall occur simultaneously with the occurrence of the events described in such clauses.

"Default" means the occurrence of any event or the existence of any condition which constitutes an Event of Default or the occurrence of any event or the existence of any condition which with the giving of notice, the passage of time, or both, would constitute an Event of Default.

"Eligible Bonds" means any Variable Rate Bonds Outstanding under and entitled to the benefits of the Bond Resolution which bear interest at a Daily Rate or Weekly Rate and that are tendered or deemed tendered for purchase pursuant to the Bond Resolution other than any such Variable Rate Bond which (a) is a Bank Bond or (b) is owned by or on behalf of or is held for the account or for the benefit of the State.

"Expiration Date" means March 14, 2010, as such date may be extended from time to time by the Liquidity Provider by delivery of a specified written notice of extension to the Registrar and the State; provided that if any such date is not a Business Day, the Expiration Date shall be the next preceding Business Day.

"Immediate Suspension Event" shall mean an Event of Default causing the immediate suspension of the Bank's obligation to purchase Bonds under the Series 2006C Standby Bond Purchase Agreement as specified in paragraph (c) or (d) below.

"Insurer Event of Insolvency" means the occurrence and continuance of one or more of the following events: (a) the issuance, under Article 74 of the Insurance Law of New York or any successor provision thereof (or any other law to which the Insurer is at the time subject), of an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution of the Insurer that is not dismissed within ninety (90) days; (b) the commencement by the Insurer of a voluntary case or other proceeding seeking an order for relief, liquidation, supervision, rehabilitation, conservation, reorganization or dissolution with respect to itself or its debts under the laws of the state of incorporation or formation of the Insurer or any bankruptcy, insolvency or other similar law now or hereafter in effect including, without limitation, the appointment of a trustee, receiver, liquidator, conservator, custodian or other similar official for itself or any substantial part of its property; (c) the consent of the Insurer to any relief referred to in the preceding clause (b) in an involuntary case or other proceeding commenced against it; (d) the making by the Insurer of an assignment for the benefit of creditors; (e) the failure of the Insurer generally to pay its debts or claims as they become due; provided that any failure by the Insurer to make payment on any financial guaranty insurance policy (i) that is being contested in good faith or (ii) with respect to which thirty (30) days have not elapsed, shall not constitute a failure by the Insurer generally to pay its debts or claims as they become due; (f) the Insurer shall admit in writing its inability to pay its debts when due; or (g) the initiation by the Insurer of any actions to authorize any of the foregoing.

"Permitted Minimum Insurer Rating" means a claims paying ability rating of the Insurer of Aa3 (or its equivalent) or higher by Moody's, or AA- (or its equivalent) or higher by S&P.

"Purchase Period" means the period from the effective date of the Series 2006C Standby Bond Purchase Agreement to and including the earlier of the close of business on (a) the Expiration Date, (b) the date on which no Eligible Bonds are Outstanding, (c) the date on which the Available Commitment and the Liquidity Provider's obligation to purchase Eligible Bonds has been terminated in its entirety pursuant to the Series 2006C Standby Bond Purchase Agreement upon any redemption, repayment, defeasance or other payment or deemed payment of all or any portion of the principal amount of the Variable Rate Bonds or the conversion of the interest rate borne by any Variable Rate Bonds to an interest rate other than a Daily Rate or Weekly Rate or on the date on which an Alternate Liquidity Facility has become effective or as described under the subcaption "Events of Default and Remedies."

"Related Documents" means the Series 2006C Standby Bond Purchase Agreement, the Variable Rate Bonds, the Bond Resolution, the remarketing agreement with respect to the Variable Rate Bonds, the Bond Insurance Policy, the arbitrage and tax certification with respect to the Variable Rate Bonds, this Official Statement, the bond purchase agreement with respect to the Variable Rate Bonds and any exhibits, instruments or agreements relating thereto, as the same may be amended from time to time in accordance with their respective terms and the terms of the Series 2006C Standby Bond Purchase Agreement.

"State Event of Insolvency" means, with respect to the State, the occurrence of one or more of the following events: (a) the making of an assignment for the benefit of creditors by the State; (b) the failure of the State to generally pay its debts as they become due; (c) the declaration of a moratorium with respect to the payment of the debts of the State; (d) the State shall admit in writing its inability to pay its debts when due; or (e) the initiation of any actions to authorize any of the foregoing by or on behalf of the State.

Subject to the terms and conditions of the Series 2006C Standby Bond Purchase Agreement and provided that no Immediate Termination Event or Immediate Suspension Event shall have occurred and be continuing, the Liquidity Provider

will agree from time to time during the Purchase Period to purchase Eligible Bonds for which there are not sufficient remarketing proceeds available for such purchase, at the Purchase Price on a Purchase Date. The portion of the Purchase Price paid for any Eligible Bonds constituting principal purchased on any Purchase Date shall not exceed the lesser of (a) the principal amount of such Eligible Bonds and (b) the Available Principal Commitment on such Purchase Date. The portion of the Purchase Price paid for any Eligible Bonds constituting accrued interest on such Eligible Bonds purchased on any Purchase Date shall not exceed the lesser (i) of the accrued and unpaid interest on such Eligible Bonds (excluding defaulted interest and, if the Purchase Date is an Interest Payment Date, excluding all accrued interest) and (ii) the Available Interest Commitment on such Purchase Date. Amounts drawn under the Series 2006C Standby Bond Purchase Agreement may only be used to pay the Purchase Price of Eligible Bonds and may not be used to pay the principal of and interest on the Variable Rate Bonds or for any other purpose.

Events of Default and Remedies

The occurrence of any of the events set forth under the subcaptions "Events of Default Permitting Immediate Suspension or Termination," "Events of Default Permitting Termination with Notice" and "Events of Default Not Permitting Immediate Termination" below shall constitute an event of default (each, an "Event of Default"). Upon the occurrence of an Event of Default, the Liquidity Provider may exercise those rights and remedies described under the subcaption "Remedies" below.

Events of Default Permitting Immediate Suspension or Termination

(a) *Non-Payment of Insured Amounts.* Any principal or interest due on the Variable Rate Bonds is not paid when due and such principal or interest is not paid by the Insurer when, as, and in the amounts required to be paid pursuant to the terms of the Bond Insurance Policy; or

(b) *Invalidity or Contest of Validity of Bond Insurance Policy.* Either (i) the Insurer shall in writing to the Registrar claim that the Bond Insurance Policy with respect to the payment of principal of or interest on the Variable Rate Bonds is not valid and binding on the Insurer, or repudiate the obligations of the Insurer under the Bond Insurance Policy with respect to payment of principal of or interest on the Variable Rate Bonds, or the Insurer shall initiate any legal proceedings to seek an adjudication that the Bond Insurance Policy, with respect to the payment of principal or interest on the Variable Rate Bonds, or the special redemption of the Bank Bonds pursuant to the Series 2006C Standby Bond Purchase Agreement, is not valid and binding on the Insurer, or (ii) any court with jurisdiction to rule on the validity of the Bond Insurance Policy shall find or rule that the Bond Insurance Policy is not valid and binding on the Insurer or any governmental authority with jurisdiction to rule on the validity of the Bond Insurance Policy shall make a final, nonappealable announcement, finding or ruling that the Bond Insurance Policy is not valid and binding on the Insurer; or

(c) *Insurer Event of Insolvency; Insurer Downgrade Below Investment Grade.* Either (i) the occurrence of a Insurer Event of Insolvency, or (ii) each of Moody's, S&P, and Fitch withdraws or suspends the claims paying ability rating of the Insurer (but excluding any withdrawal or suspension of any such ratings where the rating agency expressly stipulates that the rating action is being taken for non-credit-related reasons) or reduce such rating, in the case of S&P, below BBB-, in the case of Moody's, below Baa3, and in the case of Fitch, below BBB-; or

(d) *Insurer Default on other Policies.* Any default by the Insurer in making payment when, as and in the amounts required to be made pursuant to the express terms and provisions of any other bond insurance policy issued by the Insurer insuring publicly-rated bonds and such failure shall continue for thirty (30) days unless the obligation of the Insurer to pay is being contested by the Insurer in good faith by appropriate proceedings; or

(e) *Substitution of Insurer or Termination of Bond Insurance Policy.* The Insurer is substituted as insurer of the Variable Rate Bonds, or the Bond Insurance Policy is surrendered, cancelled or terminated, or amended or modified in any material respect, in either case without the Liquidity Provider's prior written consent.

Events of Default Not Permitting Immediate Termination.

(1) *Payments.* The State shall fail to pay when due (i) any installment of the facility fee when due under the Series 2006C Standby Bond Purchase Agreement and such failure is not cured within 10 days after the Insurer and the State have been given written notice of such failure; or (ii) any other amounts owed by the State to the Liquidity Provider pursuant to the Series 2006C Standby Bond Purchase Agreement and such failure is not cured within 20 days after the State and the Insurer have been given written notice of such failure.

(2) *Representations.* Any representation or warranty made by or on behalf of the State in the Series 2006C Standby Bond Purchase Agreement or in any Related Document or in any certificate or statement delivered thereunder shall prove to have been incorrect or untrue in any material respect when made or deemed to have been made.

(3) *Covenants.* The State shall fail to perform any of certain affirmative covenants or any of the negative covenants contained in the Series 2006C Standby Bond Purchase Agreement.

(4) *Other Covenants.* The State shall fail to perform or observe any term, covenant or agreement (other than ones described in any other paragraph under this subcaption "Events of Default Not Permitting Immediate Termination") contained in the Series 2006C Standby Bond Purchase Agreement or the Related Documents on its part to be performed or observed which failure continues for 30 days or more after receipt of written notice of such failure from the Liquidity Provider.

(5) *Certain Unsatisfied Judgments.* A final and non-appealable judgment or court order for the payment of money payable out of Revenues in excess of \$15,000,000 shall be rendered against the State, and such judgment or court order shall continue unsatisfied without being vacated, discharged or satisfied and payment thereof is not submitted for appropriation in the next legislative session or such judgment is not paid by the State within 30 days of such appropriation.

(6) *Invalidity.* Either (i) any provision of the Series 2006C Standby Bond Purchase Agreement or any of the Related Documents shall cease to be valid and binding, or the State shall contest any such provision, or the State or any agent or trustee on behalf of any of them, shall deny that it has any further liability under any provision of the Series 2006C Standby Bond Purchase Agreement, the Variable Rate Bonds or any of the Related Documents, or (ii) any governmental authority with jurisdiction to rule on the validity of the Bond Insurance Policy shall announce, find or rule that the Bond Insurance Policy is not valid and binding on the Insurer.

(7) *Other Documents.* Any event of default under any of the Related Documents shall occur (other than an event of default by the Remarketing Agent under the Remarketing Agreement).

(8) *Downgrade.* The higher of the ratings assigned to the Variable Rate Bonds or any Parity Bonds or any underlying ratings with respect thereto by Moody's, S&P or Fitch, shall be withdrawn, suspended or fall below "A3" by Moody's, "A-" by S&P or "A-" by Fitch.

(9) *Insolvency.* An Event of Insolvency shall have occurred with respect to the State.

(10) *Permitted Minimum Insurer Rating.* The Insurer shall fail to maintain a Permitted Minimum Insurer Rating for a period of thirty (30) consecutive days.

Remedies

Upon the occurrence of an Event of Default under the Series 2006C Standby Bond Purchase Agreement, the Liquidity Provider may take one or more of the following actions:

(i) *Immediate Termination.* In the case of an Event of Default specified in paragraph (a), (b)(i), (c) (subject to any grace period provided in paragraph (iv) (A) below), (d) (subject to any grace period provided in paragraph (iv) (B) below) or (e) (each an "Immediate Termination Event"), the Available Commitment, the Purchase Period and the obligation of the Liquidity Provider to purchase Variable Rate Bonds shall immediately terminate without notice or demand, and thereafter the Liquidity Provider shall be under no obligation to purchase Variable Rate Bonds. Promptly upon the Liquidity Provider obtaining knowledge of an Immediate Termination Event, the Liquidity Provider shall give written notice of the same to the Registrar, the State, the Remarketing Agent and the Insurer; provided, that the Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no manner affect the immediate termination of the Available Commitment and of the Liquidity Provider's obligation to purchase Variable Rate Bonds pursuant to the Series 2006C Standby Bond Purchase Agreement.

(ii) *Termination with Notice.* In the case of an Event of Default specified in paragraph (1)(i) or (10) above, the Liquidity Provider may terminate the Available Commitment and Purchase Period by giving written notice to the Registrar, the State, the Remarketing Agent and the Insurer, specifying the date on which the Available Commitment and Purchase Period shall terminate, which date shall be not less than thirty (30) days from the date of receipt of such notice by the Registrar. On and after such date of termination, the Liquidity Provider shall be under no further obligation to purchase Variable Rate Bonds under the Series 2006C Standby Bond Purchase Agreement.

(iii) *Suspension relating to Bond Insurance Policy.* In the case of an Event of Default specified in paragraph (b)(ii) above, the Liquidity Provider's obligations to purchase Variable Rate Bonds shall be immediately suspended without notice or demand and thereafter the Liquidity Provider shall be under no obligation to purchase until the Available Commitment is reinstated as described in this paragraph (iii). Promptly upon the Liquidity Provider obtaining knowledge of any such Event of Default, the Liquidity Provider shall give written notice of the same to the State, the Registrar, the Remarketing Agent and the Insurer; provided, that the Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Liquidity Provider's obligations to purchase Variable Rate Bonds. If a court with jurisdiction to rule on the validity of the Bond Insurance Policy shall thereafter enter a

final, non appealable judgment that the Bond Insurance Policy is not valid and binding on the Insurer, then the Liquidity Provider's obligation to purchase Variable Rate Bonds shall immediately terminate. If a court with jurisdiction to rule on the validity of the Bond Insurance Policy shall find or rule that the Bond Insurance Policy is valid and binding on the Insurer, the Liquidity Provider's obligations to purchase Variable Rate Bonds under the Series 2006C Standby Bond Purchase Agreement shall be automatically reinstated and the terms of the Series 2006C Standby Bond Purchase Agreement will continue in full force and effect (unless the Liquidity Provider's obligation to purchase Variable Rate Bonds shall otherwise have terminated or been suspended by its terms or in accordance with the terms of the Series 2006C Standby Bond Purchase Agreement). Notwithstanding the foregoing, if, upon the earlier of the Expiration Date or the date which is two (2) years after the effective date of suspension of the Liquidity Provider's obligations pursuant to this paragraph (iii), litigation is still pending and a judgment regarding the validity of the Bond Insurance Policy as is the subject of such Event of Default has not been obtained, then the Available Commitment and the obligation of the Liquidity Provider to purchase Eligible Bonds under the Series 2006C Standby Bond Purchase Agreement shall at such time immediately terminate, and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds under the Series 2006C Standby Bond Purchase Agreement.

(iv) *Other Suspensions.* (A) During the pendency of a Default specified in paragraph (c) above (with respect to an order described in clause (a) of the definition of Insurer Event of Insolvency), the Liquidity Provider's obligation to purchase Variable Rate Bonds shall be immediately suspended without notice or demand and thereafter the Liquidity Provider shall be under no obligation to purchase Variable Rate Bonds until the Available Commitment is reinstated as described in this paragraph (iv) (A). Promptly upon the Liquidity Provider obtaining knowledge of any such Default, the Liquidity Provider shall give written notice of the same to the State, the Registrar, the Remarketing Agent and the Insurer; provided, however, that the Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Liquidity Provider's obligations under the Series 2006C Standby Bond Purchase Agreement. In the event such Default is cured prior to becoming an Event of Default, the Liquidity Provider's obligations shall be automatically reinstated and the terms of the Series 2006C Standby Bond Purchase Agreement will continue in full force and effect (unless the Liquidity Provider's obligation to purchase Variable Rate Bonds under the Series 2006C Standby Bond Purchase Agreement shall otherwise have terminated or been suspended by its terms or in accordance with the terms thereof). Notwithstanding the foregoing, if upon the Expiration Date such Default is still continuing, then the Available Commitment and the obligation of the Liquidity Provider to purchase Eligible Bonds under the Series 2006C Standby Bond Purchase Agreement shall at such time immediately terminate, and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds thereunder.

(B) During the pendency of a Default specified in paragraph (d) above (prior to the expiration of the thirty (30) day period specified therein), the Liquidity Provider's obligation to purchase Variable Rate Bonds shall be immediately suspended without notice or demand and thereafter the Liquidity Provider shall be under no obligation to purchase Variable Rate Bonds until the Available Commitment is reinstated as described in this paragraph (iv)(B). Promptly upon the Liquidity Provider obtaining knowledge of any such Default, the Liquidity Provider shall give written notice of the same to the State, the Registrar, the Remarketing Agent and the Insurer, provided that the Liquidity Provider shall incur no liability responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Liquidity Provider's obligations under the Series 2006C Standby Bond Purchase Agreement. If a Default specified in paragraph (d) above continues for thirty (30) days without the Insurer diligently contesting such obligation in good faith, then the Available Commitment and the obligation of the Liquidity Provider to purchase Eligible Bonds under the Series 2006C Standby Bond Purchase Agreement shall at such time immediately terminate, and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds thereunder. If a Default specified in paragraph (d) above continues for thirty (30) days and prior to the end of such thirty (30) day period, the Insurer diligently contests such obligation in good faith and thereafter a court with jurisdiction to rule on the obligation of the Insurer under such policy shall thereafter enter a final, nonappealable judgment that the Insurer is obligated to make such contested payment and the Insurer thereafter fails to make such payment, then the Available Commitment and the obligation of the Liquidity Provider to purchase Eligible Bonds under the Series 2006C Standby Bond Purchase Agreement shall at such time immediately terminate, and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds thereunder. If a Default specified in paragraph (d) above continues for thirty (30) days and prior to the end of such thirty (30) day period, the Insurer diligently contests such obligation in good faith and thereafter a court with jurisdiction to rule on the obligation of the Insurer under such policy shall thereafter enter a final, nonappealable judgment that the Insurer is not obligated to make such contested payment, then the Liquidity Provider's obligations shall be automatically reinstated and the terms of the Series 2006C Standby Bond Purchase Agreement will continue in full force and effect (unless the Liquidity Provider's obligation to purchase Variable Rate Bonds thereunder shall otherwise have terminated or been suspended by its terms or in accordance with the terms thereof). Notwithstanding the foregoing, if upon the earlier of the Expiration Date or the date which is two (2) years after the effective date of the suspension of the Liquidity Provider's obligations pursuant to this paragraph (iv)(B), litigation regarding the obligation of the Insurer to make such contested payment is still pending and a judgment has not been obtained, then the Available Commitment and the obligation of the Liquidity Provider to purchase Eligible Bonds under the Series 2006C Standby Bond Purchase Agreement shall at such time immediately terminate, and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds thereunder.

(v) *Other Remedies.* In addition to the rights and remedies set forth in paragraphs (i), (ii), (iii) and (iv) above, in the case of any Event of Default, upon the election of the Liquidity Provider: (A) all accrued and unpaid amounts payable

under the Series 2006C Standby Bond Purchase Agreement (other than payments of principal and redemption price of and interest on the Variable Rate Bonds or payments of excess interest amount to the Liquidity Provider) shall upon notice to the State become immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the State; and (B) the Liquidity Provider shall have all the rights and remedies available to it under the Series 2006C Standby Bond Purchase Agreement, the Related Documents, the Bond Insurance Policy or otherwise pursuant to law or equity; provided, however, that the Liquidity Provider shall not have the right to terminate its obligation to purchase Variable Rate Bonds or to declare any amount due under the Series 2006C Standby Bond Purchase Agreement due and payable except as expressly provided therein, or to accelerate the maturity date of any Variable Rate Bonds except as provided in the Bond Resolution. Without limiting the generality of the foregoing, the Liquidity Provider agrees to purchase Variable Rate Bonds on the terms and conditions of the Series 2006C Standby Bond Purchase Agreement notwithstanding the institution or pendency of any State Event of Insolvency. The Liquidity Provider will not assert as a defense to its obligation to purchase Variable Rate Bonds under the Series 2006C Standby Bond Purchase Agreement the institution or pendency of a State Event of Insolvency. This paragraph shall not limit the exercise of the Liquidity Provider's remedies expressly provided for under any other paragraph under the subcaption "Remedies."

(f) In the case of any Event of Default under the Series 2006C Standby Bond Purchase Agreement, the Liquidity Provider shall have the right, but not the obligation, to cure any such Event of Default (in which case the State shall reimburse the Liquidity Provider therefor pursuant to the Series 2006C Standby Bond Purchase Agreement).

THE LIQUIDITY PROVIDER

The following information has been furnished by the Liquidity Provider for use in this Official Statement.

Lloyds TSB Bank plc (the "Bank") is a wholly-owned subsidiary of Lloyds TSB Group plc ("LTSB Group"). The Bank and its subsidiaries (the "Bank's Group") comprise one of the leading United Kingdom-based financial services groups, whose businesses provide a wide range of banking and financial services in the United Kingdom and overseas.

At the end of 2004, total consolidated assets of LTSB Group were approximately £280 billion. The total number of persons employed by LTSB Group and its subsidiaries was approximately 70,000.

The main business activities of the Bank's Group during 2004 are described below:

UK Retail Banking and Mortgages

UK Retail Banking and Mortgages provides banking and other financial services, private banking, stockbroking and mortgages to 15 million personal customers in England, Scotland and Wales.

Insurance and Investments

Insurance and Investments offers life assurance, pensions, and investment products, general insurance and fund management services in the United Kingdom.

Wholesale and International Banking

The Bank's Group's relationships with major United Kingdom and multinational companies, banks and institutions and small and medium-sized United Kingdom businesses, together with its activities in financial markets, are managed through dedicated offices in the United Kingdom and a number of locations overseas, including New York and Tokyo.

The Bank's Group provides banking, investment and other financial services overseas in two main areas: (i) The Americas (including the international bank agency of the Bank in Miami, Florida) and (ii) Europe and Offshore Banking. During 2004, the LTSB Group completed the disposal of substantially all of its local businesses in Argentina, Panama, Guatemala, Honduras and Colombia.

Availability of Public Information

The Bank will provide, upon request, to each person to whom this Official Statement is delivered a copy of the most recently available (i) annual Report and Accounts of LTSB Group for the fiscal year ended December 31, 2004, and (ii) Annual Report on Form 20F of LTSB Group. Written requests should be directed to the Bank at 1251 Avenue of the Americas, 39th Floor, New York, New York 10020; Attention: Structured Finance. Additional information (including a full copy of such Report and Accounts) is available from the LTSB Group web site at <http://www.investorrelations.lloydstsb.com>.

UNDERWRITING

General

The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the public offering prices stated on the cover page hereof. The initial public offering prices may be changed from time to time by the Underwriters.

Fixed Rate Bonds

The Fixed Rate Bonds are being purchased for reoffering by UBS Securities LLC, acting on behalf of itself, Citigroup Global Markets Inc., Merrill Lynch & Co., and Morgan Stanley & Co. Incorporated (collectively, the "Underwriters") at a purchase price of \$309,722,611.10 (being the par amount of the Bonds, plus \$16,305,991.05 net original issue premium, less \$1,178,379.95 Underwriters' discount). Sale of the Fixed Rate Bonds is not contingent upon the sale of the Variable Rate Bonds.

Variable Rate Bonds

UBS Securities LLC is serving as sole underwriter and remarketing agent for the Variable Rate Bonds. The Variable Rate Bonds are expected to be purchased at a price of par, subject to an underwriter fee of \$50,572.80. Sale of the Variable Rate Bonds is not contingent upon the sale of the Fixed Rate Bonds.

FINANCIAL ADVISORS

State of Alaska

Government Finance Associates, Inc., New York, New York, has served as financial advisor to the State in connection with various matters relating to the planning, structuring, and execution and delivery of the Bonds. Government Finance Associates, Inc. has not audited, authenticated, or otherwise verified the information set forth in this Official Statement, or any other related information available to the State, with respect to the accuracy and completeness of disclosure of such information. No guaranty, warranty, or other representation is made by the State's Financial Advisor respecting the accuracy and completeness of this Official Statement or any other matter related to the Official Statement.

Alaska International Airports System

First Southwest Company, Anchorage, Alaska, has served as financial advisor to the Alaska International Airports System in connection with various matters relating to the planning, structuring, and execution and delivery of the Bonds. First Southwest Company has not audited, authenticated, or otherwise verified the information set forth in this Official Statement, or any other related information available to the AIAS, with respect to the accuracy and completeness of disclosure of such information. No guaranty, warranty or other representation is made by the AIAS Financial Advisor respecting the accuracy and completeness of this Official Statement or any other matter related to the Official Statement.

TAX EXEMPTION

In the opinion of Preston Gates & Ellis LLP, Seattle, Washington, Bond Counsel, assuming compliance with certain covenants of the State, interest on the Bonds is excluded from gross income for federal income tax purposes under existing law, except for any Series 2006A Bond or any Series 2006C Bond with respect to any period during which such Series 2006A Bond or Series 2006C Bond is held by a "substantial user" of the facilities being financed or refinanced by the Series 2006A Bonds or Series 2006C Bonds or a "related person" to such substantial user within the meaning of Section 147 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2006B Bonds and the Series 2006D Bonds is not an item of tax preference under the Code for purposes of determining the alternative minimum tax imposed on individuals and corporations. Interest on the Series 2006A Bonds and the Series 2006C Bonds is a preference item for purposes of determining the alternative minimum tax imposed on individuals and corporations. Interest on a Bond owned by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate owner.

The Code sets forth certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest on the Bonds to remain excluded from gross income for federal income tax purposes. The State has covenanted to comply with such requirements. Noncompliance with such requirements may cause the interest on the Bonds to be included in gross income of the owners of the Bonds for federal income tax purposes, retroactive to the date of issue of the Bonds. Bond Counsel's opinion assumes compliance with these covenants, and Bond Counsel has not undertaken to determine, or to inform any person, whether any actions taken or not taken, or events occurring or not occurring, after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

Interest on a Bond owned by a foreign corporation may be subject to the branch profits tax imposed by the Code. Ownership of the Bonds may give rise to collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Bond Counsel expresses no opinion as to any such collateral federal income tax consequences.

The Bonds are not "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriters on behalf of the State relating to (a) computation of anticipated receipts of principal and interest on the Escrow Obligations and the anticipated payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Series 2006D Bonds and the Escrow Obligations was examined by The Arbitrage Group, Inc. Such computations were based solely upon assumptions and information supplied by the Underwriters on behalf of the State. The Arbitrage Group, Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the final approving opinion of Preston Gates & Ellis LLP, Seattle, Washington, Bond Counsel, in the form attached hereto as APPENDIX E. Certain legal matters will be passed upon for the State by the Attorney General for the State and for the Underwriters by their counsel, Wohlforth, Johnson, Brecht, Cartledge & Brooking, PC, Anchorage, Alaska. The fees of Bond Counsel and Underwriters' Counsel are contingent upon the issuance of the Bonds.

CONTINUING DISCLOSURE

Annual audited financial statements of the Alaska International Airports System will be available upon request from the State of Alaska Department of Transportation and Public Facilities.

The State has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data (the "Annual Disclosure Report") within seven months after the end of each fiscal year (the "Report Date"), commencing February 1, 2007 for the Annual Disclosure Report for the fiscal year ending June 30, 2006, and to provide notices of the occurrence of certain enumerated events, if material. A form of document specifying the nature of the information to be contained in the Annual Disclosure Report or the notices of material events is set forth in APPENDIX F hereto. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "Rule").

The State failed to fully discharge its continuing disclosure obligation filings for FY 2001 and FY 2002. Upon discovering the missed filings, the State submitted (on October 30, 2003) complete Annual Disclosure Reports for FY 2001 and FY 2002 and is now in compliance with all of its prior undertakings pursuant to the Rule.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion, forecast or estimates, whether or not expressly so stated, they are set forth as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the purchasers of any of the Bonds and the System or the State.

This Official Statement contains forward-looking statements, including (a) statements containing projections of System revenues, expenditures and other financial items, (b) statements of the plans and objectives of the State for future operations of the System, (c) statements of future economic performance of the System, and (d) statements of the assumptions underlying or relating to statements described in (a), (b), and (c) above (collectively, "Forward-Looking Statements"). Other than statements of historical facts, all statements included in this Official Statement regarding the System's financial position, business strategy, capital resources, and plans and objectives of the State for future operations of the System are Forward-Looking Statements. Although the expectations reflected in such Forward-Looking Statements are believed to be reasonable, there can be no assurance that such expectations will prove to have been correct. A reasonable effort has been made to disclose in this Official Statement important factors that could cause actual results to differ materially from expectations of the State (collectively, the "Cautionary Statements"). All subsequent written and oral Forward-Looking Statements attributable to the State or persons acting on behalf of the State are expressly qualified in their entirety by the Cautionary Statements.

There are appended to this Official Statement appendices entitled "REPORT OF THE FEASIBILITY CONSULTANT," "AUDITED FINANCIAL STATEMENTS OF THE STATE OF ALASKA INTERNATIONAL AIRPORTS SYSTEM (AN ENTERPRISE FUND OF THE STATE OF ALASKA) FOR THE YEAR ENDED JUNE 30, 2005 AND 2004," "STATE BOND COMMITTEE OF THE STATE OF ALASKA, RESOLUTION NO. 99-01," "STATE BOND COMMITTEE OF THE STATE OF ALASKA, SUPPLEMENTAL RESOLUTION NO. 2006-01," "PROPOSED FORM OF OPINIONS OF BOND COUNSEL," "FORM OF CONTINUING DISCLOSURE AGREEMENT," "FORM OF FINANCIAL GUARANTY INSURANCE POLICY and "DTC AND BOOK-ENTRY ONLY SYSTEM."

The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

OFFICIAL STATEMENT

The State has authorized the execution and distribution of this Official Statement.

STATE OF ALASKA,
State Bond Committee

By _____
DEVEN J. MITCHELL
Debt Manager
State of Alaska
For the State Bond Committee

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APPENDIX A

REPORT OF THE FEASIBILITY CONSULTANT

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February 23, 2006

Mr. Michael Barton
Commissioner
State of Alaska
Department of Transportation & Public Facilities
3132 Channel Drive
Juneau, Alaska 99801-7898

Re: Series 2006A, 2006B, 2006C and 2006D State of Alaska International Airports System Revenue and Refunding Bonds

Dear Mr. Barton:

AXIS Consulting Inc. is pleased to submit this Report of the Feasibility Consultant (the "Report") to the State of Alaska Department of Transportation & Public Facilities ("DOT&PF") in conjunction with the planned issuance of the Series 2006A, 2006B, 2006C and 2006D State of Alaska International Airports System Revenue and Refunding Bonds (together, the "Series 2006 Bonds"). All terms used in the Report, unless otherwise defined herein, shall have the same meanings given to them in the Bond Resolution.

The State of Alaska ("State" or "Alaska") intends to issue the Series 2006 Bonds to finance a portion of the costs of certain Capital Improvement Projects (the "FY06 – FY09 CIP") for the Alaska International Airports System ("AIAS"). The AIAS includes Ted Stevens Anchorage International Airport ("ANC"), Lake Hood/Lake Spenard Seaplane Base ("Lake Hood"), which is located within the physical boundaries of ANC, and Fairbanks International Airport ("FAI"). The proceeds of the Series 2006 Bonds will fund \$242.9 million of the FY06 – FY09 CIP which totals \$644.1 million, an escrow deposit for refunding a portion of the Series 1999B Bonds and the Series 2002B Bonds, capitalized interest, the Debt Service Reserve Fund and costs of issuance. The FY06 – FY09 CIP is being implemented to meet the overall demand for passenger, cargo and general aviation ("GA") activity within the AIAS. The Series 2006 Bond proceeds will be used to fund the following projects:

- South Terminal Seismic and Security Retrofit Project ("Concourse A and B Retrofit Project") at ANC (\$91.5 million out of a total project cost of \$176.8 million)
- Terminal Area Redevelopment at FAI (\$83.2 million out of a total project cost of \$99.3 million)
- Runway Reconstruction project at FAI (\$2.6 million out of a total project cost of \$51.8 million)
- Airfield Pavement Maintenance project at ANC (\$1.1 million out of a total project cost of \$67.7 million)
- Other FY06 – FY09 CIP projects (\$64.4 million out of a total project cost of \$248.6 million)

The air transportation system in Alaska is unique among the United States ("U.S.") with regard to the volume of both intrastate and interstate air traffic that is necessary due to the extreme distances between population centers, coupled with the State's topography and climate, all factors that generally make air travel the only reasonable mode of transportation between many Alaskan communities and between Alaska and all other states. Moreover, these factors, combined with the State's strong economy generate a consistent level of intrastate air service demand. Similarly, the distances between Alaska and the Lower-48 states and the absence of overland rail and bus service alternatives create a similar demand for air transportation.

A key contributor to the demand for air service is the strength of a region's overall economy. Population trends are among the primary indicators of economic growth. Certain forecasts in this Report use data provided by the independent economic research firm, Woods & Poole Economics, Inc. ("W&P"). W&P conducts its own research and obtains historical data from government sources including the U.S. Departments of Labor and Commerce. W&P projects that Alaska's population will increase at an average annual compound growth rate ("AACGR") of 1.1 percent from Fiscal Year ("FY") FY06 to FY15 ("Forecast Period"), slightly exceeding the growth rate projected by W&P for the U.S. Employment is also a significant factor. Major employers in Alaska, such as the oil and gas industry and supporting industries such as construction, are often on different employment trends than the U.S. as a whole. W&P projects that Alaska's job growth rate will increase at an AACGR of 1.3 percent during the Forecast Period, which is comparable to the rate projected by W&P for the U.S.

In FY05, enplaned passenger levels at the AIAS increased 6.2 percent over FY04, approximately 2.3 percent higher than the percentage increase for the U.S. as a whole. Enplaned passengers are forecast by AXIS Consulting Inc. to equal 2.9 million in FY06 and reach 3.5 million in FY15 increasing at an AACGR of 1.9 percent.

Air cargo activity comprises a significant portion of the operations at the AIAS. ANC was ranked first among U.S. airports in terms of total gross landed weight of all-cargo aircraft in Calendar Year ("CY") 2004 and ranked second among U.S. airports in terms of total cargo tonnage for CY04. In FY05, U.S. air cargo tonnage was up 0.4 percent while the AIAS increased by approximately 4.8 percent over FY04. Total AIAS air cargo tonnage is forecast to equal 3.1 million tons in FY06 and increase to 4.9 million tons in FY15 increasing at an AACGR of 5.3 percent due in part to the unique geographical location of ANC and FAI.

The current Airline Operating Agreement and Passenger Terminal Lease ("AOA"), between the DOT&PF and the Signatory Airlines ("Signatory Airlines"), entered into in 2001, recovers all of the AIAS's operating costs and debt service under a "residual" airline rate setting methodology. The AOA included a five-year CIP ("Original CIP") and had an expiration date of June 30, 2006. In 2004, the DOT&PF and the Signatory Airlines agreed to fund increased costs associated with the Terminal Redevelopment Program ("TRP") at ANC by executing an amendment to the AOA, called the Master Supplement Number 1 (the "Master Supplement") and to continue the implementation of the Original CIP, although certain projects in the Original CIP were deferred until FY06. The projects that were deferred were reclassified as the 2006 Program ("2006 Program"). The remaining projects from the Original CIP that were not deferred constituted the new program for FY04 ("2004 Program") and were partially funded with the proceeds of the Series 2003 Bonds. In addition, the Master Supplement included the Signatory Airline approved FY06 – FY09 CIP and the following key provisions:

- The term of the AOA was extended to June 30, 2007 provided that the design and funding approvals for the Concourse A and B Retrofit Project and the remainder of the South Terminal at ANC be completed by June 30, 2006.
- The deposit requirement for the Airport System Development Fund was reduced by \$1.0 million, (from \$6.0 million to \$5.0 million annually subject to annual escalation), beginning in FY04 and continuing through FY07.
- An additional \$2.0 million in PFC revenues is to be applied annually towards eligible debt service in calculating the AIAS' rates and charges through FY07.

The Series 2006 Bonds are being issued under Alaska Statutes 37.15.410 – 37.15.550, inclusive, and under the State Bond Committee's Supplemental Resolution 2006 - 01 which was adopted on February 23, 2006. The Series 2006 Bonds are limited obligations of the State and are payable as to interest on, principal of, and premium, if any (except

to the extent paid from Bond proceeds or the income from investments), solely from, and are secured by, a pledge of, the Revenues derived by the State from the operation of the AIAS.

This Report has been undertaken to evaluate the AIAS's ability to meet the terms of the Rate Covenant and the additional bonds test as described in the Bond Resolution. In order to remain in compliance with the Rate Covenant, the AIAS must generate Net Revenues (defined as Revenues less Maintenance and Operating Expenses ("M&O Expenses")) in each FY during which Parity Bonds remain outstanding at least equal to 1.25 times the sum of the Aggregate Annual Debt Service plus any deposits required to be made during such FY to establish or maintain the Reserve Account Requirement and the minimum balance required to be maintained in the Repair and Replacement Reserve Account. The additional bonds test requires that the AIAS set rates and fees so that Net Revenues are equal to or greater than 1.25 times the Aggregate Annual Debt Service for all outstanding Parity Bonds, including Future Parity Bonds then being issued, for each of the three FYs following the earlier of (i) completion of the projects being financed with the proceeds of the Future Parity Bonds then being issued and (ii) the date on which all capitalized interest related to or for such Future Parity Bonds is expended.

The Report provides background information, assumptions and analyses of the financial implications of the planned issuance of the Series 2006 Bonds. It is our understanding that this Report will be included as Appendix A to the Official Statement for the Series 2006 Bonds, and we hereby consent to such inclusion. Included under separate headings in the Report are a discussion of the economic base for air service demand, a review of current air service and a forecast of aviation activity, a description of existing airport facilities and the FY06 – FY09 CIP. Also included is a financial analysis encompassing M&O Expenses, non-airline revenues, fund deposit requirements, Aggregate Annual Debt Service (including the Series 2006 Bonds coverage requirements), airline revenues and a projection of the passenger airlines' cost per enplaned passenger ("CPE").

An analysis of the future financial performance of the AIAS was conducted using an airline CPE and an annual debt service coverage ratio test. Both statistics provide a reasonable estimate of the level of air carrier service at the AIAS and its ability to pay Aggregate Annual Debt Service.

Based upon the analyses and findings within this Report, it is the opinion of AXIS Consulting Inc. that:

- The economic base of the State, as defined in this Report, is sufficient to support future demand for passenger and cargo services.
- Cargo tonnage is projected to increase throughout the Forecast Period particularly to Asian destinations. Cargo operators such as FedEx and UPS will continue to add cargo payload capacity at ANC.
- Low Cost Carriers ("LCC's") will be of limited impact to the AIAS and its principal carrier, Alaska Airlines, in the short-term and throughout the Forecast Period.
- The projected passenger airline CPE for the AIAS is reasonable and will likely remain stable. The debt service coverage ratio exceeds the Rate Covenant requirement of 1.25 throughout the Forecast Period.
- The AIAS, in particular ANC, through which most Alaska air travelers must pass, is likely to remain the most viable and economically reasonable transportation alternative for the State. The AIAS provides the majority of regularly scheduled and charter air service to destinations in the Lower-48 states and to international destinations, as well as intrastate scheduled and charter flights. Additionally, the AIAS will continue to function as a key cargo center for a large number of all-cargo carriers.



Mr. Michael Barton
February 23, 2006
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The financial projections and other forecasts provided in this Report are based on what we believe to be reasonable evaluations of current conditions and reasonable assumptions regarding future conditions. However, achievement of any financial projection, or any forecast is dependent upon future events, which cannot be assured. Therefore, the actual results may vary, perhaps significantly, from the projections and forecasts contained in this Report.

Respectfully submitted,

AXIS Consulting Inc.

AXIS Consulting Inc.

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I. ECONOMIC BASE FOR AIR TRANSPORTATION DEMAND

This chapter examines the primary economic and demographic components impacting demand for the two airports that make up the AIAS: ANC and FAI. The demand for passenger air service is largely determined by the economic and demographic environment of the surrounding region. This region, often referred to as an airport's "Air Trade Area," is the source of origin and destination ("O&D") passengers. For air cargo service, the location of an airport or an airport system, both within a geographical region and on a worldwide basis, strongly influences the level of air cargo activity.

ANC, located in the Municipality of Anchorage ("Anchorage"), is the primary commercial service airport in Alaska providing passenger and air cargo service. Three runways of at least 10,500 feet in length, two of which have instrument landing system capabilities, enable ANC to accommodate all types of commercial aircraft in operation today as well as future aircraft such as the A380 and the A380F, the first designated airplanes to be categorized as New Large Aircraft ("NLA")¹. The A380F is expected to be placed in service at ANC by both FedEx Corporation ("FedEx") and United Parcel Service Inc. ("UPS") by FY10. According to Airports Council International ("ACI"), in 2004, ANC was the second most active airport in North America in terms of total cargo tonnage and the 64th in terms of total passengers.

FAI, which is located in the Fairbanks North Star Borough ("Fairbanks"), is also a commercial service airport. The primary runway at FAI is 11,800 feet long and capable of accommodating all types of commercial service aircraft in operation today. In 2004, ACI showed FAI as the 78th most active airport in the North America in terms of total cargo tonnage and 116th in terms of total passengers. **Table I-1** shows ACI traffic statistics for North American airports and the ranking of ANC and FAI. Additional information on the facilities at ANC and FAI is provided in Chapter III of this Report.

Table I-1
Airports Council International-North America Traffic Statistics
CY04

Cargo (Metric tonnes)			Passengers			Operations		
Rank	Airport	Number	Rank	Airport	Number	Rank	Airport	Number
1	Memphis	3,554,575	62	Jacksonville	4,949,115	38	Baltimore-Washington	306,246
2	Anchorage	2,252,911	63	Burbank	4,916,800	39	St. Louis	283,647
3	Los Angeles	1,913,676	64	Anchorage	4,881,009	40	Anchorage	273,440
4	Miami	1,778,902	65	Buffalo	4,428,455	41	Washington Reagan	268,556
5	Louisville	1,739,492	66	Edmonton	4,081,565	42	Cleveland	263,561
76	Grand Rapids	36,070	114	Atlantic City	1,050,172	102	Norfolk	122,962
77	Sioux Falls	35,627	115	Allentown	1,009,951	103	Canton	122,803
78	Fairbanks	35,271	116	Fairbanks	965,399	105	Fairbanks	122,044
79	Knoxville	35,226	117	Cedar Rapids	938,555	105	Jacksonville	120,063
80	Wichita	33,900	118	Montreal Mirabel	921,921	106	Grand Rapids	116,455

Source:
ACI

The economic and demographic elements that affect air service demand at ANC and FAI analyzed in this Report include population, employment, personal income patterns and major industries.

A. IDENTIFICATION OF THE AIR TRADE AREA

Given Alaska's unique geographical location and economy, the Air Trade Area for the AIAS includes the areas immediately surrounding ANC and FAI, in addition to the entire State, north of the southeastern

¹ The Government Accountability Office ("GAO") defines an NLA as a new aircraft that has a wingspan and length substantially greater than today's B747 aircraft, with a weight of up to 1.2 million pounds, and a seating capacity ranging from 555 to 880 passengers.

panhandle. For residents of the panhandle, Juneau International Airport (“JNU”) serves as a local hub but is not part of the AIAS. The area immediately surrounding ANC is defined in this Report as the “Anchorage Region” and includes Anchorage and the Matanuska-Susitna Borough (“Mat-Su”). Fairbanks and the area immediately surrounding FAI, is defined as the “Fairbanks Region”. These large geographical regions reflect the fact that ANC and FAI are the key portals through which most Alaska air travelers must pass due to the relative absence of direct intrastate air service between other communities, the long distances and the general lack of alternative modes of transportation between most other Alaskan communities, outside of the panhandle (see **Exhibit I-1**). AIAS airports accommodate the majority of both regularly scheduled and charter air service to destinations in the Lower-48 states and other countries. In addition, the AIAS airports are the primary hubs for intrastate scheduled and charter flights.

It should be noted that ANC includes the Lake Hood/Lake Spenard Seaplane Base and Airstrip facilities. Lake Hood is reputed to be the largest floatplane facility in the world (see Chapter III). It is a critical link for Alaskans and visitors who travel to remote and otherwise inaccessible areas that comprise most of the geographic area of Alaska. FAI also has a large floatplane facility with 191 spaces that provide private and limited commercial service to all of northern Alaska.

1. Other Airports in the State

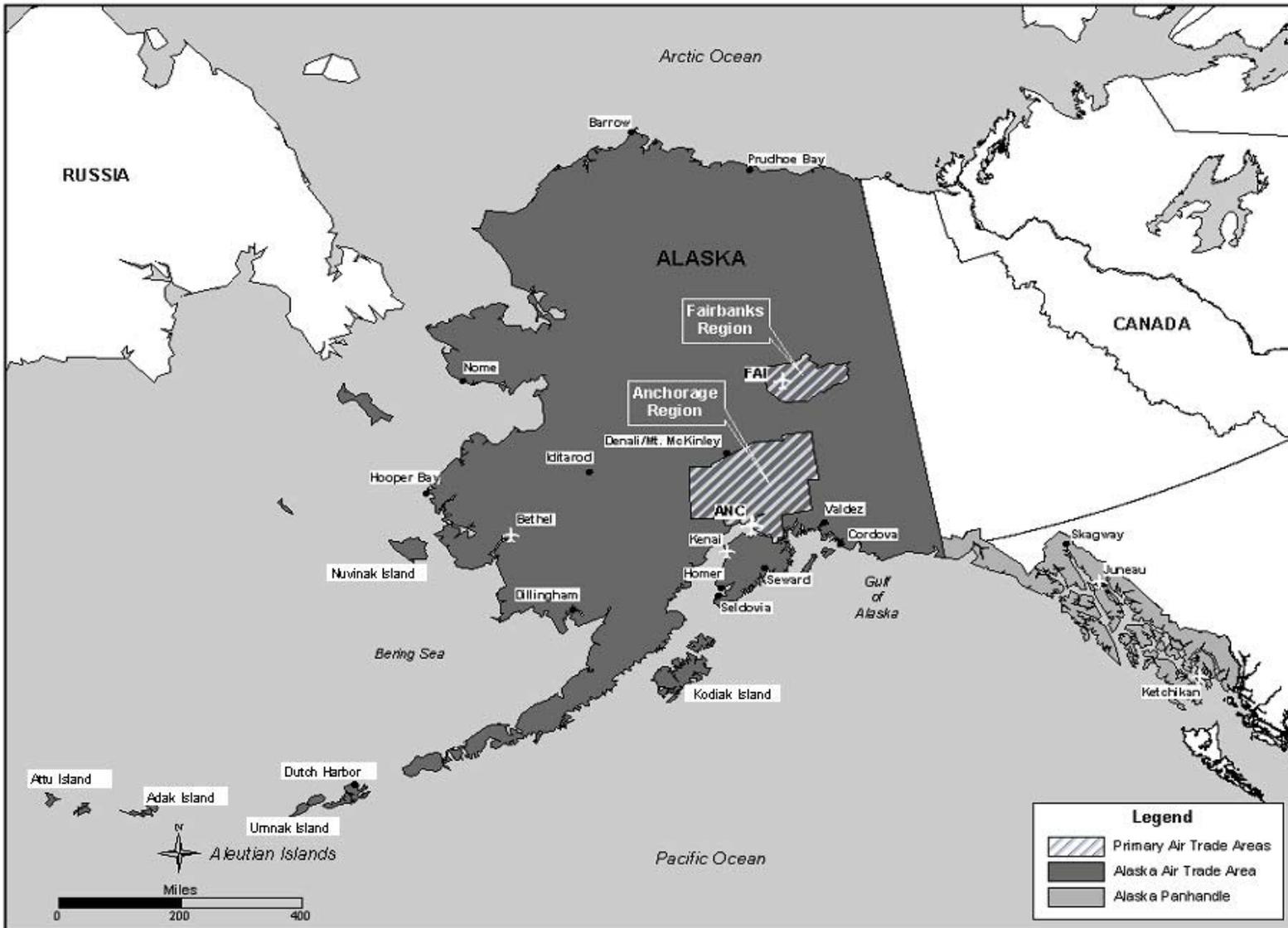
The majority of the State’s population is located within the Anchorage or Fairbanks Regions. No other airports, within a reasonable driving distance of the AIAS, have the passenger or air cargo facilities that are available at ANC or FAI. Although there are a large number of GA airports in the State that provide limited commercial passenger and cargo service, none of them have facilities on the scale of ANC or FAI. There are three GA airports, in addition to Lake Hood, in Anchorage. Merrill Field has operations generally limited to take-off weights of 12,500 pounds or less. It is owned by the Municipality of Anchorage and is not a part of the State-owned AIAS. Birchwood Airport and Girdwood Airport serve aircraft with take-off weights of 12,500 pounds or less, including ultra-light aircraft. Neither Birchwood Airport nor Girdwood Airport has FAA air traffic control towers and both are owned and operated by the State as part of the State’s rural airport system and not as part of the AIAS.

Other public airports that serve the State and which are not part of the AIAS include the following:

- Bethel Airport – Bethel Airport, owned and operated by the State is three miles southwest of Bethel in Southwestern Alaska. The airport has a gravel runway 75 feet wide, 1,850 feet long and an asphalt runway 150 feet wide and 6,398 feet long. There are no road connections between Bethel Airport and ANC or FAI. Bethel Airport is approximately 420 miles by air from ANC and 517 miles by air from FAI². Bethel Airport has no commercial interstate passenger service.
- Juneau International Airport (outside the AIAS Air Trade Area) – JNU is seven miles northwest of Juneau, Alaska’s capital. The primary runway at the airport is 150 feet wide, 8,456 feet long and made of asphalt. There are no direct road connections between JNU and ANC or FAI; automobile traffic must use a ferry connection. JNU is approximately 578 miles by air to ANC and 646 miles by air to FAI². The airport is operated by the City and Borough of Juneau. It has scheduled passenger service to 13 Alaskan cities and Seattle, WA.

² Alaska Department of Transportation and Public Facilities, Division of Planning.

**Exhibit I-1
AIAS Air Trade Area**



- Kenai Municipal Airport – The Kenai Municipal Airport (“ENA”) is located on the Kenai Peninsula southwest of Anchorage. The airport has an asphalt runway that is 150 feet wide and 7,575 feet long. It also has a gravel runway that is 60 feet wide and 2,000 feet long. A two-lane highway leads from Anchorage to the Kenai Peninsula and the city of Kenai with a road distance of approximately 160 miles. The distance by air from ENA to ANC is approximately 70 miles². By road, the distance between ENA and FAI is approximately 510 miles, and the distance by air is approximately 333 miles. ENA has no scheduled commercial intrastate passenger service except to ANC, which is served multiple times daily by Era Aviation and Grant Aviation.
- Ketchikan International Airport (outside the AIAS Air Trade Area) – The Ketchikan International Airport is one mile west of Ketchikan in the southern part of the Alaska panhandle. It has an asphalt runway that is 150 feet wide and 7,497 feet long. As in the case of JNU, there are no direct road connections between Ketchikan International Airport and ANC or FAI. The distance by air is approximately 768 miles to ANC and 870 miles to FAI². Ketchikan International Airport is owned by the State and operated by the Ketchikan Gateway Borough and has commercial intra-Alaskan service to 13 cities and interstate service to Seattle, WA.
- Kodiak State Airport – Kodiak State Airport is located four miles west of the City of Kodiak on Kodiak Island in the Gulf of Alaska. It has three asphalt runways that are 150 feet wide. The primary runway is 7,548 feet long. The island can also be reached by ferry. The distance by air is approximately 253 miles to ANC and 513 miles to FAI². The airport is owned by the U.S. Coast Guard, but leased to the State. The DOT&PF operates and maintains all public and operational areas. Discussions are currently underway that could result in the transfer of the airport to State ownership. The airport supports air carrier service for Kodiak in addition to serving as a regional hub for several outlying communities. Kodiak State Airport has commercial intra-Alaska service to eight cities and no interstate service.
- Sitka Airport (outside the AIAS Air Trade Area) – Sitka Airport, owned and operated by the State, is located two miles west of the city of Sitka on the outer coast of Alaska's Inside Passage. Similar to other Southeast Alaska communities, Sitka is accessible only by air and sea. It has a single asphalt runway that is 150 feet wide and 6,500 feet long. The distance by air to ANC is approximately 592 miles and to FAI² approximately 680 miles. Sitka Airport has no commercial interstate passenger service and has multiple intra-Alaska daily flights to Juneau and Ketchikan.

Although these airports provide important air service to the regions in which they are located, they do not pose any measurable competition to the AIAS.

2. Statistical Data

Unless otherwise noted, the statistical data contained in this Report was published by W&P, an independent, non-partisan research firm based in Washington, DC. In addition to conducting its own research, W&P obtains historical data from government sources including the U.S. Departments of Labor and Commerce. Additional statistics in this Report were published in 2004 by the Alaska Department of Labor and Workforce Development (“ADOL”).

3. Population

- a. State of Alaska – For the 10 year period between 1995 through 2004, Alaska’s population grew approximately 9.0 percent from 601,581 in 1995 to an estimated 655,435 in 2004, according to ADOL. The overall growth in Alaska’s population for the 1995 to 2004 period was the result of a natural increase in population and not due to people relocating to Alaska. ADOL estimates that Alaska’s population will increase by approximately 9.5 percent from 2006 to 2015, at an AACGR of 1.0 percent (see **Table I-2**)³. W&P predicts similar population growth in Alaska. It estimates that the State’s population will grow at an AACGR of 1.1 percent during the Forecast Period.

Table I-2
Population

Calendar Year	Anchorage Region		Fairbanks Region		Alaska		United States
	W&P ¹	ADOL ²	W&P ¹	ADOL ²	W&P ¹	ADOL ²	W&P ¹
1995	301,878	300,464	81,941	81,557	604,412	601,581	266,278,393
1996	302,606	300,937	82,880	82,423	608,569	605,212	269,394,284
1997	306,480	304,824	82,483	82,037	612,968	609,655	272,646,925
1998	312,895	311,457	83,299	82,916	619,932	617,082	275,854,104
1999	317,172	315,761	83,390	83,019	624,779	622,000	279,040,168
2000	320,448	320,117	82,755	82,670	627,579	626,931	282,177,838
2001	326,158	326,650	83,958	84,085	632,675	633,630	285,093,870
2002	333,330	334,527	85,127	85,433	641,483	643,786	287,974,001
2003	339,288	340,022	85,978	86,164	648,820	650,224	290,810,789
2004	343,545	343,158	86,381	86,284	656,174	655,435	293,545,244
2006	352,302	351,577	87,193	87,373	671,358	669,977	299,256,935
2010	370,204	368,457	88,987	88,567	702,523	699,207	311,034,645
2015	393,410	388,465	91,422	90,273	742,975	733,637	326,491,564
	Average Annual Compound Growth Rate						
1995 - 2004	1.4%	1.5%	0.6%	0.6%	0.9%	1.0%	1.1%
2006 - 2010	1.2%	1.2%	0.5%	0.3%	1.1%	1.1%	1.0%
2010 - 2015	1.2%	1.1%	0.5%	0.4%	1.1%	1.0%	1.0%
2006 - 2015	1.2%	1.1%	0.5%	0.4%	1.1%	1.0%	1.0%

1/ Data provided by W&P

2/ Data provided by ADOL

- b. Anchorage Region – The Anchorage Region is Alaska’s dominant corporate and tourist area. In 2004, its population was 343,158 as estimated by ADOL; the Anchorage Region is the largest metropolitan area in the State. It accounts for approximately 52.4 percent of Alaska’s total population and is four times the size of the Fairbanks Region, the second largest metropolitan area in the State.

Over the last 10 years, the Anchorage Region has shown steady growth and similar to the State as a whole, that trend is expected to continue. In fact, the majority of population growth shown for the State is due to the population growth in the Anchorage Region. Despite a significant reduction of military personnel assigned to the area in the mid-1990s, the population grew at a 1.5 percent AACGR from 1995 through 2004. For the Forecast Period, ADOL estimates that the Anchorage Region’s population will grow 10.5 percent, at an AACGR of 1.1 percent. W&P predicts a similar growth rate for the same period of 1.2 percent.

³ “Alaska Economic Trends,” February 2005, ADOL, pg. 8.

- c. Fairbanks Region – In 2004, the Fairbanks Region population, as reported by ADOL, was 86,284 which represented approximately 13.2 percent of the total population in Alaska. The significant reduction of military personnel assigned to the area between 1995 and 2000 was more than offset by other factors such as the growth in the trade industries that caused an increase in its population. The Fairbanks Region’s population grew at an AACGR of 0.6 percent from 1995 to 2004. ADOL estimates that the Fairbanks Region’s population will grow approximately 3.3 percent during the Forecast Period an AACGR of 0.4 percent. Similarly, W&P predicts an AACGR of 0.5 percent for the same period.

4. Employment

- a. State of Alaska – In 2004, there were approximately 426,029 jobs in the State. The number of jobs has increased by 16.0 percent since 1995, at an AACGR of 1.7 percent. This growth exceeded that of the U.S. as a whole (see **Table I-3**). For most of the 1990’s the overall U.S job growth was slightly higher than that of Alaska. However, during the period from 2000 through 2004, the Alaskan economy continued to grow at an AACGR of 1.9 percent, while the rest of the nation’s economy went into a recession⁴.

Table I-3
Employment

Year	Region		Alaska	United States
	Anchorage	Fairbanks		
1995	183,443	46,970	367,324	148,982,794
1996	184,863	47,651	371,350	152,150,190
1997	188,877	49,027	376,856	155,608,203
1998	194,419	49,739	383,421	159,628,186
1999	195,557	49,695	383,906	162,955,270
2000	200,757	51,117	395,017	166,758,782
2001	205,969	52,724	404,715	166,908,258
2002	211,966	54,468	413,995	167,033,565
2003	215,136	55,011	420,014	169,545,983
2004	218,293	55,552	426,029	172,058,819
2006	224,596	56,630	438,066	177,084,291
2010	237,162	58,787	462,138	187,135,175
2015	252,835	61,479	492,220	199,698,512
	Average Annual Compound Growth Rate			
1995 - 2004	2.0%	1.9%	1.7%	1.6%
2006 - 2010	1.4%	0.9%	1.3%	1.4%
2010 - 2015	1.3%	0.9%	1.3%	1.3%
2006 - 2015	1.3%	0.9%	1.3%	1.3%

Source:
W&P

W&P projects that the rate of growth for Alaska’s employment will increase at an AACGR of 1.3 percent for the Forecast Period. The growth predicted for the State, in addition to the growth predictions shown in Table I-3 for the Anchorage Region, are equal to the projected growth for the U.S.

⁴ “Alaska Economic Trends,” July 2003, ADOL, pg 15.

Another factor driving the growth in Alaska's employment levels is the overall maturing of the Alaskan economy. As the population grows, the demand for goods and services is increasing to the point where it justifies investment in manufacturing plants and facilities within the State. Consequently, an increasing amount of goods and services are being produced in Alaska, which in turn generates additional employment.

Contributing to the job growth in Alaska is an employment base driven by an increasingly diverse group of industries. As shown in **Table I-4**, there are a number of large industries within the State. According to ADOL, in 2004 the Services & Miscellaneous sector accounted for the largest percentage of jobs in the State, approximately 33.5 percent. The Service sector includes Education, Health, Leisure & Hospitality, as well as Professional & Business Services. The next largest employment sectors were Government at 27.3 percent, followed by Trade at 13.9 percent and Transportation/Warehouse/Public Utilities at 7.0 percent. The Construction, Finance/Information, Manufacturing and Natural Resources & Mining industries rounded out the rest of the industry sectors with 5.9 percent, 4.9 percent, 4.1 percent and 3.4 percent respectively.

For the first seven months of 2005, job growth for the State extended its uninterrupted increase for the past 18 years and is expected to continue growing according to ADOL⁵. Employment growth was 1.7 percent higher or nearly 4,800 jobs ahead of the same period in 2004. The Health Services and Leisure & Hospitality sectors led in job creation contributing to these employment growth figures. A strong fishing season contributed to the increase in manufacturing jobs, while the increase in hard-rock mining demand was responsible for the mining industry growth. Retail sales are expected to continue to expand as gains in tourism and cruise ship activity have helped this sector. ADOL also anticipates growth for the Transportation sector, as Alaska is an increasingly important international air cargo hub. The Government sector will continue to be a major employer, but growth in this sector is expected to slow. The Southeast region of the State was the only region that had lower than average job growth and overall employment was flat on a year-to-year basis. Of the other five regions⁶ in the State, the Anchorage/Mat-Su region and the Fairbanks/Interior region accounted for the majority of the growth.

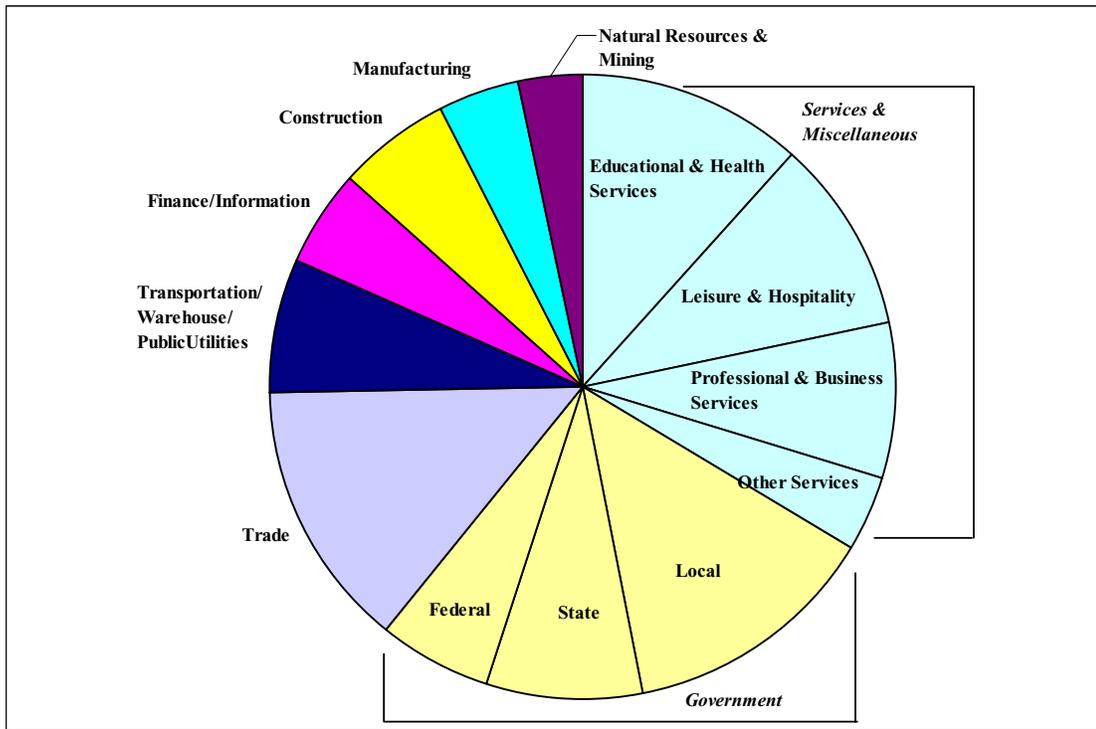
Alaska's top private sector employers are presented on **Table I-5**. These companies represent approximately 4.6 percent of the State's total employment. When the Government sector is included in the list of the State's largest employers, that sector's prominence in the Alaska economy becomes self-evident. The top private and public sector employers are presented in **Table I-6**. Total employees at Alaska's top 10 private and public sector employers represent approximately 19.4 percent of the State's total employment.

- b. Anchorage Region – The Anchorage Region is the largest employment base in Alaska with approximately 218,293 jobs in 2004; that equates to nearly 51.2 percent of the total jobs in the State. The number of jobs in the Anchorage Region increased by 19.0 percent from 1995 through 2004, at an AACGR of 2.0 percent. Similar to the State, the Anchorage Region is expected to experience a decline in the annual growth rate over the next decade. W&P anticipates that the number of jobs in the Anchorage Region will grow at an AACGR of 1.3 percent during the Forecast Period.

⁵ "Economic Trends," October 2005, ADOL, pg. 17.

⁶ Regions in the State as identified by ADOL include Anchorage/Mat-Su, Southeast, Gulf Coast, Southwest, Fairbanks/Interior and Northern.

**Table I-4
State of Alaska
Employment by Industry Sector
CY04**



Industry Sector	Percent Distribution
Services & Miscellaneous ¹	33.5%
<i>Educational & Health Services</i>	<i>11.6%</i>
<i>Leisure & Hospitality</i>	<i>10.1%</i>
<i>Professional & Business Services</i>	<i>7.8%</i>
<i>Other Services</i>	<i>3.9%</i>
Government	27.3%
<i>Local</i>	<i>13.5%</i>
<i>State</i>	<i>8.1%</i>
<i>Federal</i>	<i>5.8%</i>
Trade	13.9%
Transportation/Warehouse/Public Utilities	7.0%
Construction	5.9%
Finance/Information	4.9%
Manufacturing	4.1%
Natural Resources & Mining	3.4%
Total	100.0%

Source:
ADOL

^{1/} The Services & Miscellaneous sector includes the sub-sectors of Educational & Health Services, Leisure & Hospitality, Professional & Business Services, and Other Services. The percentages shown next to each sub-category represent its share of total State employment.

Table I-5
Alaska's Top 10 Private Sector Employers
CY04

Rank	Organization	Employees	Business Activity
1	Providence Alaska Medical Center	3,518	Hospital/Medical Center
2	Safeway Stores/Carrs	3,107	Grocery
3	Wal-Mart/Sam's Club	2,725	Grocery/General
4	Fred Meyer	2,597	Grocery/General
5	Alaska Airlines	1,638	Air Carrier
6	Trident Seafoods	1,612	Foods
7	Yokon-Kuskokwim Health	1,346	Healthcare
8	BP Exploration	1,337	Oil & Gas Production
9	Banner Health	1,287	Hospital/Medical Center
10	GCI Communications	1,225	Communications

Source:
ADOL

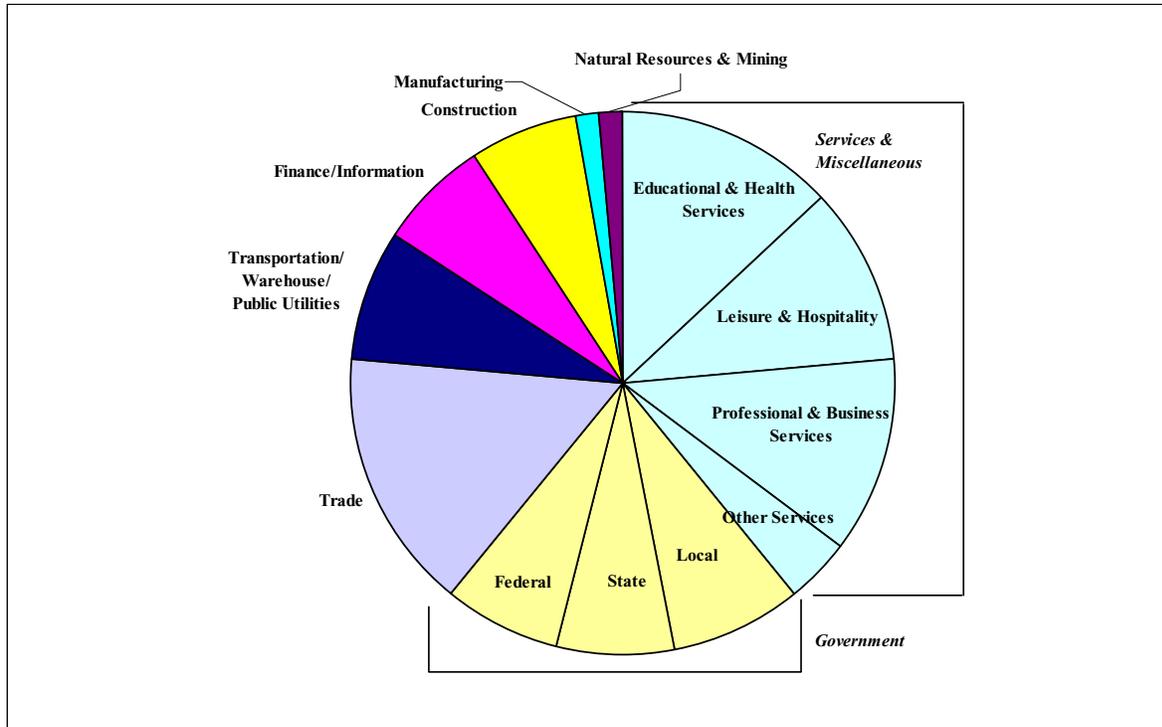
Table I-6
Alaska's Top 10 Employers
CY04

Rank	Organization	Employees	Headquarters or Largest Work Site
1	Uniformed Military	20,172	Anchorage
2	Federal Civilians	17,177	Anchorage
3	State of Alaska	16,987	Juneau
4	University of Alaska	7,072	Fairbanks
5	Anchorage School District	6,352	Anchorage
6	Providence Alaska Medical Center	3,518	Anchorage
7	Safeway Stores/Carrs	3,107	Anchorage
8	Municipality of Anchorage	2,902	Anchorage
9	Wal-Mart/Sam's Club	2,725	Anchorage
10	Fred Meyer	2,597	Anchorage

Source:
ADOL

- 1) Employment by Industry – Similar to the State, employment in the Anchorage Region is provided by an increasingly diverse group of industries. As shown on **Table I-7**, there are a number of large industries within the Anchorage Region, but employment is neither dominated nor overly dependent on one primary industry. According to ADOL, in 2004 the Services & Miscellaneous sector accounted for the largest percentage of jobs in the Anchorage Region at approximately 39.3 percent. The next largest sectors were Government at 21.4 percent followed by Trade at 15.7 percent and Transportation/Warehouse/Public Utilities at 7.9 percent.

Table I-7
Anchorage Region
Employment by Industry Sector
CY04



Industry Sector	Percent Distribution
Services & Miscellaneous ¹	39.3%
<i>Educational & Health Services</i>	<i>13.1%</i>
<i>Leisure & Hospitality</i>	<i>10.5%</i>
<i>Professional & Business Services</i>	<i>11.5%</i>
<i>Other Services</i>	<i>4.1%</i>
Government	21.4%
<i>Local</i>	<i>7.6%</i>
<i>State</i>	<i>6.9%</i>
<i>Federal</i>	<i>6.9%</i>
Trade	15.7%
Transportation/Warehouse/Public Utilities	7.9%
Construction	6.6%
Finance/Information	6.4%
Natural Resources & Mining	1.5%
Manufacturing	1.2%
Total	100.0%

Source:
 ADOL

1/ The Services & Miscellaneous sector includes the sub-sectors of Educational & Health Services, Leisure & Hospitality, Professional & Business Services, and Other Services. The percentages shown next to each sub-category represent its share of total State employment.

ADOL predicts continued modest job growth for the Anchorage Region. The Anchorage Consumer Price Index rose by 2.4 percent in the first half of 2005 indicating a rise in salaries and rental prices among other economic indicators of growth. With the opening of a new hospital in the Mat-Su area, continued growth in the health care industry is likely in the near future along with new employment opportunities for the Anchorage Region. Construction has also been a growing industry in the Anchorage/Mat-Su region where permit valuations have increased to \$410.0 million for the first half of 2005 compared to \$393.0 million for the same period in 2004, representing growth of 4.3 percent. The Services & Miscellaneous sector representing Leisure & Hospitality, Professional and Business services, along with Educational & Health services is expected to show the largest overall gain in employment. Currently, employment in the Natural Resources & Mining is not expected to change appreciably.

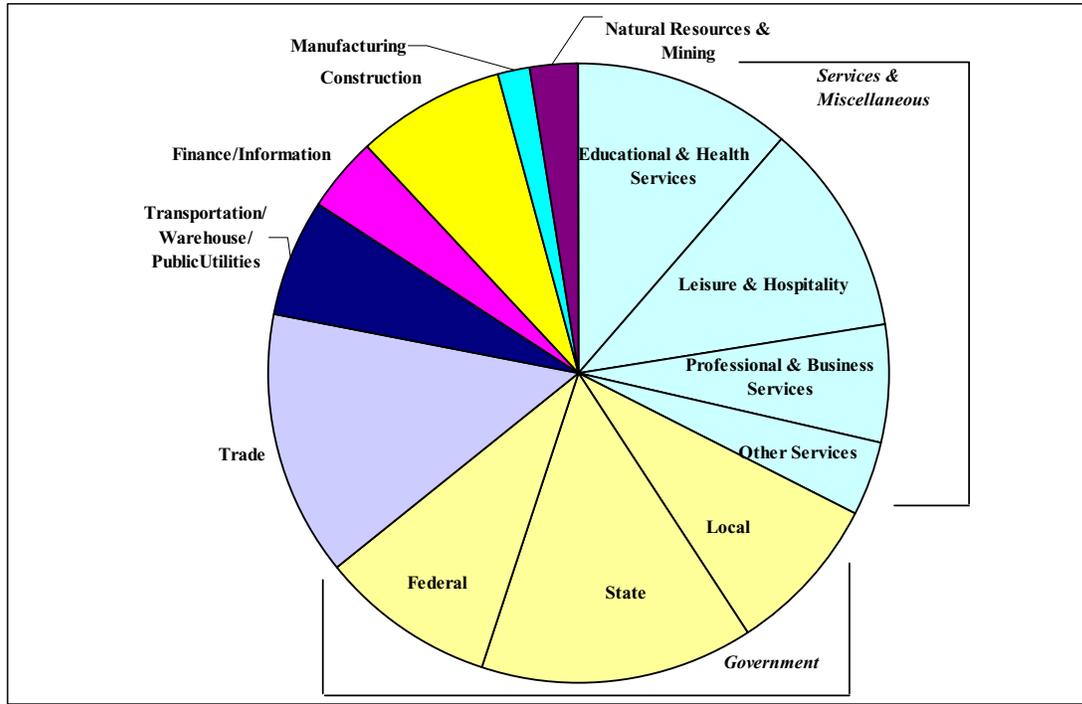
- c. Fairbanks Region – The Fairbanks Region accounted for an estimated 55,552 jobs in 2004, or 13.0 percent of Alaska’s jobs. Employment in the Fairbanks Region recorded an AACGR of 1.9 percent over the period 1995 to 2004. Similar to the State and the Anchorage Region, the Fairbanks Region is projected to experience a decline in job growth over the next decade. W&P anticipates that the number of jobs in the Fairbanks Region will increase at an AACGR of 0.9 percent during the Forecast Period.

- 1) Employment by Industry – The Fairbanks Region’s distribution of employment by industry is similar to that of both the State and the Anchorage Region. As shown in **Table I-8**, there are a number of industries within the Fairbanks Region, but employment is not dominated or overly dependent on one primary industry. According to ADOL, the Services & Miscellaneous sector of employment accounted for the largest percentage of jobs in the Fairbanks Region at approximately 32.5 percent. The next largest sectors were Government at 31.7 percent followed by Trade at 13.8 percent and Construction at 7.7 percent.

ADOL forecasts continued job growth for the Fairbanks Region. Population growth will continue to create job growth in the services sector. Construction contractors in Fairbanks have benefited from the growth in the U.S. military’s presence in Fairbanks as well as a surge in the private retail industry. In the past year, Fred-Meyer, Wal Mart, Home Depot, Lowe’s Safeway, Sportsman’s Warehouse and Barnes & Noble along with many other private retail chains have opened or are about to open facilities in the Fairbanks Region⁷.

⁷ “Economic Trends,” October 2005, ADOL, pg. 19.

**Table I-8
Fairbanks Region
Employment by Industry Sector
CY04**



Industry Sector	Percent Distribution
Services & Miscellaneous ¹	32.5%
Educational & Health Services	11.3%
Leisure & Hospitality	11.3%
Professional & Business Services	6.1%
Other Services	3.9%
Government	31.7%
Local	8.3%
State	14.3%
Federal	9.1%
Trade	13.8%
Construction	7.7%
Transportation/Warehouse/Public Utilities	6.3%
Finance/Information	3.9%
Natural Resources & Mining	2.5%
Manufacturing	1.7%
Total	100.0%

Source:
ADOL

1/ The Services & Miscellaneous sector includes the sub-sectors of Educational & Health Services, Leisure & Hospitality, Professional & Business Services, and Other Services. The percentages shown next to each sub-category represent its share of total State employment.

5. Personal Income

Total personal income and per capita personal income (“PCPI”) are important determinants in forecasting demand for aviation services. Typically, as regional income increases, so does demand for air service. Total personal income and PCPI are reported in 1996 dollars (see **Table I-9**).

- a. State of Alaska – In 2004, Alaska had an estimated total personal income of approximately \$20.0 billion. Total personal income increased more than 27.1 percent from 1995 through 2004, which equates to an AACGR of 2.7 percent. Significantly, that level of growth occurred despite a decrease in the mid-nineties. The downturn in those years was due to slower economic growth, particularly in the oil industry and military base closings, including the closing of the Naval Air Facility in Adak. W&P projects that Alaska’s total personal income will increase at an AACGR of 2.0 percent during the Forecast Period, which is comparable to the 2.1 percent AACGR for total personal income in the U.S. as a whole.

Alaska’s PCPI was an estimated \$30,498 in 2004 compared to \$28,571 for the U.S. Alaska’s PCPI grew at an AACGR of 1.8 percent from 1995 through 2004. As was the case with total personal income, growth was slowed by the economic downturn in the mid-nineties. Over the Forecast Period, W&P projects Alaska’s PCPI to increase at an AACGR of 0.9 percent to \$33,476 by 2015.

- b. Anchorage Region – Total personal income for the Anchorage Region in 2004 was approximately \$11.3 billion. As was the case with the State as a whole, the Anchorage Region’s total personal income showed strong growth during the 1990’s. Total personal income for the Anchorage Region increased at an AACGR of 3.3 percent from 1995 to 2004. The AACGR is projected by W&P to increase at 2.0 percent during the Forecast Period.

The Anchorage Region’s PCPI is significantly higher than the PCPI for the U.S. In 2004, the Anchorage Region had a PCPI of \$32,864 compared to \$28,571 for the national figure. PCPI for the Anchorage Region increased at an AACGR of 1.8 percent from 1995 to 2004. By 2015, W&P projects PCPI to increase to \$35,807 which equates to an AACGR of 0.8 percent.

- c. Fairbanks Region – In the Fairbanks Region, total personal income grew from approximately \$1.9 billion in 1995 to an estimated \$2.4 billion in 2004. That equates to an AACGR of 2.6 percent. This growth rate occurred despite decreases in 1996 caused by military realignment at Fort Greely near Fairbanks and slower economic conditions. During the Forecast Period, total personal income in the Fairbanks Region as projected by W&P will increase at an AACGR of 1.5 percent. By 2015, total personal income is projected by W&P to reach approximately \$2.8 billion.

In 1995, PCPI equaled \$23,414 in the Fairbanks Region and \$23,573 nationally. The PCPI AACGR in the Fairbanks Region is 2.0 percent which is slightly below the U.S. rate of 2.2 percent. In 2004, PCPI in the Fairbanks Region equaled \$27,868 compared with \$28,571 nationwide. During the Forecast Period, PCPI in the Fairbanks Region is expected to increase at an AACGR of 1.0 percent. In 2015, PCPI is projected by W&P to reach an estimated \$31,172.

**Table I-9
Total Personal Income and PCPI**

Year	Anchorage Region		Fairbanks Region		Alaska		United States	
	Total Personal Income (000)	Per Capita Personal Income	Total Personal Income (000)	Per Capita Personal Income	Total Personal Income (000)	Per Capita Personal Income	Total Personal Income (000)	Per Capita Personal Income
1995	\$8,444,242	\$27,972	\$1,918,577	\$23,414	\$15,746,403	\$26,052	\$6,276,926,305	\$23,573
1996	8,456,910	27,947	1,923,210	23,205	15,704,172	25,805	6,512,484,991	24,175
1997	8,780,764	28,650	1,975,372	23,949	16,130,236	26,315	6,792,819,668	24,914
1998	9,186,525	29,360	2,044,252	24,541	16,652,461	26,862	7,227,878,610	26,202
1999	9,326,725	29,406	2,069,724	24,820	16,831,802	26,940	7,474,304,169	26,786
2000	9,663,059	30,155	2,154,639	26,036	17,532,037	27,936	7,878,597,667	27,921
2001	10,386,365	31,845	2,222,803	26,475	18,456,213	29,172	7,974,432,315	27,971
2002	10,727,355	32,182	2,313,387	27,176	19,008,119	29,632	8,040,415,648	27,921
2003	11,055,017	32,583	2,369,460	27,559	19,602,019	30,212	8,213,746,617	28,244
2004	11,290,407	32,864	2,407,291	27,868	20,011,861	30,498	8,386,931,075	28,571
2006	\$11,754,933	\$33,366	\$2,481,510	\$28,460	\$20,823,492	\$31,017	\$8,733,013,372	\$29,182
2010	12,738,417	34,409	2,637,578	29,640	22,535,569	32,078	9,469,982,126	30,447
2015	14,086,700	35,807	2,849,788	31,172	24,871,566	33,476	10,483,473,247	32,109
Average Annual Compound Growth Rates								
1995 - 2004	3.3%	1.8%	2.6%	2.0%	2.7%	1.8%	3.3%	2.2%
2006 - 2010	2.0%	0.8%	1.5%	1.0%	2.0%	0.8%	2.0%	1.1%
2010 - 2015	2.0%	0.8%	1.6%	1.0%	2.0%	0.9%	2.1%	1.1%
2006 - 2015	2.0%	0.8%	1.5%	1.0%	2.0%	0.9%	2.1%	1.1%

Source:

W&P

6. Federal Spending

Alaska is a unique state in many ways, including its abundance of natural resources, strategic location and the importance of both to the rest of the U.S. As such, Alaska has traditionally received a significant amount of federal funding for various projects and programs. Military installations and transportation infrastructure projects are two examples of federal spending that are significant on a stand-alone basis, as well as for their positive impact on other industries, such as business services, wholesale trade and finance.

Federal receipts budgeted by the State equaled \$2.4 billion for FY04 and \$324.0 million or 13.5 percent of these funds were matched by the State. All federal funds were restricted to specific uses and the largest categories of federal spending for the State included \$731.0 million for highways and airports, \$557.0 million on public safety, \$528.0 million for Medicaid and \$275.0 million for education⁸.

7. Tourism Industry

- a. Tourist Activities – Alaska’s image as one of the few remaining wilderness areas, combined with its increasing popularity as a convention and cruise ship destination have made tourism a growth industry. With 15 National Parks and Monuments, two National Forests, 16 national Wildlife Refuges and 199 State Parks, it offers unmatched opportunities for enjoying nature. Scenic highlights include fiords, glaciers (which comprise 5.0 percent of the State’s area), Denali, Mt. McKinley the highest mountain in North America and the northern lights. Outdoor activities include bird watching, sport fishing, sport hunting, hiking, rafting, snow skiing, snowmobiling, wildlife viewing and photography.

Through the 1990’s tourism increased greatly and drove one of the fastest growing industries in the State. According to the Alaska Travel Industry Association (“ATIA”) tourism is Alaska’s second largest private sector employer, accounting for one in eight private sector jobs. **Table I-10** illustrates the growth in visitors to Alaska since 1995. In 2002, Alaska’s residents and visitors spent \$2.4 billion on travel and tourism within the State,⁹ of which \$1.5 billion was kept within Alaska. In 2002, the “Core” tourism industry¹⁰ ranked as the State’s seventh largest industry in terms of economic value added. The air travel sector, with a 2002 economic value added of \$189.0 million, ranked as the second largest component within the “Core” tourism industry after hotels and lodging.¹¹ Tourism is widely viewed as a means to diversify Alaska’s economy and reduce reliance on the oil and gas industry.

In 2005, Anchorage citizens voted to increase the bed tax on hotels, motels and other tourist lodging facilities to support the issuance of municipal bonds for a new civic and convention center, capable of accommodating 5,000 delegates. In 2004, bed tax revenues in Anchorage exceeded \$11.6 million, compared to \$10.2 million in 2003 and \$11.0 million in 2002. In September 2005 alone, despite the limited facilities, Anchorage hosted several large conventions, including the American Fisheries Society (1,800 delegates), the International Association of Assessing Officers (1,800 delegates), and the World Wildlife Congress (1,200 delegates).

⁸ Alaska Department of Revenue, FY04.

⁹ “Alaska Economic Performance Report, 2003.” Alaska Department of Community and Economic Development, 2004.

¹⁰ The “Core” tourism industry is the part that directly serves travelers and tourists.

¹¹ “The Alaska Tourism Satellite Account,” Alaska Department of Commerce, Community and Economic Development, October 2004.

Table I-10
Total Visitors to Alaska

<u>Year</u> ¹	<u>Fall/Winter</u> ²	<u>Summer</u> ³	<u>Total</u>
1995	190,600	967,100	1,157,700
1996	208,100	1,064,300	1,272,400
1997	230,500	1,120,500	1,351,000
1998	209,600	1,163,700	1,373,300
1999	216,300	1,199,000	1,415,300
2000 ⁴	n/a	n/a	n/a
2001	254,500	1,202,800	1,457,300
2002	253,000	1,275,000	1,528,000
2003	252,600	1,310,100	1,562,700
2004	257,100	1,447,400	1,704,500
Average Annual Compound Growth Rate			
1995 - 2000	3.2%	5.5%	5.2%
2000 - 2004	0.3%	6.4%	5.4%
1995 - 2004	3.4%	4.6%	4.4%

Source:

Alaska Visitor Statistics Program

- 1/ Data is compiled for the 12-month period beginning in October and ending in September and named according to the calendar year in which September occurs.
- 2/ The Fall/Winter season includes the period October through April.
- 3/ The Summer season includes the period May through September.
- 4/ Visitor survey was not conducted for this period.

In 2005, Fairbanks also hosted a series of conventions including the Alaska Federation of Natives Convention (3,000 delegates). This convention is the largest native gathering in the U.S. and it is Alaska's largest convention. In 2006, Fairbanks will host the Regional Meeting of the National Association of Counties. Fairbanks currently has 3,200 lodging rooms (including hotels, motels, lodges and inns). The last major hotel expansion in Fairbanks occurred in 2002 resulting in a 20.0 percent increase in the number of rooms.

Alaska's tourist industry remains highly seasonal. The State and several economic development organizations are developing Alaska as a year-round destination. The conventions mentioned above have helped develop the "shoulder" (spring and fall) seasons. The State seeks to develop winter tourism around the activities of northern lights viewing, the Iditarod Sled Dog Race, Anchorage Fur Rendezvous, alpine and Nordic skiing, dog sledding and snowmobiling. In response to more interest in Alaska as a winter destination, Seibu Alaska Inc. expanded its Alyeska Resort (40 miles south of Anchorage) into a world-class, all-season resort. The resort includes a 307-room Prince Hotel and a tramway to a high-end mountaintop restaurant. This resort has the capacity to accommodate a projected expansion of the international tourist market over the next decade. Additional hotel and resort development is anticipated at Winner Creek in Girwood which will include approximately 300 hotel rooms, as well as ski runs and other facilities.

All efforts by Alaska to diversify its tourism industry and reduce its reliance on the cruise industry will benefit the AIAS. Such efforts could include promoting tour packages during the off-season, promoting inland attractions such as eco-tourism and sport fishing, along with offering incentives

for tourists to extend their stays in small port communities such as Skagway and Ketchikan as opposed to the limited hourly stays offered by cruise ships. Tourism offers excellent prospects for increasing international passenger air service. Alaska's image is particularly attractive to Europeans and Asians, who seek a genuine wilderness environment. In the summer of 2005, Condor Flugdienst offered nonstop service between Frankfurt and both ANC and FAI. Currently, Japan Air Lines has non-scheduled service from Tokyo to both Anchorage and Fairbanks to cater to eco-tourists and popular attractions such as the northern lights.

- b. Cruise Ship Industry – The popularity of Alaskan cruises grew dramatically in the 1990's (see **Table I-11**) and continues to grow. In fact, throughout the last 10 years Alaska often ranked as the number one destination in the world during the summer months. The number of cruise ship passengers visiting Alaska increased from 283,500 in 1995 to 712,400 in 2004. This increase of over 150.0 percent in cruise ship passengers occurred at an AACGR of 10.8 percent.

Table I-11
Alaska Cruise Ship Visitors

<u>Year</u>	<u>Total Passengers</u>
1995	283,500
1996	336,500
1997	392,100
1998	431,200
1999	457,100
2000 ¹	n/a
2001	510,000
2002	581,000
2003	620,900
2004	712,400
<u>Average Annual Compound Growth Rate</u>	
1995 - 2000	12.7%
2000 - 2004	11.8%
1995 - 2004	10.8%

Source:

Alaska Visitor Statistics Program

1/ Visitor survey was not conducted for this period.

In 2005, it was estimated that more than 900,000 cruise ship passengers visited Alaska.^{12 13} Most of the cruise lines serving Alaska offer a range of cruise options and on-shore activity packages to passengers.

The ships usually depart from Vancouver, San Francisco or Seattle and sail up the Inside Passage, stopping at towns and geographical points of interest. Many ships travel across the Gulf of Alaska. Reverse cruises are also available. Nearly all cruise ships visit the primary ports of Juneau, Ketchikan and Skagway. The secondary ports of Seward, Sitka and Haines receive approximately a third to a half of the passengers visiting the primary ports. In 2004, Princess Cruises finished building a new terminal at the dock in Whittier for its exclusive use. Located at

¹² Los Angeles Times, September 18, 2005, "Ports Seek Solutions as Ships Get Larger."

¹³ The high rate of growth expected in cruise ship passenger activity between 2004 and 2005 is due in part to greater capacity increases shifting from the Caribbean to Alaska which was due in part to the 2005 hurricane season.

the mouth of Whittier Creek, it features a new 20,000 square foot passenger terminal and a floating dock. The terminal allows for same day rail service to Denali. According to the cruise line, this new addition makes transfers to and from Anchorage faster and easier. Other cities are also working to attract cruise ships to make a stop at their docks. Homer opened a new dock in 2002; Icy Strait Point, a terminal facility near Glacier Bay National Park on the southeastern panhandle, opened in 2004 after an extensive restoration of the famous salmon cannery in that location, and is the State's first destination specifically built for the purpose of serving cruise ships.

Alaskan cruises usually last between four and eight days. Table I-11 shows the number of visitors that arrived in Alaska by cruise ship. It does not include passengers that take cruise excursions while in Alaska, or those that fly into the State and depart on a southbound cruise. Holland America, Princess Tours, Carnival Cruises, Celebrity, Crystal Cruises, Norwegian Cruise Lines, Royal Caribbean, Radisson Seven Seas and World Explorer Cruises are some of the larger cruise lines that operate in the Alaskan market.

The cruise ships introduce visitors to Alaska and could potentially increase interest in longer-term visits to areas distant from the immediate coast, or during the periods of the year when cruises do not operate. Any such travel would likely involve the AIAS, both for Lower-48, international and intrastate travel.

8. Natural Resources and Mining

The oil and gas industry employs, either directly or indirectly, 17.0 percent of the total Alaskan workforce. In FY04 and FY05, the industry generated \$2.6 billion and \$2.9 billion in revenues respectively for the State. Alaska has two commercially active oil and gas regions; Cook Inlet (in the Kenai Peninsula Borough) and the North Slope. The North Slope is the largest operating oil field in the U.S. Alaska has 30.0 percent of the total proven oil reserves of the U.S.

Prospects for growth in the oil and gas industry in Alaska are affected by the industry's economics and its overall importance in the world economy as well as environmental issues related to petroleum production and consumption. While it is very difficult to estimate the quantity of reserves in any oilfield, improved drilling and extracting technologies can increase the productivity of even a very aged field. **Table I-12** shows one set of estimates for the North Slope.

Table I-12
North Slope Oil Reserves

Area	Basis for Estimate	Reserves (bbl.)
Prudhoe Bay	Total Discovered	19.1 billion
	Already extracted	13.7 billion
	Remaining (estimated)	5.4 billion
Arctic National Wildlife Refuge	Estimated	5.7 - 16.0 billion
National Petroleum Reserve of Alaska	Estimated	6.0 - 13.0 billion

Source:

Associated Press, November 16, 2004 "Interior Department Approves Drilling Plan at Alaska Oil Reserve"; The Heritage Foundation August 1, 2001, "Tapping Oil Reserves in a Small Part of ANWR: Environmentally Sound, Energy Wise"

The first commercial oil from the Prudhoe Bay area of the North Slope was extracted in 1978. Production peaked in 1988 at 2.0 million barrels per day. Output rates averaged 902,000 barrels per day in FY04 and approximately 853,000 for the first six months of FY05. These levels still accounted for 16.0 percent of total U.S. crude production.

For the last 80 years, the National Petroleum Reserve of Alaska (“NPR”) has served as an energy storehouse for the U.S. military. In January 2004, the Bureau of Land Management (“BLM”) announced that it would open 7.2 million acres to drilling activity and construct an access road costing \$150.0 million to permit expansion of test drilling activity. Other exploration activity continues in the Susitna Valley, the Nenana Basin, the Copper River Basin and on the Alaska Peninsula.

The price of oil is expected to continue to fluctuate during the Forecast Period. The supply of crude oil varies because of worldwide political issues. Ongoing conflicts in Iraq, the U.S. embargo and internal political divisions in Iran have constrained production in the Middle East. Venezuela, Russia, the Caucasus, Indonesia and Nigeria also face political uncertainties. Any disruption to petroleum facilities, such as the damage inflicted to U.S. Gulf Coast facilities by the hurricanes of 2005 can also cause short-term increases in price.

Recessions that may occur in the consuming countries will tend to lower prices temporarily, but economic growth would suggest a long-term price appreciation. Economic development in China, India and other nations has increased worldwide demand. Between CY00 and CY05, China accounted for one-third of the growth in world oil demand. China’s oil consumption per person is only one-fifteenth that of the U.S. and is expected to increase significantly. Trends such as rising automobile ownership, increased air travel and a desire to substitute petroleum for coal will lead to an increasing worldwide demand for crude oil.

Natural gas accompanies most oil deposits and is a common by-product of crude oil extraction. There is presently no means to transport North Slope natural gas to market. The State and other organizations are interested in constructing a pipeline. Representatives of the State are currently in discussions with three major North Slope oil producers – Conoco Phillips, Exxon Mobil and BP Plc¹⁴, regarding a proposal to link the Prudhoe Bay producing areas with the Alaska-Yukon border near the Alaska Highway. This proposed pipeline, referred to as the Alaska Natural Gas Transportation System (“ANGTS”) would ultimately connect the North Slope to Chicago. It is expected that both the U.S. and Canada would build the line that would link to the North American grid of natural gas pipelines. The Alaska portion of the project would cost an estimated \$6.3 billion while the full cost is estimated to be \$24.0 billion. This project would be the largest construction project in the history of North America and would require up to 10 years to permit, design and build. The Alaska Natural Gasline Port Authority proposes an alternate project, negotiating with Alaska to build the Trans Alaska Gas System (“TAGS”), a \$20.0 billion natural gas pipeline that would parallel the existing oil pipeline to Valdez, Alaska. The project would include a gas liquefaction facility at Valdez, and natural gas would be shipped by tanker under low temperature and high pressure to ports in the Lower-48.

Policymakers will need to balance environmental considerations with the growing demand for oil and natural gas. The NPR developments and any drilling and extraction in the ANWR could reverse the decline in North Slope extraction rates. The additional exploration activity, combined with the natural gas pipeline developments, would be expected to cause a period of heightened economic activity in

¹⁴ British Petroleum, Public limited company.

Alaska lasting several years. Although employment would likely level off upon completion of these projects, the State would be expected to receive increased tax revenues as the oil and gas is extracted.

If these developments occur, they would be favorable for the AIAS since both airports would play a leading role as access points to these projects. It is expected that both intrastate and Lower-48 traffic would see considerable growth however, the aviation activity forecasts presented in this Report do not assume that any of these projects will be implemented.

B. SUMMARY

Alaska's increasingly diversified economy and its growing attractiveness as a tourist destination will continue to provide strong demand for air transportation services over the Forecast Period. As the largest areas in Alaska, the Anchorage and Fairbanks Regions are the most populous in the State and are the main hubs of economic and government activity. Four major industry sectors that drive local economies are the oil and gas, military, transportation and convention/tourism industries. These industries provide Fairbanks and Anchorage with a measure of stability that has given them 15 consecutive years of economic growth and a bright outlook for the future. First rate accommodations, modern infrastructure and a wide variety of social and cultural attractions, have enabled Anchorage and Fairbanks to become the gateways to Alaska's internationally renowned landscape and eco-friendly tourism environment. The quality of life, low taxes, good recreation, top education facilities and access to global markets present in the Anchorage and Fairbanks Regions have attracted many travelers and act as a stimulus for both domestic and international air travel.

These factors make the Anchorage and Fairbanks Regions, in particular, and the State as a whole, a desirable place in which to live, visit and conduct business. Favorable growth in population, employment and personal income, have been forecast for both the Anchorage and Fairbanks Regions, which will continue to generate a strong demand for air transportation services through the Forecast Period.

II. AIR TRAFFIC/AIR SERVICE ANALYSIS

This chapter provides an analysis of historical aviation activity and identifies important trends and events that are expected to affect future air service demand within the AIAS. In addition, the chapter includes a forecast of enplaned passengers, aircraft landings, aircraft Certificated Maximum Gross Take-Off Weight (“CMGTW”) and air cargo tonnage for the Forecast Period.

A. HISTORICAL AVIATION ACTIVITY

1. Ted Stevens Anchorage International Airport

ANC serves as the primary port of entry for both business and leisure travelers entering Alaska. In addition to being the State’s largest population and commercial center, Anchorage is a popular tourist destination. Anchorage is located in south central Alaska and it is 1,330 air miles from Vancouver, BC, the nearest large North American metropolitan area. The extreme distances to metropolitan areas outside of Alaska and limited transportation options within the State have made the Anchorage Region, and therefore the State, highly dependent on air transportation services.

Since FY95, aviation activity at ANC has generally been increasing. In particular, traffic increased significantly in FY96, FY97 and FY05. In terms of passenger service, ANC serves as a hub and connecting point for Alaska Airlines, which is based in Seattle, WA. PenAir and Era Aviation are code-share partners with Alaska Airlines and enplane a large number of connecting passengers at ANC to destinations within the State. In addition, ANC has long served as a spoke airport, or a destination point, for a number of airlines based in the Lower-48 states including United Airlines, Northwest Airlines, Continental Airlines, Frontier Airlines and Delta Air Lines (see **Table II-1**).

ANC has historically been recognized for its major role in the air cargo industry. ANC currently ranks third among airports worldwide in total air cargo tonnage and second in North America in the latest ACI cargo rankings. ANC also ranks first in the U.S. in terms of total all-cargo aircraft landed weight. Serving as a mid-point between North America and Asia, the airport is an ideal location for re-fueling operations and cargo sorting facilities (see **Exhibit II-1**). As of November 2005, ANC was served by 37 all-cargo carriers.

ANC serves primarily as an O&D airport having enplaned 1.6 million O&D passengers in FY05. This equals 67.2 percent of total enplaned scheduled passengers at ANC. ANC’s large domestic O&D base can be attributed to the lack of any significant airport competition within the region and the lack of alternative modes of transportation to other domestic and international destinations. Although the percentage of connecting traffic at ANC was approximately 32.8 percent, this figure is misleading since a large portion of these passengers are intrastate connections by virtue of the State’s “captive market,” in other words, a connecting flight through ANC is often the only viable transportation option for intrastate travelers.

Connecting traffic at a typical hub airport, in theory, could be transferred to another airport by rerouting traffic to that other hub on the same or a competing air carrier. In the case of Alaska, ANC serves as the primary commercial service airport providing flights to the Lower-48 states and international destinations. For much of the year, there are no other options for most Alaska residents to reach these Lower-48 or international destinations except going through ANC by air.

Table II-1
Ted Stevens Anchorage International Airport
Commercial Air Carriers

As of November 2005 (Some service may be seasonal)

Scheduled Domestic Passenger Service

Alaska Airlines	Grant Aviation
American Airlines	Hageland Aviation Services
Conoco Phillips	Hawaiian Airlines
Continental Airlines	Kenai Express
Delta Air Lines	Northwest Airlines
Era Aviation	PenAir
F.S. Air Service	Security Aviation
Frontier Airlines	United Airlines
Frontier Flying Service	US Airways ²

Scheduled International Passenger Service

Air Canada	Korean Air
Cathay Pacific Airways ¹	Mavial/Magadan Airlines
China Airlines	Thomas Cooke/Condor (<i>seasonal</i>)

Non-Scheduled International Passenger Service

Japan Air Lines

All-Cargo Operators

ABX Air	Everts Air Cargo
Air Atlanta Icelandic	FedEx
Air Canada	Gemini Air Cargo
Air China	Japan Airlines
Air Macau	Kalitta Air
Air Transport International	Korean Air
Alaska Airlines	Lynden Air Cargo
Alaska Central Express	Nippon Cargo Airlines
Asiana Airlines	Northern Air Cargo
Atlas Air	Northwest Air Cargo
Cathay Pacific Airways	Polar Air
China Airlines	Qantas
China Cargo Airlines	Singapore Airlines Cargo
China Southern Airlines	Southern Air
Desert Air	Tradewinds Airlines
Dragon Air	Transmile Air
Empire Airlines	United Parcel Service
EVA Airways	World Airways
Evergreen International Airlines	

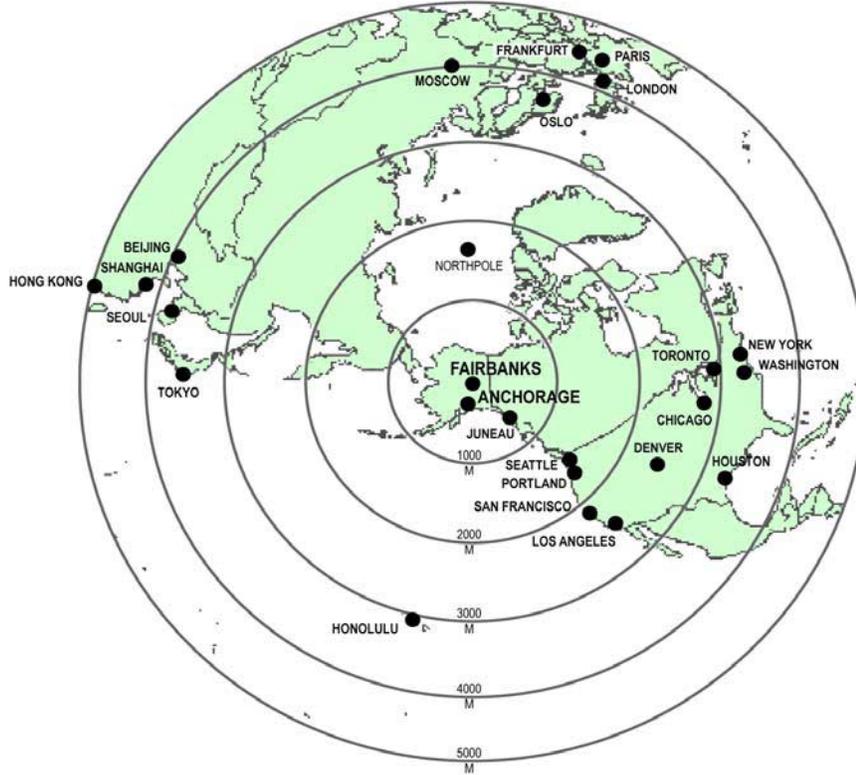
Source:

AIAS and OAG

^{1/} Airline conducts technical refueling stops only and does not enplane or deplane passengers in ANC.

^{2/} Formerly America West Airlines, the carrier merged with US Airways, Inc., of Arlington, VA, on September 27, 2005, to form a new carrier - US Airways.

**Exhibit II-1
Alaska International Airports System
Global Projection Centered on Anchorage and Fairbanks**



Cargo Market Served in FY04

International		Domestic	
Amsterdam	Seoul	Atlanta	Oakland
Bangkok	Shanghai	Chicago	Ontario
Beijing	Shenzhen	Cincinnati	Portland
Brussels	Singapore	Columbus	San Francisco
Chitose	Stansted	Dallas	Seattle
Frankfurt	Subic Bay	Dayton	Rockford
Hong Kong	Taipei	Indianapolis	
Kuala Lumpur	Toronto	Los Angeles	
London	Vancouver	Louisville	
Manila	Kaohsiung	Memphis	
Milan	Luxembourg	Miami	
Narita	Guam	Minneapolis	
Osaka	Jakarta	Nashville	
Paris	Macau	New York	
Penang	Xiamen	Newark	

Source:
AIAS

The combination of light demand from most metropolitan regions in Alaska and the great distance that aircraft would need to fly to reach Lower-48 or international destinations makes connecting through ANC the only economically realistic air service routing. Given this situation, the risk of connecting traffic being rerouted to an airport other than ANC is much lower than that at many other hub airports.

2. **Fairbanks International Airport**

FAI is the second largest airport in the State in terms of enplanements and serves mainly as an O&D passenger airport for travelers within the State. Similar to ANC, the location, topography and climate have made the Fairbanks Region dependent on air transportation. FAI's geography has made it an optimal airport for refueling stops between Europe and Asia creating savings of over 300 nautical miles per round trip for air carriers¹. In 2002, the GA runway was lengthened and widened to accommodate larger aircraft.

Since FY96, FAI has displayed a historical trend of annual growth in enplaned passengers with a few periods of decline occurring in FY98, FY99, FY00 and FY02. These periods of decline were offset by periods of strong air service demand giving the airport a healthy growth rate for the 10 year historical period between FY96 and FY05. Unlike ANC, FAI lacks the year-round presence of the major U.S. spoke carriers although it does have year round service by Alaska Airlines including a year round flight to Seattle, WA. FAI benefits from the service provided by local carriers such as Frontier Flying Service and Warbelow Air Ventures (see **Table II-2**).

Table II-2
Fairbanks International Airport
Commercial Air Carriers

As of November 2005 (Some service may be seasonal)

Scheduled Domestic Passenger Service

40-Mile Air	Frontier Flying Service
Air North	Northwest Airlines (<i>seasonal</i>)
Alaska Airlines	Tatonduk Outfitters
Delta Air Lines (<i>seasonal</i>)	Warbelow Air Ventures
Era Aviation	Wright Air

Scheduled International Passenger Service

Thomas Cooke/Condor (*seasonal*)

Non-Scheduled International Passenger Service

Japan Air Lines

All-Cargo Operators

Alaska Airlines	FedEx
Arctic Circle Air	Lufthansa Cargo
Cargolux Airlines	Lynden Air Cargo
Everts Air Cargo	Northern Air Cargo

Source:

AIAS and OAG

Eco-tourism and attractions such as the Northern Lights have made FAI an important charter destination for European and Japanese tourists during the summer and winter seasons. FAI also has an important role in the cargo industry within the State and serves as a technical refueling stop for two major international cargo carriers, Lufthansa Air Cargo and Cargolux.

¹ Fairbanks Economic Development Corporation, "Transportation: Air Freight Services," 2004.

3. Alaska Air Group, Inc.

Alaska Air Group, Inc. is the holding company for Alaska Airlines, with extensive service to, from and within Alaska, and Horizon Air, a commuter carrier that does not serve Alaska. Alaska Airlines has the largest presence of any airline in the State and is the largest carrier in terms of passengers and operations at AIAS. In FY05, Alaska Airlines' passenger market share was 51.8 percent at ANC and 72.6 percent at FAI. According to the Official Airline Guide ("OAG") schedule for November 2005, Alaska Airlines operated an average of 41 daily departures at ANC, approximately 35.7 percent of ANC's total scheduled passenger departures and 55.2 percent of their scheduled seats. Alaska Airlines code-share partners, Era Aviation and PenAir, accounted for an average of 41 additional departures per day from ANC. Out of FAI, Alaska Airlines operated an average of 13 daily departures or approximately 21.3 percent of FAI total scheduled passenger departures and 74.6 percent of their scheduled seats.

As of October 2005, Alaska Airlines had a fleet of 110 aircraft including 37 Next Generation B737-700s, 800s and 900s. In June 2005, Alaska Airlines announced an order for 35 B737-800 aircraft, with an option to acquire up to 15 additional aircraft. The order also included preferred purchase rights for an additional 50 B737-800s.

Based on the manufacturer's list price, this order is valued at approximately \$2.3 billion. Alaska Airlines is the eighth largest U.S. major passenger air carrier with total operating revenue in CY04 of over \$2.2 billion.

As with most of the major air carriers, with the exception of Southwest Airlines, the Alaska Air Group reported a net loss for CY04 of \$44.9 million. This loss was largely attributed to higher levels of competition from low-cost carriers in its Seattle-Tacoma International Airport ("SEA-TAC") hub, such as Southwest Airlines and JetBlue Airways and increased fuel costs among other factors. For the second and third quarters of CY05, the Alaska Air Group registered net profits of \$17.4 million and \$90.2 million respectively following a diligent strategy of cost cutting initiatives.

4. FedEx Corporation

FedEx is comprised of four operating units (FedEx Express, FedEx Ground, FedEx Freight, and FedEx Kinko's) the largest of which from both a revenue and operating profit perspective is FedEx Express. FedEx generated revenues of over \$29.0 billion in FY05, an increase of approximately 18.0 percent over FY04.

FedEx currently operates nonstop flights between ANC and eight airports in Asia and one in Europe. Three of the nonstop Asia markets are located in China, three are located in Japan, and the remaining two are in Korea and Taiwan. China is becoming an increasingly important part of FedEx's operations. FedEx will open a new Asia-Pacific hub in Guangzhou, China in 2008 that will replace the facility at Subic Bay, Philippines.

FedEx's presence at FAI is smaller than its ANC operations. At FAI, flights are limited to service to/from ANC including occasional technical stops from trans-pacific operations. In addition to these international operations at ANC, FedEx operates jet flights to all of its main U.S. sorting facilities (located in Memphis, Indianapolis, Oakland, Chicago, Dallas, Newark, and Los Angeles) and several other large domestic markets including Seattle and San Francisco.

The operating fleet of FedEx consists of 670 freighter aircraft including 366 jet aircraft. It has outstanding firm orders for an additional 26 aircraft, including 10 A380F aircraft that are expected to enter into service in FY10. FedEx holds options for an additional 10 A380F aircraft.

5. United Parcel Service Inc.

UPS is a global distribution brand comprised of nine different companies and services, the largest know as UPS Air Cargo. UPS generated revenues of over \$36.0 billion in FY05, an increase of approximately 9.0 percent over FY04. UPS generated a net income of over \$3.0 billion in FY05, an increase of approximately 15.0 percent over FY04.

UPS's main facilities are located in Louisville, KY. UPS operates large international facilities in Germany, Taiwan and the Philippines and operates regional hubs at six other U.S. locations and one in Canada. In addition to these facilities, UPS also has a large presence at ANC. Among cargo carriers at ANC, UPS ranks second only to FedEx.

UPS operates non-stop flights to three Chinese airports from ANC including Hong Kong, Guangzhou, and Shanghai. Additional non-stop flights are provided to Tokyo, Japan, Seoul, Korea and Taipei, Taiwan. Much like FedEx, UPS is increasing service into the China market. UPS is expected to open a cargo hub in Shanghai in 2007. Additionally, UPS is expected to increase the number of weekly frequencies from U.S. markets from 18 to 21 in early 2006.

The fleet of UPS includes nearly 600 aircraft, 268 of which are jet aircraft. In addition, the company had outstanding firm orders for 25 aircraft, including 10 A380F aircraft to be delivered between FY10 and FY13 with options for 10 additional aircraft.

6. International Cargo Carriers

Foreign flag or international cargo carriers (discussed further in Section A-9 of this chapter) collectively represent a substantial share of the ANC market. Approximately 70.0 percent of airfield revenues, including landing fees and fuel flowage fees are derived from cargo aircraft. Between one-third and one-half of the cargo tonnage at ANC is carried by international cargo carriers. This category represents an important share of AIAS airfield revenues.

With the presence of two major international cargo carriers, FAI foreign flags also play a significant role in this market. These two carriers generated approximately 27.0 percent of FAI's revenues in FY05.

7. Low Cost Carrier Activity

Throughout the world, LCC's are challenging the dominance of the long established legacy carriers. With high productivity collective bargaining agreements, and a simplified fleet and route network, the LCC's have much lower costs than the traditional legacy carriers do. Their lower fares can dramatically stimulate traffic.

At the AIAS, LCC's include US Airways² serving Phoenix International Airport ("PHX") and Frontier Airlines serving Denver International Airport ("DEN"). Since both of these low-cost carriers serve

² Formerly America West Airlines, the carrier merged with US Airways, Inc., of Arlington, VA, on September 27, 2005, to form a new carrier, US Airways, Inc.

ANC only once per day, their impact, at ANC and to its leading carrier, Alaska Airlines, has been minimal. The current business model of LCC's such as Southwest Airlines, AirTran and Spirit Airlines render them unlikely to serve the AIAS in the near term. If any of these carriers enter the AIAS, their impact is expected to be minimal through the Forecast Period. The current JetBlue Airways business model of long-haul and overnight flights as well as their presence on the West Coast makes them a potential candidate to serve the AIAS. The service would, however, likely be once per day and not enough to impact Alaska Airlines.

8. Passenger Air Carrier Activity

a. Enplaned Passengers

- 1) ANC – Enplaned passengers at ANC have over the long term, shown a trend of generally increasing activity (**Table II-3**). From FY96 to FY05, total enplanements grew at an AACGR of 1.7 percent, compared to the U.S. rate of 2.3 percent³ for the same period. Total enplaned passengers at ANC have increased from 2.1 million in FY96 to 2.4 million in FY05.

According to ACI, in CY04 ANC ranks as the 60th largest airport in the U.S. (64th in North America) in terms of total passengers (enplaned passengers plus deplaned passengers). ANC ranks ahead of airports such as Buffalo International Airport (“BUF”) in New York, Manchester Airport (“MHT”) in New Hampshire and Omaha Airport (“OMA”) in Nebraska.

- 2) FAI – Total enplaned passengers at FAI have consistently shown a trend of generally increasing activity (see Table II-3). From FY96 to FY05, total enplanements grew at an AACGR of 2.2 percent, which is slightly below the U.S. rate for the same period. Total enplaned passengers have increased from 377,556 in FY96 to 459,005 in FY05.

ACI ranks FAI as the 107th largest airport in the U.S. (116th in North America). FAI ranks ahead of airports such as Cedar Rapids Airport (“CID”) in Iowa, Westchester County Airport (“HPN”) in White Plains, NY and Quad City International Airport (“MLI”) in Moline, IL.

b. Domestic O&D Enplaned Passengers

- 1) ANC – Total domestic scheduled O&D enplaned passengers at ANC were 1.6 million in FY05, which equates to approximately 67.2 percent of total enplaned domestic scheduled passengers measured according to AIAS management records criteria for distinguishing between O&D and connecting passengers. ANC's large domestic O&D passenger base can be attributed to the lack of any significant airport competition within the region and the lack of alternative modes of transportation to other domestic and international destinations.

³ Air Transport Association, 2005 Annual Air Traffic Statistics.

Table II-3
Alaska International Airports System
Historical Enplaned Passengers

Fiscal Year	Ted Stevens Anchorage International Airport				Fairbanks International Airport				Alaska International Airports System			
	Domestic	International	Total	Percentage Change	Domestic	International	Total	Percentage Change	Domestic	International	Total	Percentage Change
1996	2,017,651	33,133	2,050,784		374,746	2,810	377,556		2,392,397	35,943	2,428,340	
1997	2,098,986	37,797	2,136,783	4.2%	409,145	1,135	410,280	8.7%	2,508,131	38,932	2,547,063	4.9%
1998	2,093,390	32,484	2,125,874	-0.5%	405,112	1,000	406,112	-1.0%	2,498,502	33,484	2,531,986	-0.6%
1999	2,093,920	41,582	2,135,502	0.5%	401,353	2,143	403,496	-0.6%	2,495,273	43,725	2,538,998	0.3%
2000	2,153,549	37,248	2,190,797	2.6%	401,683	1,105	402,788	-0.2%	2,555,232	38,353	2,593,585	2.1%
2001	2,209,139	34,232	2,243,371	2.4%	413,243	1,668	414,911	3.0%	2,622,382	35,900	2,658,282	2.5%
2002	2,197,708	35,033	2,232,741	-0.5%	399,472	2,032	401,504	-3.2%	2,597,180	37,065	2,634,245	-0.9%
2003	2,164,301	32,879	2,197,180	-1.6%	408,931	2,285	411,216	2.4%	2,573,232	35,164	2,608,396	-1.0%
2004	2,224,208	26,702	2,250,910	2.4%	432,970	2,398	435,368	5.9%	2,657,178	29,100	2,686,278	3.0%
2005	2,371,046	21,874	2,392,920	6.3%	455,550	3,455	459,005	5.4%	2,826,596	25,329	2,851,925	6.2%
	Average Annual Compound Growth Rates				Average Annual Compound Growth Rates				Average Annual Compound Growth Rates			
1996 - 2000	1.6%	3.0%	1.7%		1.8%	-20.8%	1.6%		1.7%	1.6%	1.7%	
2000 - 2005	1.9%	-10.1%	1.8%		2.5%	25.6%	2.6%		2.0%	-8.0%	1.9%	
1996 - 2005	1.8%	-4.5%	1.7%		2.2%	2.3%	2.2%		1.9%	-3.8%	1.8%	

Source:
AIAS

Although the percentage of connecting traffic at ANC was approximately 32.8 percent in FY05, as applied to ANC this figure would be somewhat misleading without further discussion. An airport's O&D enplaned passengers represent a more dependable base than connecting passengers on the theory that connecting passengers – and even connecting airlines – could elect in the future to connect through a different airport. With many remote population centers within the State and with limited means of transportation, air service is often the only transportation option. Moreover, because these remote locations are too small to support direct air service from outside the State, or in many cases even direct service from other Alaska communities, a connecting flight through ANC is often the only viable air transportation option for intrastate travelers.

- 2) FAI – Total domestic scheduled O&D enplaned passengers at FAI in FY05 were 368,870, which equates to approximately 80.4 percent of total scheduled domestic enplaned passengers at the airport. This sizeable O&D market provides a high level of demand for local air service. Similar to ANC, FAI's large domestic O&D passenger base can be attributed to the lack of any significant (commercial jet) airport competition within the region and the limitations of alternative modes of transportation to carry passengers and goods out of this geographically isolated region.

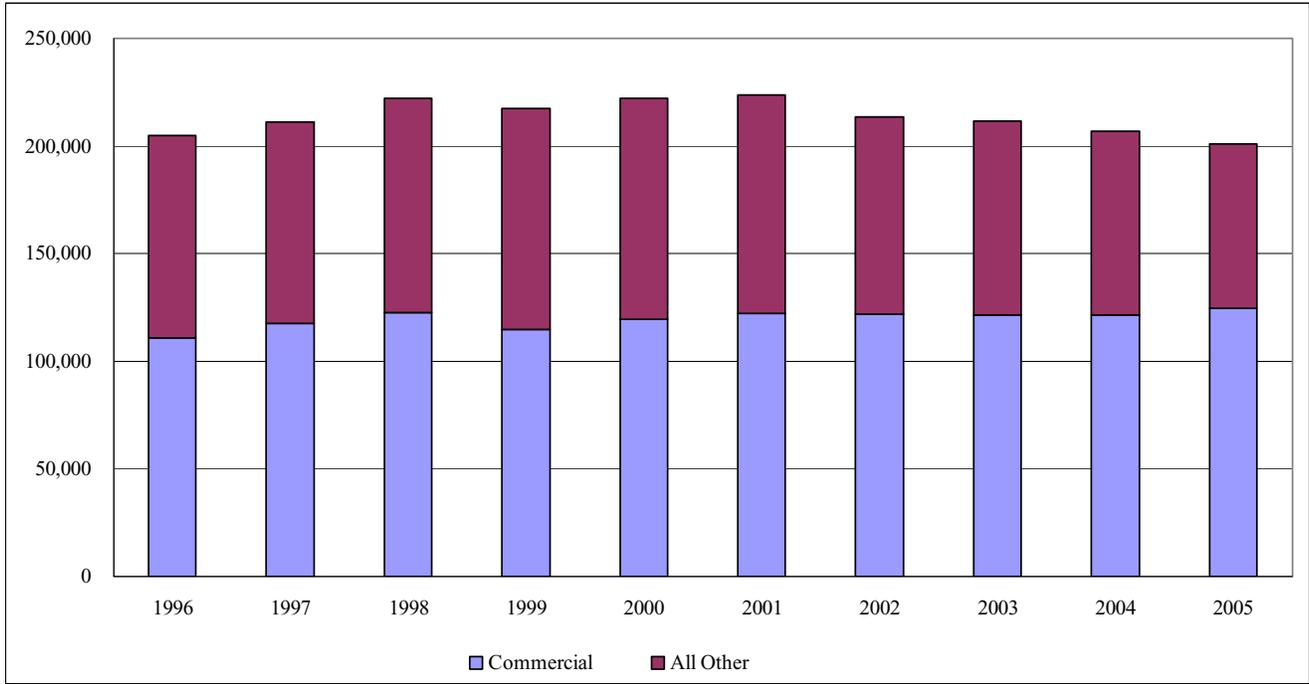
FAI has recorded a moderate amount of connecting traffic through its regional service activity linking to smaller communities in the State. For FY05 approximately 19.6 percent of the airport's average annual domestic enplaned passengers were connecting passengers. Since FY96, the level of connecting enplaned passengers has not fallen below 12.2 percent, ranging from a low of approximately 12.3 percent in FY97 to a high of 21.6 percent in FY03. Similar to ANC, virtually all of FAI's connecting activity is intrastate and without competitive alternatives.

- c. Aircraft Landings – An aircraft landing is defined as the physical arrival of an aircraft at an airport. In this Report, aircraft landings are classified by the type of service provided by the aircraft performing the operation. Aircraft landings are typically classified as air carrier, commuter/air taxi, all-cargo, military or GA operations. This Report combines cargo landings with air carrier and commuter operations, and classifies all three collectively as commercial landings. Air carrier landings are flight activity by aircraft with 60 or more seats involved in the transportation of passengers, while commuter operations are flight activity by aircraft with fewer than 60 seats involved in the transportation of passengers. Air taxi landings involve the flight activity of carriers for hire that hold an air taxi operating certificate and operate primarily small aircraft without fixed routes or scheduled service. Military landings are typically the flight activity of the local Air National Guard and flights by other branches of the U.S. military. GA landings include the flight activity of privately owned aircraft (typically small propeller aircraft) and corporate-owned aircraft as shown in **Table II-4**.

- 1) ANC – Total aircraft landings at ANC followed a trend similar to that for enplanements over the FY96 to FY05 period. Total landings grew at an AACGR of 1.0 percent from FY96 to FY05 and increased from 132,336 in FY96 to 144,217 in FY05 (see **Table II-5**).

The largest and most important segment of total aircraft landings for this Report is the commercial segment, which consists of air carrier, commuter and all-cargo (freighters) landings. This sector accounted for approximately 62.0 percent of ANC's total landings in FY96 and increased to approximately 66.5 percent in FY05, largely as a result of increased air cargo activity.

Table II-4
Alaska International Airports System
Historical Aircraft Landings

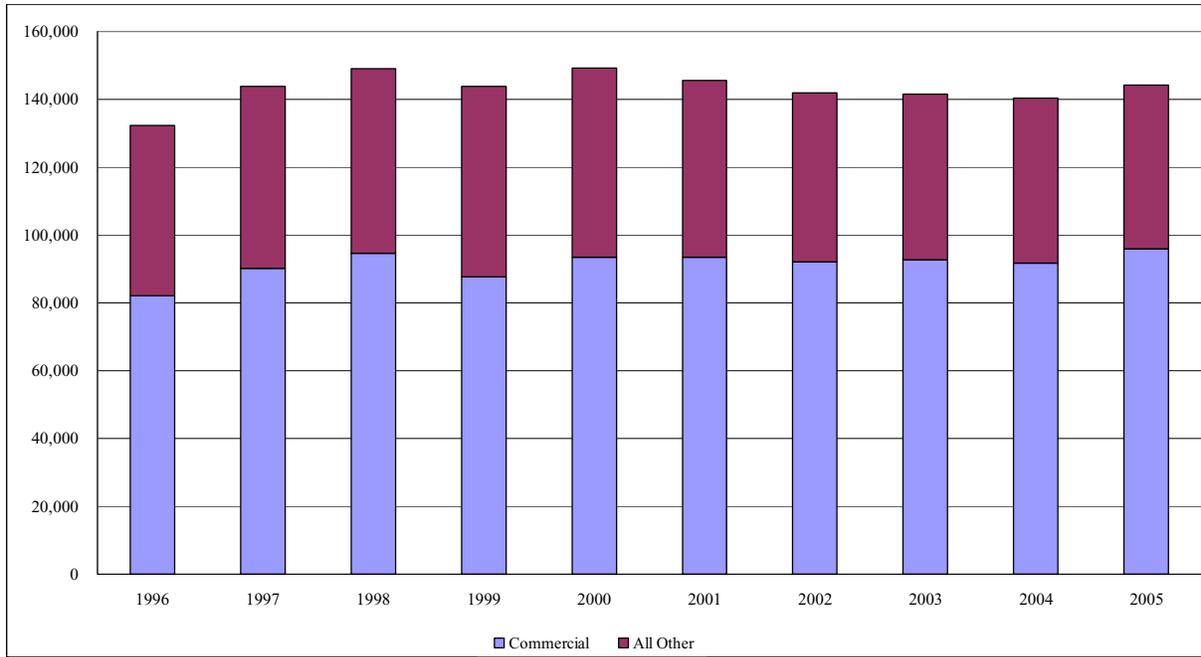


Fiscal Year	Historical Aircraft Landings ¹						Percentage Change
	Commercial ²		Subtotal Commercial	Military	General Aviation	Total	
	Air Carrier	Commuter/Air Taxi					
1996	54,736	56,027	110,763	2,984	91,162	204,909	
1997	59,164	58,215	117,379	2,607	91,389	211,375	3.2%
1998	66,301	56,275	122,576	3,320	96,460	222,356	5.2%
1999	66,831	47,984	114,815	3,697	98,774	217,286	-2.3%
2000	69,902	49,544	119,446	4,026	98,602	222,074	2.2%
2001	71,075	51,104	122,179	4,107	97,558	223,844	0.8%
2002	70,161	51,561	121,722	3,579	88,353	213,654	-4.6%
2003	72,663	48,933	121,596	3,720	86,170	211,486	-1.0%
2004	72,414	49,142	121,556	3,560	81,831	206,947	-2.1%
2005	77,074	47,564	124,638	3,937	72,378	200,953	-2.9%
	Average Annual Compound Growth Rate						
1996 - 2000	6.3%	-3.0%	1.9%	7.8%	2.0%	2.0%	
2000 - 2005	2.0%	-0.8%	0.9%	-0.4%	-6.0%	-2.0%	
1996 - 2005	3.9%	-1.8%	1.3%	3.1%	-2.5%	-0.2%	

Source:
AIAS

1/ Includes landings at Lake Hood/Lake Spenard Seaplane Base.
2/ Commercial landings include passenger and all-cargo activity.

Table II-5
Ted Stevens Anchorage International Airport
Historical Aircraft Landings



Fiscal Year	Historical Aircraft Landings ¹						Percentage Change
	Commercial ²		Subtotal Commercial	Military	General Aviation	Total	
	Air Carrier	Commuter/Air Taxi					
1996	47,374	34,722	82,096	1,752	48,489	132,336	
1997	51,871	38,248	90,119	1,912	51,865	143,896	8.7%
1998	58,677	35,847	94,524	2,156	52,363	149,043	3.6%
1999	58,252	29,434	87,686	2,533	53,704	143,923	-3.4%
2000	61,395	32,146	93,541	2,646	53,107	149,294	3.7%
2001	62,304	31,081	93,385	2,987	49,184	145,556	-2.5%
2002	61,407	30,722	92,129	2,961	46,879	141,969	-2.5%
2003	64,705	27,908	92,613	2,845	46,129	141,587	-0.3%
2004	65,089	26,574	91,663	2,637	46,058	140,358	-0.9%
2005	69,700	26,243	95,943	3,039	45,235	144,217	2.7%
	Average Annual Compound Growth Rate						
1996 - 2000	6.7%	-1.9%	3.3%	10.9%	2.3%	3.1%	
2000 - 2005	2.6%	-4.0%	0.5%	2.8%	-3.2%	-0.7%	
1996 - 2005	4.4%	-3.1%	1.7%	6.3%	-0.8%	1.0%	

Source:
 AIAS

1/ Includes landings at Lake Hood/Lake Spenard Seaplane Base.
 2/ Commercial landings include passenger and all-cargo activity.

- 2) FAI – Aircraft landings at FAI followed an opposite trend to that of enplaned passengers over the FY96 to FY05 period. While total enplaned passengers at FAI increased at an AACGR of 2.3 percent from FY96 to FY05, total landings decreased at an AACGR rate of 2.7 percent from FY96 to FY05 and decreased from 72,573 in FY96 to 56,736 in FY05. This decline can principally be attributed to the decrease in general aviation traffic of 36.4 percent from FY96 to FY05. Commercial landings at FAI represented approximately 50.6 percent of total landings in FY05 up from approximately 39.5 percent in FY96 (see **Table II-6**).
- d. Certificated Maximum Gross Take-off Weight – An aircraft’s take-off weight as used in this Report is the CMGTW as stated in each aircraft model’s specification manual and certified by the FAA. In this Report, total aircraft CMGTW is defined as the product of the maximum design CMGTW for each commercial aircraft model (i.e. MD-11, B747-400) multiplied by the number of recorded landings for that aircraft expressed in 1,000 lb. units.

Aircraft CMGTW at the AIAS, although varying from year to year, has generally increased from FY96 to FY05. In comparison to activity measured in terms of passengers and aircraft landings, CMGTW has increased significantly over the FY96 to FY05 period. This is largely the result of a steady increase in aircraft gauge (size) as a result of the rise in cargo activity levels. Total CMGTW has displayed significant historical growth increasing at an AACGR of approximately 4.6 percent from FY96 to FY05 (see **Table II-7**).

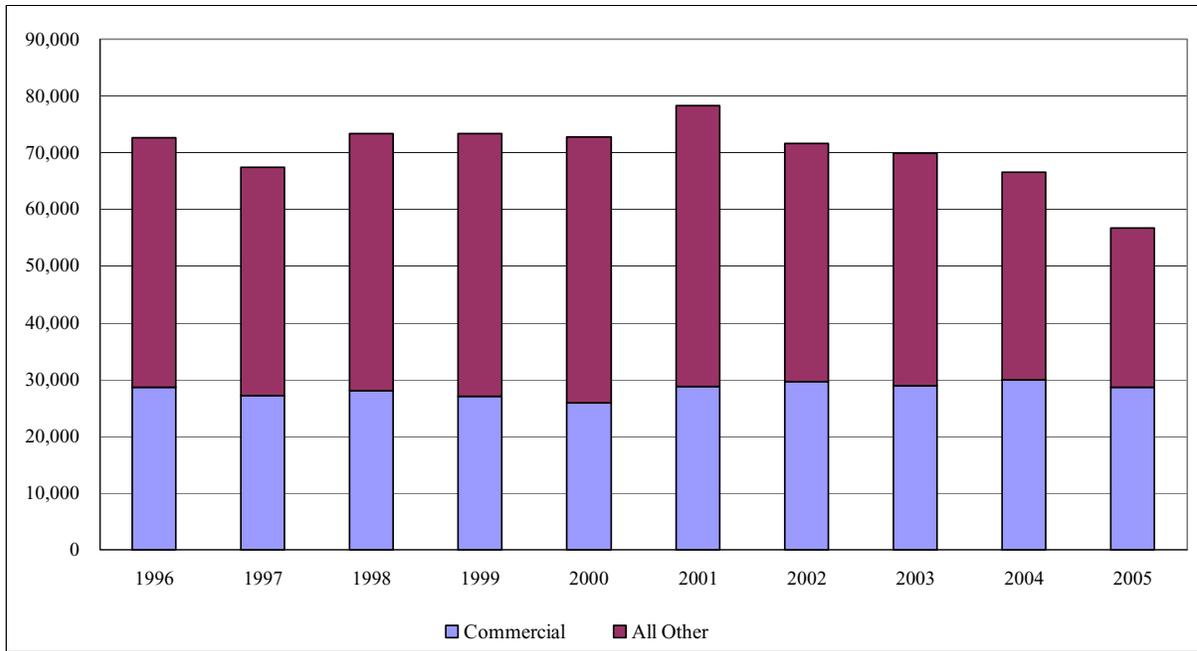
- 1) ANC – Since FY96, ANC’s CMGTW has grown considerably from 20.4 million to 32.2 million units in FY05. This growth equates to an AACGR of 5.2 percent from FY96 to FY05. This high rate of growth can be attributed to the all-cargo sector where from FY96 to FY05 all-cargo CMGTW increased at an AACGR of 7.3 percent.
- 2) FAI – Since FY96, FAI’s CMGTW has decreased from 2.3 million to 2.0 million units in FY05. This equates to an AACGR decrease of 1.8 percent from FY96 to FY05. This decline can be attributed to Air France Cargo leaving FAI in FY03 and a reduction in cargo landings by Lufthansa Cargo of 16.3 percent from FY04 to FY05.

9. Air Cargo Operations

ANC and FAI are especially active as air cargo crossroads. North America and Western Europe import huge quantities of consumer goods from the Far East. While most products move in ocean containers, some items have a sufficiently high value per weight or have unique perishable and obsolescence (e.g. garments) characteristics that require air transportation. The volume of “air prone” goods exported from the Far East is too large to be accommodated in the bellies of passenger aircraft. These routes therefore require all-cargo service. Integrated operators such as UPS and FedEx, some passenger airlines and several all-cargo specialists offer pure freighter services from the Far East to North America and Europe.

- a. AIAS Cargo Activity – Air cargo is an important part of the commercial operations at the AIAS. The long distances from the Lower-48 and the lack of high quality highway or rail access alone would force Alaska to rely on air cargo services. A rugged topography of mountains limits the development of surface transportation modes. Air travel is often the only link between small communities throughout Alaska, Anchorage and Fairbanks.

**Table II-6
Fairbanks International Airport
Historical Aircraft Landings**



Fiscal Year	Historical Aircraft Landings ¹						Percentage Change
	Commercial ¹		Subtotal	Military	General Aviation	Total	
	Air Carrier	Commuter/Air Taxi	Commercial				
1996	7,362	21,305	28,667	1,233	42,673	72,573	
1997	7,293	19,967	27,260	695	39,525	67,479	-7.0%
1998	7,624	20,428	28,052	1,165	44,097	73,314	8.6%
1999	8,579	18,550	27,129	1,165	45,070	73,364	0.1%
2000	8,507	17,398	25,905	1,380	45,495	72,780	-0.8%
2001	8,771	20,023	28,794	1,120	48,375	78,288	7.6%
2002	8,754	20,839	29,593	618	41,474	71,685	-8.4%
2003	7,958	21,025	28,983	875	40,041	69,899	-2.5%
2004	7,325	22,568	29,893	923	35,773	66,589	-4.7%
2005	7,374	21,321	28,695	898	27,143	56,736	-14.8%
	Average Annual Compound Growth Rate						
1996 - 2000	3.7%	-4.9%	-2.5%	2.9%	1.6%	0.1%	
2000 - 2005	-2.8%	4.2%	2.1%	-8.2%	-9.8%	-4.9%	
1996 - 2005	0.0%	0.0%	0.0%	-3.5%	-4.9%	-2.7%	

Source:
AIAS

1/ Commercial landings include passenger and all-cargo activity.

Table II-7
Alaska International Airports System
Historical Certificated Maximum Gross Takeoff Weight
(1,000 lbs.)

Fiscal Year	Ted Stevens Anchorage International Airport				Fairbanks International Airport				Alaska International Airports System			
	Passenger	All-Cargo	Total	Percentage Change	Passenger	All-Cargo	Total	Percentage Change	Passenger	All-Cargo	Total	Percentage Change
1996	6,267,409	14,154,389	20,421,798		1,112,367	1,205,065	2,317,432		7,379,776	15,359,454	22,739,230	
1997	6,841,777	15,846,410	22,688,187	11.1%	1,021,614	1,100,769	2,122,383	-8.4%	7,863,391	16,947,179	24,810,570	9.1%
1998	6,591,044	17,472,572	24,063,616	6.1%	1,007,201	1,090,405	2,097,606	-1.2%	7,598,245	18,562,977	26,161,222	5.4%
1999	6,262,196	17,318,079	23,580,275	-2.0%	987,317	1,263,653	2,250,970	7.3%	7,249,513	18,581,732	25,831,245	-1.3%
2000	6,147,705	20,307,331	26,455,036	12.2%	973,064	1,320,422	2,293,486	1.9%	7,120,769	21,627,753	28,748,522	11.3%
2001	5,868,631	21,140,279	27,008,910	2.1%	973,430	1,440,600	2,414,030	5.3%	6,842,061	22,580,879	29,422,940	2.3%
2002	5,541,293	20,920,546	26,461,879	-2.0%	961,741	1,514,286	2,476,027	2.6%	6,503,034	22,434,832	28,937,906	-1.6%
2003	5,285,336	23,972,815	29,258,151	10.6%	946,907	1,404,688	2,351,595	-5.0%	6,232,243	25,377,503	31,609,746	9.2%
2004	5,079,690	24,459,295	29,538,985	1.0%	971,115	1,021,235	1,992,350	-15.3%	6,050,805	25,480,530	31,531,335	-0.2%
2005	5,427,934	26,732,329	32,160,263	8.9%	974,140	990,836	1,964,976	-1.4%	6,402,074	27,723,165	34,125,239	8.2%
	Average Annual Compound Growth Rates				Average Annual Compound Growth Rates				Average Annual Compound Growth Rates			
1996 - 2000	-0.5%	9.4%	6.7%		-3.3%	2.3%	-0.3%		-0.9%	8.9%	6.0%	
2000 - 2005	-2.5%	5.7%	4.0%		0.0%	-5.6%	-3.0%		-2.1%	5.1%	3.5%	
1996 - 2005	-1.6%	7.3%	5.2%		-1.5%	-2.2%	-1.8%		-1.6%	6.8%	4.6%	

Source:
AIAS

- b. AIAS Geographic Location – The AIAS’s strategic geographic location has allowed it to serve as a staging point for an increasing number of cargo carriers throughout the past 50 years. With an almost equidistant location from major trading centers in North America, Europe and Asia, many of the world’s largest cargo carriers have chosen to use the AIAS for strategic refueling, cargo warehousing and distribution hubs. AIAS airports are approximately nine and a half hours by air to 90.0 percent of the industrialized world’s population. For example, Anchorage is approximately seven hours flight time to both Tokyo and New York City. **Table II-8** shows the estimated distance and flight times from ANC and FAI to major international cargo centers and demonstrates their strategic location. ANC’s role in international air cargo has become increasingly important and especially so for cargo traffic between North America and Asia while FAI serves as a strategic refueling stop for cargo traffic between Europe and Asia.

Table II-8
Alaska International Airports System
Estimated Distance and Flight Times

International Market	ANC		FAI	
	Distance (Nautical Miles)	Flight Time	Distance (Nautical Miles)	Flight Time
Beijing	3,431	7.5 hours	3,393	7.5 hours
Chicago	2,465	5.5 hours	2,413	5.5 hours
Frankfurt	4,048	9.0 hours	3,822	8.5 hours
Hong Kong	4,405	10.0 hours	4,399	10.0 hours
Los Angeles	2,035	4.5 hours	2,138	5.0 hours
Louisville	2,713	6.0 hours	2,665	6.0 hours
Memphis	2,733	6.0 hours	2,711	6.0 hours
Mexico City	3,281	7.5 hours	3,334	7.5 hours
New York	2,932	6.5 hours	2,839	6.5 hours
Paris	4,072	9.0 hours	3,832	8.5 hours
Seoul	3,292	7.5 hours	3,295	7.5 hours
Shanghai	3,743	8.5 hours	3,741	8.5 hours
Tokyo	2,976	7.0 hours	3,026	7.0 hours

Source:

Great Circle Mapper at <http://gc.kls2.com>. The sources of data utilized by this mapping tool include ICAO and the FAA.

In 1988, the B747-400 entered service with most major world airlines. It could fly nonstop between much of the Far East and Europe or North America. Beginning in the early 1990’s, the Soviet Union allowed airlines to transit its airspace on nonstop flights from Western Europe to Japan, when previously it had required en-route stops in Moscow. The development of trans-Siberian and Russian Far East routes accelerated with the breakup of the Soviet Union in 1991. These events eliminated the need for many intercontinental passenger flights to make technical stops in Alaska. To be competitive, an airline had to offer nonstop North America-Asia and Europe-Asia flights.

These trends, however, did not have a noticeable impact on intercontinental all-cargo service at AIAS, for the following reasons:

- Intercontinental air freight flights tend to use old aircraft such as the B747-200, which requires technical stops at ANC or FAI when flying certain routes.

- While the newer all-cargo aircraft such as the B747-400 and the MD-11 could over-fly Alaska, they would incur a loss of payload capacity due to the added weight of the relatively heavy fuel required for the long nonstop flights. The additional weight of fuel itself requires more fuel. The loss of cargo capacity due to the greater fuel volume referred to as a “payload penalty,” makes these flights economically less efficient for cargo carriage.
- Ultra-long flights by the newest aircraft require two crews, one to serve as a reliever. This sharply increases the cost of nonstop service. A technical stop breaks the flight into sufficiently short segments so that one crew alone can fly each segment.

The AIAS airports serve as intermediate hubs for many Asia to U.S. Lower-48 shipments. Several airfreight carriers perform sorting functions in Alaska. One provision sometimes referred to as the Alaska Cargo Transfer Initiative allows foreign airlines to exchange international transit traffic at Alaskan airports. A Japanese operator could, for example, carry a New York-Singapore shipment to Alaska, and then transfer it to a Singapore carrier for the remainder of the trip. The Alaska Cargo Transfer Initiative is discussed in more detail later in this chapter.

The outlook for all-cargo flights at AIAS remains positive. Some of the reasons include the following:

- The large number of B747-400’s that are nearing the end of their economic lives as passenger aircraft can be converted to serve as freighters at a very reasonable cost.
- The increased production by Boeing of new all-cargo aircraft such as the B777 freighter will allow airlines an alternative to refurbished equipment.
- Two of the AIAS’s largest cargo operators, FedEx and UPS, have orders for the A380F and have publicly stated that they will serve ANC with these aircraft.
- Continued growth of the manufacturing capabilities of Asia, specifically China.
- Growing congestion at ports on the west coast of the U.S. If surface shipments are delayed, a portion of the traffic could be redirected to air cargo.
- Use of the A380 on Far East – North America/Europe passenger flights. The volume of checked luggage resulting from two decks of passenger seating leaves little space in the aircraft belly for airfreight. Some cargo now flying in the bellies of passenger aircraft will be displaced to all-cargo aircraft.
- Concerns about security and airfreight on passenger flights. The restrictions for cargo flown on passenger aircraft are becoming stricter.
- Liberalization of trans-Pacific bilateral agreements. This has allowed many airlines to increase capacity or to enter new markets.

The current economic environment in the U.S. gives the AIAS all-cargo traffic a positive outlook for both the short and long terms. The Far East has excellent prospects for long-term growth, in particular Japan and China, which account for more than 50.0 percent of the air cargo tonnage between North America and Asia and whose Gross Domestic Products (“GDP”) have grown at 2.9 percent and 9.4 percent respectively during the third quarter of 2005 over the third quarter of

2004. With further air trade liberalization occurring in Asia, China and the U.S. could potentially sign an Open Skies agreement within a decade. These factors suggest that trans-Pacific all-cargo commerce will continue to have the highest growth rate over the long term.

- c. Polar Routes – Polar flight tracks have given long-range aircraft the ability to fly over the North Pole using Global Positioning System (“GPS”) technology. This technology guides airplanes over areas with high magnetic declination that could potentially affect navigation and radio equipment. Polar routes can effectively cut as much as three hours from flight times for routes from the east coast of North America to parts of Southeast Asia. As more tracks begin to be introduced and polar flight plans become more routine, ANC and FAI will surely benefit from use of polar routes and profit from the added global coverage they will gain.
- d. Open Skies Agreements – Open Skies agreements are bilateral treaties between countries allowing the carriers of each nation to serve the other country’s cities without restrictions on routes or flight frequencies. Some Open Skies agreements have provisions that allow this as the basis of only commercial passenger service but others extend this right to cargo carriers. This Open Skies agreement for cargo carriers allow for a free flow of goods by air as long as there is demand to support it. Open Skies policies have been a central factor in the rise of all-cargo operations that ANC has been experiencing in the past decade. Between 1989 and 1996, the U.S. government held Open Skies policy talks with 56 foreign governments. Important agreements have been negotiated with governments of 12 European nations including Germany, the Netherlands, Denmark, Norway, Sweden and Switzerland. In Asia, Singapore, Taiwan, South Korea, Brunei and Malaysia have already signed Open Skies agreements with the U.S.

In April 2004, the U.S. and China signed an air services agreement allowing new frequencies and new carriers to enter the market. Although the Chinese bilateral still includes restrictions, the Chinese policy has been for a gradual easing of these restrictions. FedEx, UPS, Continental Airlines, United Airlines, Northwest Air Cargo, Polar Air Cargo and American Airlines were given authority to operate new U.S.-China services in 2004. In 2005, India and the U.S. signed an Open Skies agreement. Most recently, in November 2005, Canada and the U.S. signed an Open Skies agreement expected to take effect in September 2006. With this agreement in place, U.S. and Canadian passenger and cargo airlines will be free to fly wherever they want in the other country as well as to points beyond. All of these agreements have been and will be positive in allowing for new and expanded services by U.S. and foreign air carriers. Due to their geographical advantages, many of these bilateral treaties could lead to future cargo activity for ANC and FAI.

- e. Alaska Cargo Transfer Initiative – The Alaska Cargo Transfer Initiative refers to a proposal brought to the U.S. Department of Transportation (“U.S. DOT”) by the State to promote the unlimited transfer or transloading of cargo to all foreign carriers at ANC and FAI. In 1996, the U.S. DOT approved much of the initiative, which effectively gave foreign carriers the right to transfer cargo within the same airline as well as transfer cargo among different carriers to fly to final destinations in the U.S. or a third country. Flights operated by carriers of Great Britain were an exception, as were foreign carriage between Alaska and another U.S. location unless the same carrier also carried that cargo between Alaska and a foreign port. This led the way to the first cargo hubbing initiative, among cargo alliances and cargo code-sharing ventures. The initiative was proposed with the objective of enabling ANC to gain a greater presence in the expansive Europe to Asia cargo market. In 1996, a change in the applicable federal statute opened the way for foreign carriers not only to transfer U.S. – foreign and foreign – U.S. cargo in Alaska, but also to carry international O&D cargo on the leg between Alaska and the Lower-48 regardless what

foreign or domestic carrier flies the balance of the route. Airlines such as Northwest Air Cargo, Japan Airlines, Nippon Cargo Airlines, Korean Air Cargo, FedEx and UPS are just a few of the carriers that transfer cargo at ANC and benefit from the higher load factors and increased operational efficiency the initiative provides.

10. Air Cargo Tonnage

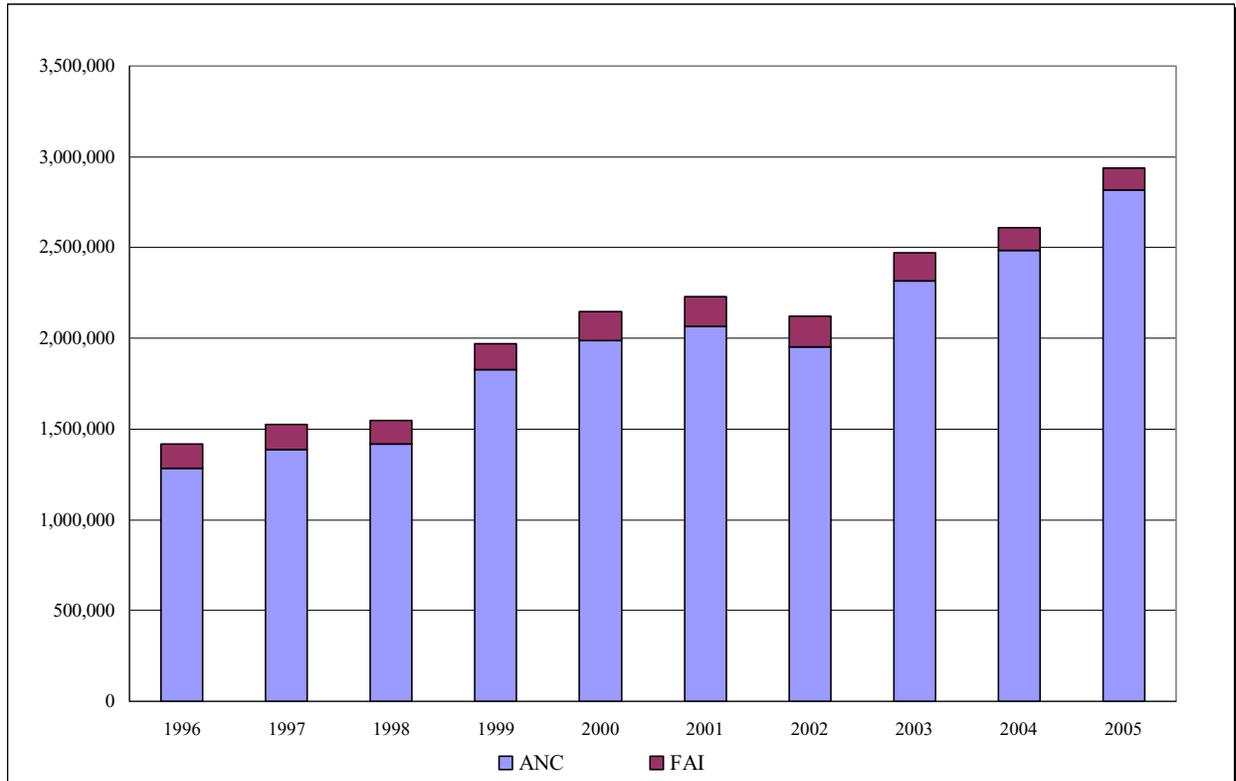
Air cargo tonnage is the total weight of mail and freight (measured in tons) carried by passenger carriers and all-cargo carriers such as FedEx and UPS. The airlines that provide cargo service pay AIAS aircraft landing fees, rent on cargo facilities such as warehouses, aircraft parking charges and fuel flowage fees.

- a. ANC – ANC primarily serves cargo carriers involved in the shipment of goods between North America and Asia providing service for shipments originating in or destined for the Anchorage Region and certain outlying areas. ANC is a major sorting and transfer hub for many U.S. and international carriers and over the past seven years, transloading and sorting operations have increased dramatically at ANC. FedEx and UPS continue to expand their facilities and operations. FedEx flights arrive at ANC 110 times per week for sort operations. FedEx performs nearly 100.0 percent download and re-sort of all cargo at its ANC hub. UPS sorts approximately 40.0 to 50.0 percent of all cargo moving through its ANC hub. Northwest Airlines has made ANC its hub for Pacific cargo operations and completes transload operations on average two times per day. Northwest's operation consists of transloading, downloading or uploading full containers rather than breakdown and/or buildup of individual shipments.

Many other carriers are also engaged to some extent in transloading among their own aircraft themselves or transferring cargo to their alliance and code-share partners. Japan Airlines conducts transloading operations an average of two times per day on flights that arrive from the U.S., Europe and Asia. Nippon Cargo Airlines, Korean Air, China Airlines, Singapore Airlines Cargo and EVA Airways all transfer cargo at ANC.

Air cargo tonnage at ANC experienced considerable growth over the period from FY96 to FY05, increasing by nearly 119.5 percent at an AACGR of 9.1 percent. Air cargo activity measured in U.S. tons increased from 1.3 million in FY96 to 2.8 million in FY05. This rapid growth, mainly in the freight and express segment is attributable largely to the increased service provided by UPS, FedEx and Atlas Air, as well as foreign flag cargo carriers such as Korean Air Cargo and Singapore Airlines Cargo (see **Table II-9**). Air cargo tonnage at ANC in FY05 was up by approximately 13.4 percent from FY04.

Table II-9
Alaska International Airports System
Historical Air Cargo Tonnage
(U.S. Tons)



Historical Air Cargo Activity (U.S. Tons)

Fiscal Year	ANC	FAI	Total	Percent Change
1996	1,282,670	135,853	1,418,523	
1997	1,388,959	135,151	1,524,110	7.4%
1998	1,418,264	130,398	1,548,662	1.6%
1999	1,827,546	143,011	1,970,557	27.2%
2000	1,989,153	158,895	2,148,048	9.0%
2001	2,065,809	162,086	2,227,895	3.7%
2002	1,953,184	166,693	2,119,877	-4.8%
2003	2,317,482	155,865	2,473,347	16.7%
2004	2,483,835	125,913	2,609,748	5.5%
2005	2,815,715	122,150	2,937,865	12.6%

Average Annual Compound Growth Rate

1996 - 2000	11.6%	4.0%	10.9%
2000 - 2005	7.2%	-5.1%	6.5%
1996 - 2005	9.1%	-1.2%	8.4%

Source:
 AIAS

ACI recently published its preliminary annual cargo tonnage rankings outlining the results for the first six months of 2005 (see **Table II-10**). Anchorage was ranked third in the world with approximately 1.1 million metric tons and was ranked ahead of such airports as Tokyo (“NRT”), Seoul (“SEL”), Frankfurt (“FRA”), Los Angeles (“LAX”), Miami (“MIA”), Singapore (“SIN”), and Paris (“CDG”). ACI also ranked ANC as the second largest airport in North America in CY04 by cargo tonnage (see **Table II-11**). Only Memphis International (“MEM”), a major hub for FedEx, surpassed ANC. However, on a percent basis, ANC grew faster than MEM for that same period.

Table II-10
Air Cargo Tonnage
ACI 2005 Worldwide Ranking
(Metric Tons)

Preliminary data for January - June 2005

Rank	Airport	Cargo Tonnage
1	Memphis (MEM)	1,449,786
2	Hong Kong (HKG)	1,320,619
3	Anchorage (ANC)	1,062,296
4	Tokyo (NRT)	910,117
5	Seoul (SEL)	864,017
6	Frankfurt (FRA)	774,928
7	Los Angeles (LAX)	773,551
8	Miami (MIA)	749,953
9	Singapore (SIN)	727,877
10	Paris (CDG)	706,910

Source:

ACI, Preliminary 2005 World Airport Traffic Statistics

Table II-11
Air Cargo Tonnage
ACI 2004 North America Ranking
(Metric Tons)

Rank	Airport	Cargo Tonnage
1	Memphis (MEM)	3,554,575
2	Anchorage (ANC)	2,252,911
3	Los Angeles (LAX)	1,913,676
4	Miami (MIA)	1,778,902
5	Louisville (SDF)	1,739,492

Source:

ACI-NA, 2004 World Airport Traffic Statistics

In addition, according to the FAA statistics for CY04, ANC ranked first in the U.S. in terms of total all-cargo aircraft gross landed weight. ANC finished ahead of airports such as MEM, Louisville International Airport (“SDF”), MIA, LAX, New York (“JFK”) and Chicago-O’Hare International Airport (“ORD”) (see **Table II-12**). The broad base of the AIAS’s cargo business is reflected in the large number and diversity of its cargo carriers (see Tables II-1 and II-2).

Table II-12
CY04 Gross Landed Weight (000 lbs)

Rank	Airport	Landed Weight
1	Anchorage (ANC)	19,688,767
2	Memphis (MEM)	17,770,917
3	Louisville (SDF)	8,776,616
4	Miami (MIA)	6,846,698
5	Los Angeles (LAX)	6,124,386
6	New York Kennedy (JFK)	5,796,538
7	Chicago O'Hare (ORD)	4,718,129
8	Indianapolis (IND)	4,627,646
9	Newark Liberty (EWR)	3,529,073
10	Oakland (OAK)	3,405,786
34	Columbia (CAE)	884,340
35	Fairbanks (FAI)	819,823
36	Charlotte (CLT)	764,880

Source:

FAA CY04 ACAIS Database

- b. FAI – FAI primarily serves cargo carriers involved in the shipment of O&D cargo, cargo originating in or bound for the Fairbanks Region, and those carriers that use FAI as a refueling or technical stop on routes between Europe and Asia. FAI provides carriers with a shorter route between Europe and Asia than does ANC, and therefore draws a portion of this traffic. At FAI, Lufthansa Cargo and Cargolux, operate a total of 12 flights per week through the airport between Europe (Frankfurt and Luxembourg) and Asia (Tokyo, Osaka and Komatsu, Japan). Lufthansa Cargo and Cargolux stop in FAI for refueling only with no transfer (downloading or uploading) of cargo tonnage. FAI is one of two points, the other being ANC, in North America with scheduled non-stop freighter service to both Asia and Europe.

Air cargo tonnage at FAI experienced very high levels of growth from FY96 until FY01 (see Table II-9). However, from FY02 to FY05, cargo tonnage declined by 26.7 percent. Air cargo activity measured in U.S. tons decreased from 135,853 in FY96 to 122,150 in FY05 (see Table II-10) an AACGR decrease of 1.2 percent. The decrease in air cargo activity from FY02 to FY05 can be linked to Air France Cargo leaving FAI in FY03 and a reduction in cargo landings by Lufthansa Cargo of 16.3 percent from FY04 to FY05.

Despite FAI's declining air cargo tonnage, according to FAA statistics for CY04, FAI ranked 35th in the U.S. in terms of total all-cargo aircraft gross landed weight. In this measurement, FAI finished ahead of airports such as Charlotte Douglas International Airport ("CLT"), Fort Wayne International Airport ("FWA"), Fort Worth Alliance Airport ("AFW") and San Antonio International Airport ("SAT") as shown in Table II-12.

B. PASSENGER AIR SERVICE TRENDS

1. ANC – Airline Enplaned Passenger Market Share

In FY05, ANC was served by a diverse group of carriers including eight out of the 14 passenger airlines defined by U.S. DOT as Major Air Carriers⁴ ("Major Carriers"). This list included Alaska Airlines, American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, United Airlines and US Airways (see **Table II-13**).

⁴ The U.S. DOT defines Major Air Carriers as those U.S. carriers with annual operating revenues of \$1.0 billion or greater.

Table II-13
Ted Stevens Anchorage International Airport
FY05 Commercial Airline Market Share

<u>Rank</u>	<u>Airlines</u>	<u>Enplanements</u>	<u>Market Share</u>
1	Alaska Airlines	1,238,451	51.8%
2	Northwest Airlines	195,255	8.2%
3	Era Aviation	178,340	7.5%
4	Delta Air Lines	140,081	5.9%
5	United Airlines	127,849	5.3%
6	Continental Airlines	114,383	4.8%
7	Peninsula Airways	89,568	3.7%
8	US Airways ¹	41,081	1.7%
9	American Airlines	40,144	1.7%
10	Frontier Flying Service	34,366	1.4%
	All Others	193,402	8.1%
	Total	<u>2,392,920</u>	<u>100%</u>

Source:

AIAS and U.S. DOT T-100.

^{1/} Formerly America West Airlines, the carrier merged with US Airways, Inc., of Arlington, VA, on September 27, 2005, to form a new carrier - US Airways.

ANC's largest carrier is Alaska Airlines, which accounted for 51.8 percent of total enplanements in FY05. ANC's second-largest market share in FY05 belonged to Northwest Airlines and accounted for 8.2 percent of total enplanements. Alaska based Era Aviation, which filed for bankruptcy in December 2005, accounted for approximately 7.5 percent of total enplanements, representing the third largest market share.

2. FAI – Airline Enplaned Passenger Market Share

FAI is served by a group of air carriers that are mainly focused on intrastate service to smaller, isolated communities, but it also receives year round service from Alaska Airlines and seasonal service by Northwest Airlines and Delta Air Lines (see **Table II-14**).

Table II-14
Fairbanks International Airport
FY05 Commercial Airline Market Share

<u>Rank</u>	<u>Airlines</u>	<u>Enplanements</u>	<u>Market Share</u>
1	Alaska Airlines	333,870	72.7%
2	Frontier Flying Service	34,464	7.5%
3	Northwest Airlines	29,312	6.4%
4	Warbelow's Air Ventures	19,231	4.2%
5	Wright Air	25,019	5.5%
	All Others	17,109	3.7%
	Total	<u>459,005</u>	<u>100%</u>

Source:

AIAS and U.S. DOT T-100.

FAI's largest carrier is Alaska Airlines, which accounted for 72.6 percent of total enplanements in FY05. The airport's second-largest carrier in FY05 was Frontier Flying Service with 7.5 percent of total enplanements followed by Northwest Airlines, which accounted for 6.4 percent of total enplanement activity.

3. Top 25 O&D Markets at the AIAS

Table II-15 shows the top 25 O&D destinations for ANC and FAI. ANC top 25 O&D destinations accounted for approximately 61.6 percent of total O&D traffic in FY05. The largest O&D market was SEA-TAC, which accounted for approximately 11.5 percent of total O&D traffic. The next largest O&D markets were FAI at 7.8 percent and Kenai Municipal Airport at 4.1 percent.

In addition to the diverse list of carriers that serve ANC, there is also a significant level of competitive air service to a wide range of destinations. ANC currently has nonstop jet service available at least seasonally to 23 of its top 25 O&D destinations as shown in Table II-15. ANC has more nonstop destinations than the majority of comparably sized U.S. domestic airports⁵.

FAI's top 25 O&D destinations accounted for approximately 72.1 percent of total O&D traffic in FY05. The largest O&D market was ANC, which accounted for over a third of FAI's total O&D traffic at 34.1 percent. The next largest O&D markets were SEA-TAC at 10.1 percent and Fort Yukon Airport at 2.0 percent. FAI currently has nonstop jet service available to five of its top 10 O&D destinations.

4. International In-Transit Passengers

Historically, ANC has been a popular stopover point for flights between North America and Asia as foreign flag carriers have used ANC as technical or refueling stops. In FY96, in-transit passengers at ANC on in-bound or out-bound international flights that stopped at the airport totaled 678,508 while FAI had a total of 21,376 (see **Table II-16**). These in-transit passengers disembarked for a limited period at ANC and FAI before reboarding on the same aircraft and continuing on to their final destinations.

In the 1990's, Boeing and Airbus introduced aircraft such as the B747-400, the B777-200ER and the A340-200/300. With new navigation technology and more powerful/fuel-efficient engines, these aircraft were able to by-pass ANC and FAI as a technical or refueling stop. In addition to aircraft technological improvements, the opening of Russian airspace (polar routes) to commercial airline traffic in the late 1990s allowed airlines to fly shorter flights over Russia rather than stopping in ANC and FAI for refueling. These routings primarily affected passenger flights, since cargo operators are typically less schedule-dependent and prefer to stop to refuel in ANC and FAI to gain the additional payload capacity made possible by a lighter fuel load. Even with the shorter polar routes, many passenger flights were required to reduce overall payload, by either limiting passengers and baggage or carrying less cargo, in order to fly these routes nonstop.

⁵ OAG (comparably sized destinations were collected from ACI-NA FY04 North America Enplanement Ranking and included Buffalo, NY; Jacksonville, FL; Manchester, NH; Maui, HI; Omaha, NE; Norfolk, VA; Reno, NV; and Tucson, AZ.

Table II-15
Alaska International Airports System
FY05 Top 25 Origin & Destination Markets

Ted Stevens Anchorage International Airport					Fairbanks International Airport				
Rank	Market	Code	O&D Enplanements	Percent of Total	Rank	Market	Code	O&D Enplanements	Percent of Total
1	Seattle/Tacoma	SEA	184,955	11.5%	1	Anchorage	ANC	125,675	34.1%
2	Fairbanks	FAI	125,675	7.8%	2	Seattle/Tacoma	SEA	37,385	10.1%
3	Kenai	ENA	65,355	4.1%	3	Fort Yukon	FYU	7,220	2.0%
4	Juneau	JNU	47,910	3.0%	4	Wiley Post	BRW	7,110	1.9%
5	Denver	DEN	42,635	2.7%	5	Chicago O'Hare	ORD	6,805	1.8%
6	Portland	PDX	41,760	2.6%	6	Portland	PDX	6,705	1.8%
7	Kodiak	ADQ	40,420	2.5%	7	Juneau	JNU	5,830	1.6%
8	Bethel	BET	38,135	2.4%	8	Denver	DEN	5,700	1.5%
9	Los Angeles	LAX	38,050	2.4%	9	Phoenix	PHX	5,505	1.5%
10	Las Vegas	LAS	34,510	2.1%	10	Las Vegas	LAS	5,355	1.5%
11	Phoenix	PHX	32,685	2.0%	11	Los Angeles	LAX	5,230	1.4%
12	Minneapolis/St. Paul	MSP	32,430	2.0%	12	Galena	GAL	4,730	1.3%
13	Chicago O'Hare	ORD	32,290	2.0%	13	Minneapolis/St. Paul	MSP	4,175	1.1%
14	Atlanta	ATL	23,255	1.4%	14	Newark	EWR	3,910	1.1%
15	Salt Lake City	SLC	22,625	1.4%	15	Orlando	MCO	3,810	1.0%
16	Houston	IAH	21,140	1.3%	16	Boston	BOS	3,740	1.0%
17	San Francisco	SFO	20,530	1.3%	17	Washington D.C. Reagan	DCA	3,350	0.9%
18	Dillingham	DLG	19,990	1.2%	18	Atlanta	ATL	3,150	0.9%
19	Dallas/Ft Worth	DFW	19,800	1.2%	19	San Francisco	SFO	3,105	0.8%
20	King Salmon	AKN	18,215	1.1%	20	Spokane	GEG	3,060	0.8%
21	Homer	HOM	18,075	1.1%	21	Sacramento	SMF	3,035	0.8%
22	Spokane	GEG	17,640	1.1%	22	Dallas/Ft Worth	DFW	2,980	0.8%
23	Orlando	MCO	17,550	1.1%	23	Nome	OME	2,830	0.8%
24	Kotzebue	OTZ	17,310	1.1%	24	Tanana	TAL	2,815	0.8%
25	Nome	OME	17,220	1.1%	25	Kotzebue	OTZ	2,755	0.7%
	All Others		616,840	38.4%		All Others		102,905	27.9%
	Total		<u>1,607,000</u>	<u>100.0%</u>		Total		<u>368,870</u>	<u>100.0%</u>

Source:

U.S. DOT O&D 10.0 percent Ticket Sample Survey

Table II-16
Alaska International Airports System
Historical In-Transit Passengers

<u>Fiscal Year</u>	<u>ANC</u>	<u>FAI</u>	<u>Total</u>
1996	678,508	21,376	699,884
1997	781,890	20,534	802,424
1998	766,522	13,431	779,953
1999	693,979	40,736	734,715
2000	656,468	46,534	703,002
2001	626,413	48,977	675,390
2002	464,403	48,673	513,076
2003	399,227	46,773	446,000
2004	379,405	46,641	426,046
2005	345,594	48,730	394,324
<u>Average Annual Compound Growth Rate</u>			
1996 - 2000	-0.8%	21.5%	0.1%
2000 - 2005	-12.0%	0.9%	-10.9%
1996 - 2005	-7.2%	9.6%	-6.2%

Source:
AIAS

These developments in aircraft technology and available routes resulted in a decrease of in-transit passengers at ANC. In-transit passengers peaked at 781,890 in FY97 before beginning a trend of declining activity to 345,594 in FY05. For example, China Airlines on its direct route from Taipei, Taiwan to JFK via ANC chose to continue its technical stops in ANC to allow it to carry a full payload of passengers and cargo rather than carrying a lighter cargo load required to fly the route nonstop. Cathay Pacific operates passenger flights through ANC as technical refueling stops only. Currently, visa restrictions forbid foreign passengers from visa-required countries from deplaning, even during a layover without a U.S. entrance visa.

ANC and State officials have been working with the federal authorities in hopes of re-establishing terms that allow visa-free deplaning to ANC's secure transit facility. Other than Cathay Pacific, all other international carriers serving North American routes to Asia via ANC including, China Airlines and Korean Air, enplane and deplane passengers at ANC because they serve the market and use it as a destination instead of a technical refueling stop.

After three years of declining activity, FAI saw a dramatic increase in in-transit passengers due to non-scheduled charter activity from Asia beginning in FY99. In-transit passengers peaked at FAI in FY01 at 48,977 and have remained relatively constant through FY05.

C. FORECAST OF AVIATION ACTIVITY

The forecasts presented in this Report were prepared by AXIS Consulting Inc. and are intended only for use in this feasibility analysis. They are intended to project the general direction and timing of increases and decreases in the AIAS's future aviation activity over the Forecast Period. The forecast includes an analysis of domestic and international enplaned passengers, commercial aircraft landings and CMGTW.

The AIAS's activity was analyzed on an annual, quarterly and monthly basis and an econometric approach was applied for the long-term forecast using historic and forecast demand-drivers including average airfares (yields), Alaska and U.S. GDP and PCPI. The forecast methodology employed both regression and trend analysis approaches.

A bottom-up forecast was also developed which involved using a detailed modeling approach, to analyze the passenger and cargo sectors on an annualized basis. Several scenarios were tested in which key assumptions varied.

The overall forecast was based on aviation demand growth in the U.S. market under the assumptions that the Alaska and U.S. GDP will grow, income levels in both Alaska and the U.S. will increase and average U.S. airfares will decline throughout the Forecast Period due to the growth of low cost carriers. Achievement of any forecast is dependent upon both predictable and unanticipated events. Several of the key assumptions for this forecast are outlined below. Over the Forecast Period, for the passenger sector, these key assumptions include:

- No future extraordinary event will occur that has a comparable impact on aviation demand or access to AIAS facilities as the events of September 11th.
- Aircraft fuel prices are expected to fluctuate over the Forecast Period, but they are not expected to have a significant impact on the amount of future passenger activity.
- It is assumed that the capacity of the U.S. air traffic control system is sufficient to meet demand over the Forecast Period and that it will keep pace with the increased traffic projected at the AIAS and the U.S.
- Long-term growth in population, employment and personal income will continue as forecast for the AIAS, as discussed in Chapter I.
- The forecast increase in passenger traffic at AIAS is based on the assumption that the region will continue to generate a steadily increasing demand for O&D air service as the economy continues to expand.
- Domestic air carriers will continue to operate in a competitive environment, resulting in average fares that will remain reasonable; LCC's will expand across the U.S. but will only provide limited air service at the AIAS.
- The AIAS will continue to serve a high volume of O&D traffic, based on the assumption that the State will continue to be dominated by ANC and FAI as the primary commercial service airports with no significant airport competition within a 1,000 mile radius.
- Alaska Airlines will continue to operate as an independent carrier and it will not be merged or acquired by another airline. It is also assumed that ANC and FAI will continue to function as important focus cities for Alaska Airlines and its commuter partners Era Aviation and PenAir.
- Although Alaska Airlines will remain the dominant carrier at AIAS, it is assumed that other Major Carriers will continue to compete with Alaska Airlines on routes between ANC and their respective hubs.

- The costs of enhancing aviation security will not overly burden air carriers.
- U.S. carriers in Chapter 11 that serve the AIAS (Delta Air Lines, Hawaiian Airlines, United Airlines, Era Aviation and Northwest Airlines) will emerge from bankruptcy protection to provide demand-responsive air service.
- The cruise ship industry will continue to see healthy growth throughout the Forecast Period.
- The BRAC decision to relocate Kulis Air National Guard Base from its Anchorage Airport location in South AirPark to Elmendorf Air Force Base in north Anchorage in CY04 will create new aviation business opportunities for ANC throughout the Forecast Period.
- Any new BRAC decisions affecting military bases in Alaska will not have a negative affect on aviation activity for ANC and FAI throughout the Forecast Period.

Over the Forecast Period, for the cargo sector, these key assumptions include:

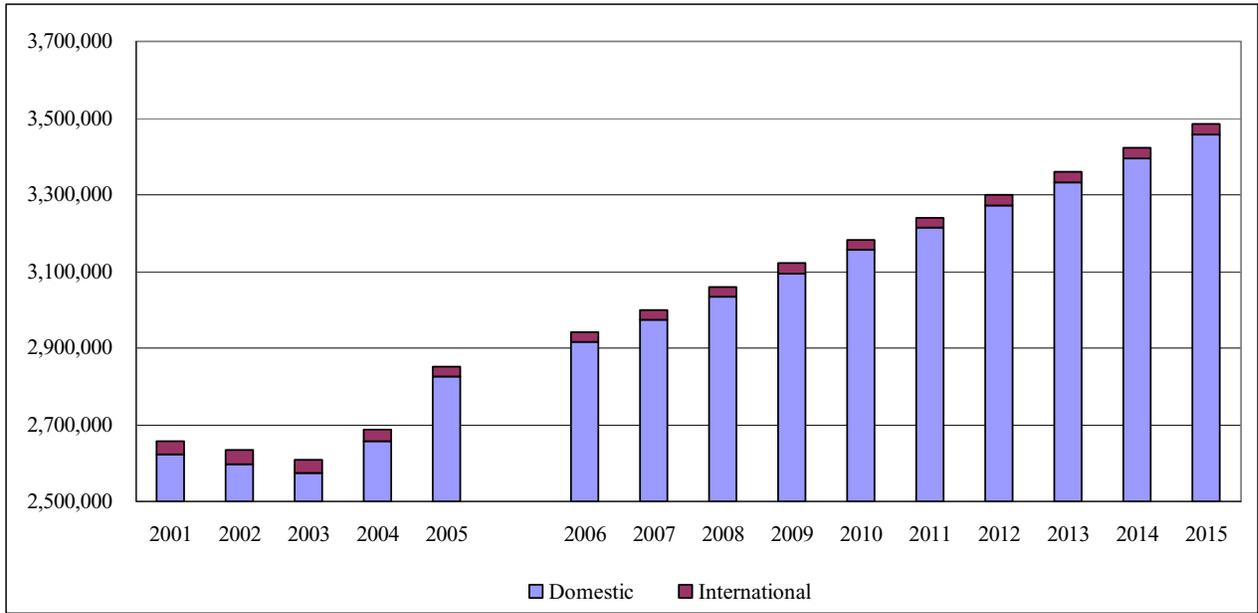
- The GDP for countries in Asia and especially for emerging economies, such as China, will continue to rise throughout the Forecast Period.
- China and Japan will continue to have over 50.0 percent of the cargo market share in Asia to the U.S and further trade liberalization with China will take place during the Forecast Period.
- Aircraft fuel prices are expected to fluctuate over the Forecast Period, but they are not expected to have a significant impact on the amount of future air cargo activity at the AIAS.
- FedEx will continue to be one of the largest cargo carriers at the AIAS and will operate the A380F starting in FY10. The A380F will serve as additional capacity on top of existing and growing MD-11 capacity. FedEx will continue having a crew base at ANC.
- The current signatory cargo carriers at the AIAS will continue having a presence at both ANC and FAI with no significant carrier departures.
- ANC will continue serving as a base for Northwest Air Cargo and UPS. UPS will operate the A380F's and B747-400s it currently has on order to ANC.
- The Alaska Cargo Transfer Initiative will continue to be in effect throughout the Forecast Period and will see increased use by both carriers currently participating in the program as well as new carriers.
- The costs of future security measures by the Department of Homeland Security designed to detect explosive materials in cargo equipment will not overly burden the air cargo carriers.

1. **Forecast Results**

The forecast was designed to reflect the anticipated increases in aviation activity that is projected to occur over the Forecast Period. In general, the forecasts for enplaned passengers, aircraft landings and CMGTW follow a similar trend.

- a. Enplaned Passenger Forecast – Total enplaned passengers at the AIAS are projected to increase from approximately 2.9 million in FY06 to approximately 3.5 million in FY15 at an AACGR of 1.9 percent (see **Table II-17**). In comparison, the FAA’s Terminal Area Forecast (“TAF”) projects total enplaned passengers at the AIAS to increase during the Forecast Period at an AACGR of 3.0 percent. The fastest growing sector is expected to be the domestic passenger sector, which is projected to increase from approximately 2.9 million enplanements in FY06 to 3.5 million enplanements in FY15 at an AACGR of 1.9 percent. International enplanements are expected to grow from approximately 26,200 enplanements in FY06 to 28,200 in FY15 at an AACGR of 0.8 percent. The growth in international enplanements is expected to occur mainly from seasonal charter activity, in particular from Asian carriers such as Japan Airlines.
- b. Commercial Aircraft Landings Forecast – Total commercial aircraft landings at the AIAS are projected to increase from approximately 130,000 in FY06 to approximately 172,000 in FY15 at an AACGR of 3.1 percent (see **Table II-18**). The fastest growing sector is expected to be the all-cargo sector (freight/express and mail), which is projected to increase from approximately 55,000 landings in FY06 to 82,500 landings in FY15 at an AACGR of 4.6 percent. Passenger aircraft landings are expected to grow from approximately 75,400 landings in FY06 to 89,500 in FY15 at an AACGR of 1.9 percent. In comparison, the TAF’s projections for total aircraft landings at the AIAS increase during the Forecast Period at an AACGR of 2.4 percent.
- c. Certificated Maximum Gross Take-off Weight Forecast – CMGTW is reported in 1,000 lb. units (“units”). Total CMGTW at AIAS is projected to increase from approximately 35.9 million units in FY06 to approximately 53.2 million units in FY15 at an AACGR of 4.5 percent (see **Table II-19**). The fastest growing sector is expected to be the all-cargo, which is projected to increase from approximately 29.3 million units in FY06 to 45.2 million units in FY15 at an AACGR of 4.9 percent. Passenger aircraft takeoff weight is expected to grow from approximately 6.6 million units in FY06 to 8.0 million units in FY15 at an AACGR of 2.1 percent.
- d. Air Cargo Tonnage Forecast – Air cargo tonnage at the AIAS is reported in U.S. tons. Total cargo tonnage at AIAS is projected to increase from approximately 3.1 million tons in FY06 to approximately 4.9 million tons in FY15 at an AACGR of 5.3 percent (see **Table II-20**). ANC is projected to increase from approximately 3.0 million tons in FY06 to 4.8 million tons in FY15 at an AACGR of 5.4 percent. Cargo tonnage at FAI is forecast to grow from approximately 122,000 tons in FY06 to 163,100 tons in FY15 at an AACGR of 3.3 percent. This increase is due to two factors: natural growth in GDP and rising cargo demand from Asia (particularly China). Since there are currently only two international cargo carriers at FAI, a new international cargo carrier would have a significant impact on FAI’s cargo tonnage growth. The growth of the FAI cargo market with the entrance of a new carrier would likely result in an immediate impact in cargo growth occurring in a single year. The forecast shown in this Report reflects this growth as exponential and distributes it at a constant rate over the Forecast Period.

Table II-17
Alaska International Airports System
Enplaned Passenger Forecast



Enplaned Passengers				
	Fiscal Year	Domestic	International	Total
Actual	2001	2,622,382	35,900	2,658,282
	2002	2,597,180	37,065	2,634,245
	2003	2,573,232	35,164	2,608,396
	2004	2,657,178	29,100	2,686,278
	2005	2,826,596	25,329	2,851,925
Forecast	2006	2,915,800	26,200	2,942,000
	2007	2,973,600	26,400	3,000,000
	2008	3,033,400	26,600	3,060,000
	2009	3,094,300	26,700	3,121,000
	2010	3,156,100	26,900	3,183,000
	2011	3,213,800	27,200	3,241,000
	2012	3,272,600	27,400	3,300,000
	2013	3,333,300	27,700	3,361,000
	2014	3,395,100	27,900	3,423,000
	2015	3,457,800	28,200	3,486,000

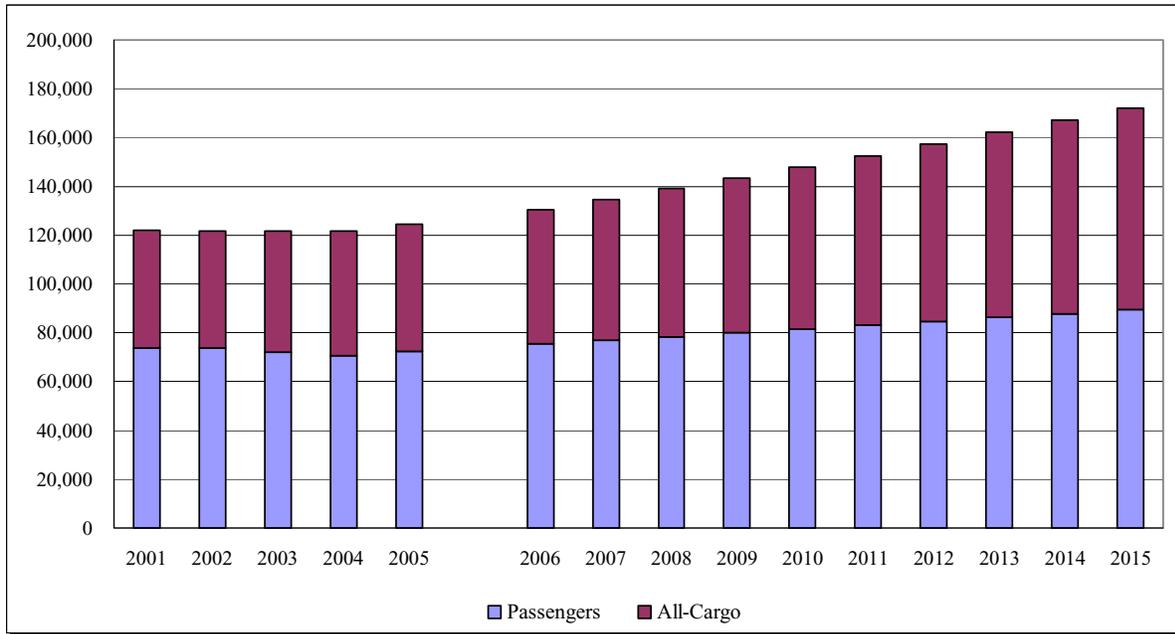
Average Annual Compound Growth Rate

2001 - 2005	1.9%	-8.4%	1.8%
2006 - 2010	2.0%	0.7%	2.0%
2010 - 2015	1.8%	0.9%	1.8%
2006 - 2015	1.9%	0.8%	1.9%

Source:

AIAS and AXIS Consulting Inc.

Table II-18
Alaska International Airports System
Commercial Aircraft Landings Forecast



Commercial Aircraft Landings

	Fiscal Year	Passengers	All-Cargo	Total
Actual	2001	73,854	48,325	122,179
	2002	73,950	47,772	121,722
	2003	71,897	49,699	121,596
	2004	70,756	50,800	121,556
	2005	72,355	52,283	124,638
Forecast	2006	75,400	55,000	130,400
	2007	76,900	57,800	134,700
	2008	78,400	60,600	139,000
	2009	80,000	63,400	143,400
	2010	81,600	66,200	147,800
	2011	83,100	69,500	152,600
	2012	84,600	72,800	157,400
	2013	86,200	76,100	162,300
	2014	87,800	79,400	167,200
	2015	89,500	82,500	172,000

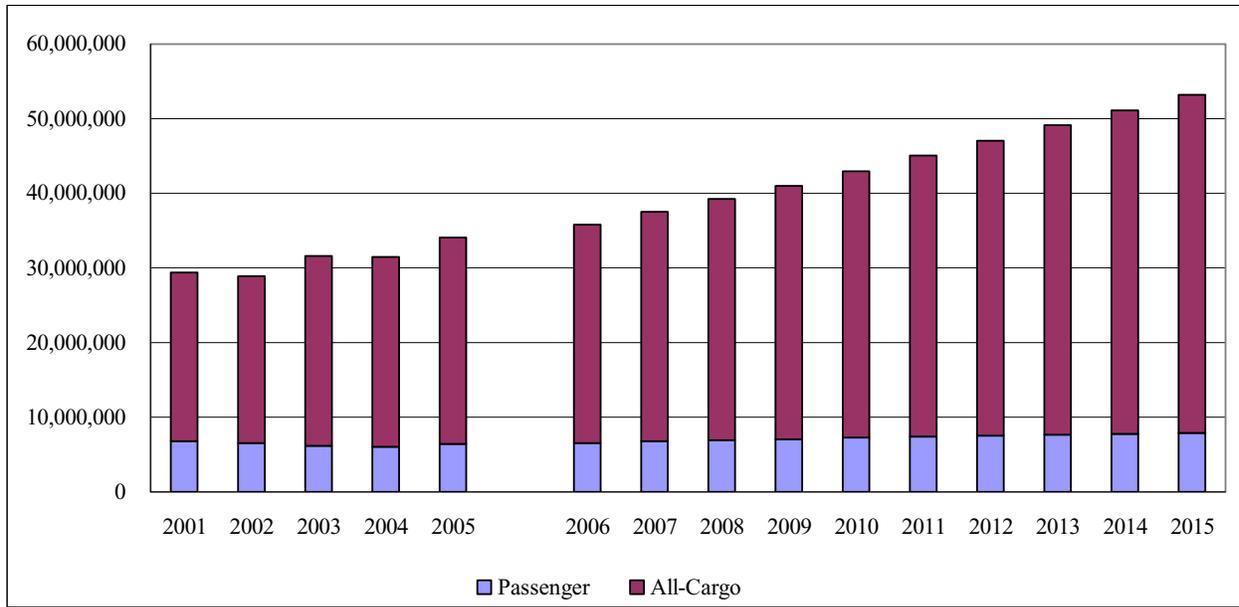
Average Annual Compound Growth Rate

2001 - 2005	-0.5%	2.0%	0.5%
2006 - 2010	2.0%	4.7%	3.2%
2010 - 2015	1.9%	4.5%	3.1%
2006 - 2015	1.9%	4.6%	3.1%

Source:

AIAS and AXIS Consulting Inc.

Table II-19
Alaska International Airports System
Certificated Maximum Gross Takeoff Weight Forecast
(000 lbs.)



Certificated Maximum Gross Takeoff Weight

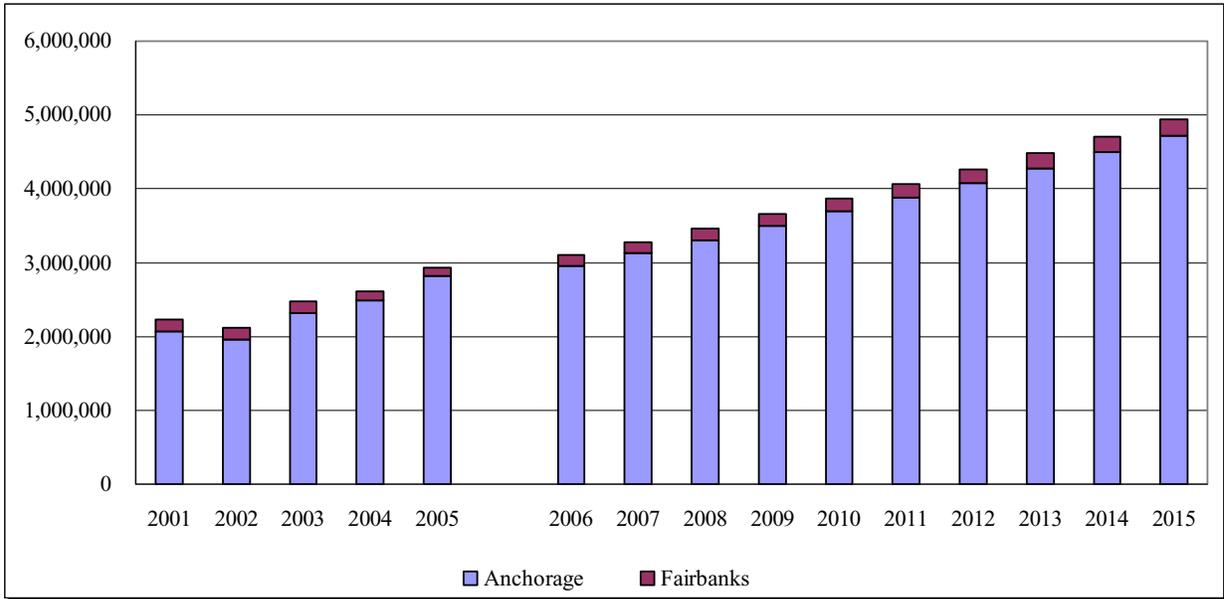
	Fiscal Year	Passenger	All-Cargo	Total
Actual	2001	6,842,061	22,580,879	29,422,940
	2002	6,503,034	22,434,872	28,937,906
	2003	6,232,243	25,377,503	31,609,746
	2004	6,050,805	25,480,530	31,531,335
	2005	6,402,074	27,723,165	34,125,239
Forecast	2006	6,576,000	29,274,000	35,850,000
	2007	6,749,000	30,826,000	37,575,000
	2008	6,922,000	32,378,000	39,300,000
	2009	7,095,000	33,930,000	41,025,000
	2010	7,267,000	35,745,000	43,012,000
	2011	7,405,000	37,638,000	45,043,000
	2012	7,543,000	39,531,000	47,074,000
	2013	7,681,000	41,424,000	49,105,000
	2014	7,819,000	43,317,000	51,136,000
	2015	7,956,000	45,210,000	53,166,000

Average Annual Compound Growth Rate

2001 - 2005	-1.6%	5.3%	3.8%
2006 - 2010	2.5%	5.1%	4.7%
2010 - 2015	1.8%	4.8%	4.3%
2006 - 2015	2.1%	4.9%	4.5%

Source:
 AIAS and AXIS Consulting Inc.

Table II-20
Alaska International Airports System
Air Cargo Tonnage Forecast
 (U.S. Tons)



Cargo Tonnage				
	Fiscal Year	Anchorage	Fairbanks	Total
Actual	2001	2,065,809	162,086	2,227,895
	2002	1,953,184	166,693	2,119,877
	2003	2,317,482	155,865	2,473,347
	2004	2,483,835	125,913	2,609,748
	2005	2,815,715	122,150	2,937,865
Forecast	2006	2,955,000	149,000	3,104,000
	2007	3,124,900	154,100	3,279,000
	2008	3,304,700	159,300	3,464,000
	2009	3,495,300	164,700	3,660,000
	2010	3,696,900	170,100	3,867,000
	2011	3,886,400	174,600	4,061,000
	2012	4,073,100	191,900	4,265,000
	2013	4,277,400	201,600	4,479,000
	2014	4,492,300	211,700	4,704,000
	2015	4,718,700	222,300	4,941,000
Average Annual Compound Growth Rate				
	2001 - 2005	8.0%	-6.8%	7.2%
	2006 - 2010	5.8%	3.4%	5.6%
	2010 - 2015	5.0%	5.5%	5.0%
	2006 - 2015	5.3%	4.5%	5.3%

Source:
 AIAS and AXIS Consulting Inc.

III. EXISTING AIRPORT FACILITIES AND FUTURE DEVELOPMENT

This chapter provides an overview of the existing facilities at ANC and FAI, a description of the AIAS's FY06 – FY09 CIP and the construction costs and funding sources associated with the FY06 – FY09 CIP.

A. TED STEVENS ANCHORAGE INTERNATIONAL AIRPORT

ANC is located on 4,837 acres in Anchorage and is the primary commercial service airport in Alaska. It is capable of serving all types of commercial aircraft currently in operation as well as future aircraft such as the A380F which is expected to be operating at ANC by FY10. ANC's existing facilities are described below and depicted in **Exhibit III-1**. ANC has no curfews or other operating restrictions.

1. Existing Facilities

- a. Airfield – The ANC airfield consists of three air carrier runways and a system of aircraft taxiways. Runway 7L/25R, which is 10,600 feet long, and Runway 7R/25L, which is 10,897 feet long, are parallel runways oriented in an east/west direction and are separated by 700 feet, centerline to centerline. The third runway, Runway 14/32 is 11,584 feet long and is oriented in a north/south direction. The western end of Runway 7R/25L and the northern end of Runway 14/32 have precision instrument landing system (“ILS”) capabilities. The ILS capability allows ANC to operate year round in almost all weather conditions.

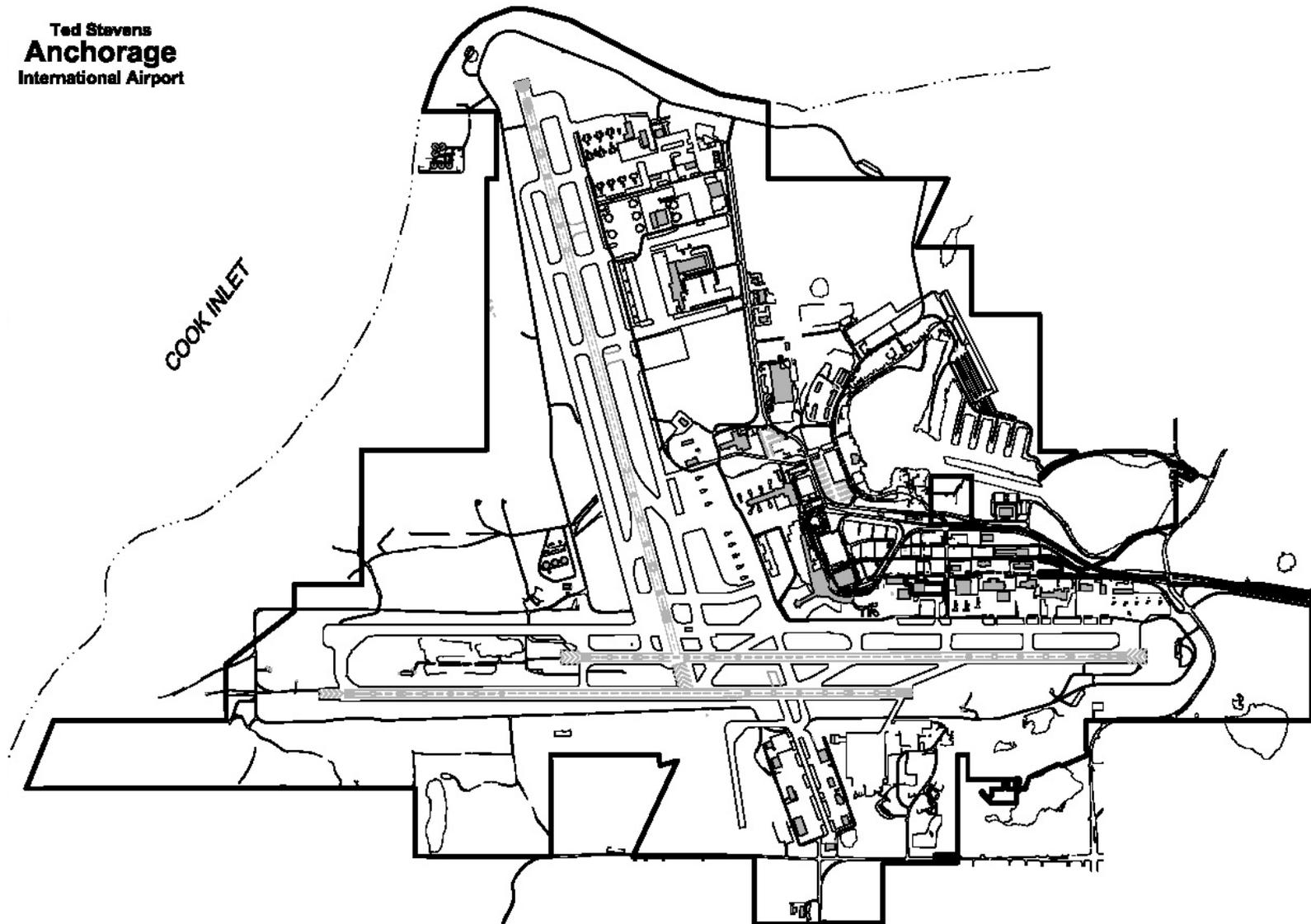
ANC public aircraft parking apron spaces can accommodate up to 78 wide-body and narrow-body aircraft and the airfield is equipped with various runway lighting and air navigational systems. The airport's air traffic control tower is owned and operated by the FAA.

In addition to the air carrier runway facilities at ANC, Lake Hood is one of the busiest floatplane facilities in the world and has over 800 based GA aircraft. The Lake Hood facilities are situated adjacent to ANC's air carrier facilities and are located within ANC's overall airport boundaries. Lake Hood's facilities include a 2,200 foot gravel runway, water strips used by floatplanes and wintertime ski strips for ski planes.

- b. Support Facilities – A state-of-the-art aircraft fueling system at ANC is owned and operated by an airline consortium, and is used to fuel both member and non-member aircraft. The fueling system includes 78 wide-body and narrow-body hydrant-fueling positions. ANC also has a variety of other critical support facilities including an Airport Rescue and Fire Fighting (“ARFF”) station, airport maintenance facilities, privately owned aircraft maintenance hangars and airline flight kitchens.
- c. Terminal Facilities – ANC's terminal complex consists of the North and South Terminals. The North Terminal provides approximately 312,000 square feet of space that includes eight jet bridge – equipped gates and more than 25,600 square feet of concession space. The North Terminal also houses ANC's Federal Inspection Service (“FIS”) facility and serves primarily international flights. Delta Air Lines currently operates out of the North Terminal but will relocate to the South Terminal when the Concourse A and B Retrofit Project is completed. US Airways provides year round service from the North Terminal. In addition to these carriers, the North Terminal also services charter flights as well as intermittent overflow all-cargo activity.

Exhibit III-1
ANC Airport Layout Plan

Ted Stevens
Anchorage
International Airport



The South Terminal, which includes Concourses A, B and C, houses ANC's major domestic passenger air carriers, such as Alaska Airlines, Continental Airlines, Frontier Airlines, United Airlines and Northwest Airlines. The South Terminal, which includes Concourse C, underwent a major renovation, which included seismic upgrades and expanded facilities that was completed in June 2004. With the expansion of the South Terminal and Concourse C, these facilities now provide approximately 834,000 square feet of space that includes 22 jet aircraft parking positions, 17 of which have jet bridges including two State owned bridges and an additional 18 commuter aircraft parking positions.

- d. Landside Facilities – ANC facilities include a four-level 1,200 space public parking structure and a 450 space rental car ready/return surface lot adjacent to the South Terminal. Utility relocation work is underway for a consolidated rental car facility (“CRCF”) and related infrastructure improvements being constructed for State ownership in the location of the rental car ready/return lot by a private developer working with the on-airport rental car concessionaires. This project has a total budget of \$64.9 million, including issuance costs for the Alaska Industrial Development and Export Authority Bonds, and a construction/development budget of \$56.9 million. The finished facility will include customer service areas and sales office space for eight rental car companies, a four-level parking structure with 1,080 spaces and quick-turn-around service facilities devoted entirely to rental car operations and a pedestrian tunnel to the South Terminal's central arrival hall constructed in conjunction with Concourse C. The CRCF is scheduled for completion in FY07 and does not represent a direct financial obligation of the AIAS.

In addition, there are a combined total of 1,250 employee parking spaces and 1,300 short and long-term parking spaces available at the North and South Terminals.

In December 2002, the Alaska Railroad Corporation completed construction of the Bill Sheffield Alaska Railroad Corporation Depot, which is located immediately adjacent to the ANC parking structure and is connected to the new terminal core area via pedestrian tunnel. This depot began passenger service in 2003. The Federal Railroad Administration funded this project in its entirety through a grant of \$28.0 million. The depot is being used as a key inter-modal link between cruise ship passengers that embark or disembark in Seward and are transferred via the Alaska Railroad to ANC for air transportation. As commuter rail service is further developed in south-central Alaska, it is envisioned that this facility will experience greater year-round use as airport workers and other travelers take advantage of service from downtown Anchorage and the outlying Mat-Su Valley. The depot, which is owned and operated by the Alaska Railroad totals 17,300 square feet and includes a pedestrian tunnel that connects to the South Terminal's central arrival hall constructed in conjunction with Concourse C.

- e. Cargo Facilities – Due to its location on the great circle routes between Asia, North America and Europe, ANC is the preeminent hub for international air cargo in the U.S. FedEx, UPS and Northwest Air Cargo all have cargo hubs at ANC. Throughout the past decade, ANC has ranked first in the U.S. in all-cargo aircraft landed weight, averaging approximately 550 to 700 wide-body cargo aircraft landings a week. ANC is consistently ranked by ACI among the top five airports in the world in cargo tonnage volume.

ANC has over 14.0 million square feet available for air cargo operations including four cargo air parks and another 6.0 million square feet of runway accessible sites dedicated for future cargo expansion. Including privately developed facilities, ANC has over 78 wide-body and narrow-body fueling aprons. Of these, 11 are State owned dedicated cargo aprons, with up to eight

additional aprons available at the North Terminal for overflow cargo aircraft parking. Of the 78 fueling aprons, 37 are dedicated private cargo aprons. The cargo air parks include the following:

- 1) North Air Park – The North Air Park includes the cargo hubs of FedEx and UPS and is a major cargo facility for Northwest Air Cargo. FedEx has extensive facilities at ANC, including 500,000 square feet of buildings, and is planning to construct two A380F aprons by FY07, expand its sorting facility and add a ground service equipment facility. FedEx will need to lease additional ANC land to accommodate this expansion. UPS also has facilities at ANC, including 90,000 square feet of buildings, and is currently doubling the number of its wide body aircraft apron parking positions to provide a total of 12 positions by the end of FY07. This expansion will require reconfiguration of existing space and leasing additional ANC land. Alaska CargoPort LLC operates a 1.6 million square foot “third party” cargo handling facility used by a number of carriers, primarily as the main Asian cargo center for Northwest Air Cargo. Alaska CargoPort LLC added two wide body aircraft apron parking positions and approximately 12,600 square feet of warehouse space in FY05.

In addition to these current developments, there remain over 4.0 million square feet of land area available for future air cargo development adjacent to the airfield. One area, referred to as the Postmark Cargo site is expected to benefit from several future improvements. ANC is adding two Design Group VI and one Design Group V aircraft apron parking positions in FY06. AGLAD Postmark, LLC, a third party developer managed by Anchorage Global Logistics Airpark Development, Inc., recently signed a lease for 1.8 million square feet of land on which to construct nine wide-body aircraft apron parking positions, a 50,000 square foot cargo facility and a two tenant-funded taxiways by FY08.

- 2) South Air Park – This Air Park is used by helicopter, intrastate cargo operators and corporate aviation business (fixed base operators). It provides approximately 895,000 square feet of space along Taxiway F and is located south of Runway 7R/25L. ANC completed a Design Group III taxiway in FY06 and is in the process of leasing development sites to several private developers.
- 3) East Air Park – East Air Park is located between Taxiway K and the Old International Airport Road and encompasses over 3.0 million square feet. East Air Park includes aircraft aprons and warehouse facilities for Alaska Airlines, Northern Air Cargo, Atlas Airlines, Polar Airlines, DHL and a growing “tail-to-tail” trans-loading operation for Japan Airlines. East Air Park is also used by Sky Chefs, rental car companies, airfreight forwarders and corporate aviation businesses. The remainder of East Air Park is available for lease and would accommodate up to an additional six wide body aircraft apron parking positions.
- 4) West Air Park – This Air Park is a largely undeveloped area, with the exception of a 12.0 million gallon fuel farm, which provides more fuel to cargo aircraft than is dispensed to cargo aircraft at any other airport in the nation. West Air Park is designated for future large air cargo developments and offers over 11.7 million square feet of site adjacent to the runway and taxiway system. Infrastructure improvements, including a second parallel north/south runway, taxiway access, road relocation and vehicle tunnel to the central ANC complex, are planned or have been identified for the future to support and facilitate development.

B. FAIRBANKS INTERNATIONAL AIRPORT

FAI is a commercial service airport located near Fairbanks in interior Alaska. FAI serves as a critical transportation and distribution center for interior and northern Alaska. FAI is a supply point for the North Slope oil fields and is a cargo transit center for a number of air carriers. FAI's location on the polar routes is largely responsible for its role as an international cargo refueling stop. As is the case of ANC, FAI has no curfews or other operating restrictions. FAI's existing facilities are described below and shown in **Exhibit III-2**.

1. Existing Facilities

- a. Airfield Facilities – FAI is capable of serving all types of commercial aircraft currently in operation as well as future aircraft such as the A380F. The main runway, Runway 1L/19R is 11,800 feet long and 150 feet wide and is oriented in a north/south direction. FAI receives crosswinds less than 2.0 percent of the time and thus this runway is adequate to meet the commercial needs of wide body freighter aircraft with unrestricted payloads in almost all weather conditions. In addition to the main runway, FAI maintains a second north/south runway that measures 6,500 feet in length and 100 feet in width and is used by smaller commercial aircraft operating from the east side of the airport. FAI also maintains a gravel runway/ski strip that is 2,950 feet in length and 75 feet wide and a floatplane base with a 5,400 foot by 100 foot water lane.
- b. Support Facilities – FAI's support facilities include parallel and crossing taxiways, approach, runway and taxiway lighting (including illuminated distance remaining markers) and air navigation systems. GA parking includes about 225 float plane parking slips and over 469 paved and gravel spaces.
- c. Terminal Facilities – FAI has a single terminal building that serves both domestic and international passengers. The terminal building is approximately 134,000 square feet with five second-level jet aircraft gates, four of which are equipped with aircraft loading bridges.
- d. Landside Facilities – Additional FAI buildings include a 52,800 square foot combined ARFF/heavy equipment warm storage facility. A new 25,000 square foot heavy equipment maintenance facility was recently completed. This facility also houses the building maintenance shop area. Seven steel warehouse buildings provide warm and cold storage. FAI also maintains a sewage dump station and an incinerator.
- e. Parking Facilities – Include a large public parking lot, rental car ready return lot, several employee lots and a tour bus parking lot/staging area all of which are adjacent to the passenger terminal. Two additional public parking lots are maintained proximate to the GA facilities. Currently, there are a total of 1,400 parking spaces at FAI.

C. CAPITAL DEVELOPMENT PLANS AT THE AIAS**1. The FY06 – FY09 CIP**

The FY06 – FY09 CIP, which is shown in **Table III-1** contains all of the projects that the AIAS is planning to fund with the Series 2006 Bonds and other funding sources. The FY06 – FY09 CIP was approved by DOT&PF and the Signatory Airlines in September 2004, with the execution of the Master Supplement and subsequent Signatory Airline ballots.

Exhibit III-2 FAI Airport Layout Plan

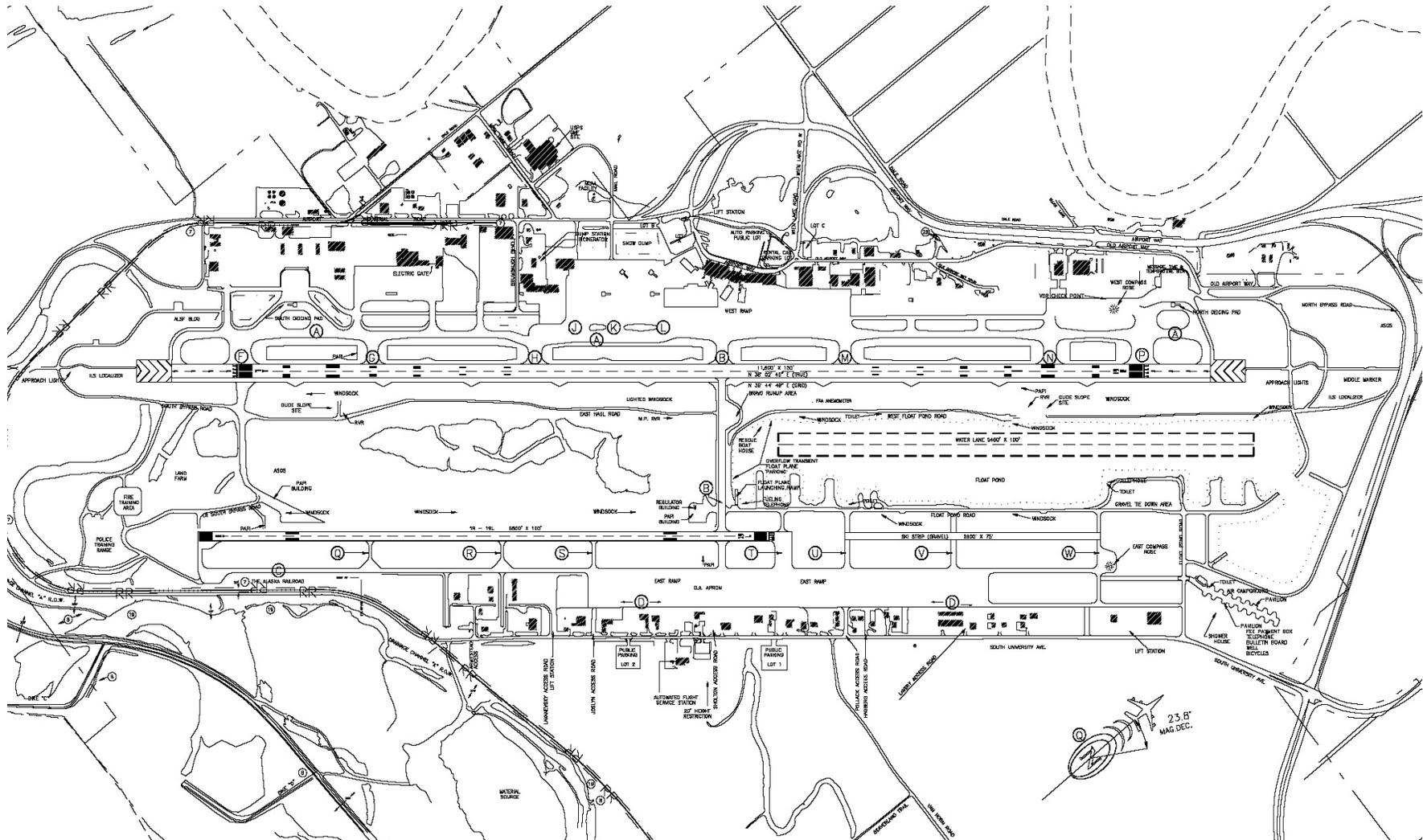


Table III-1
Alaska International Airports System
Capital Improvement Program
FY06-FY09 CIP

ANC - Project Descriptions	FY06 - FY09	AIP	Series 2006	Prior	IARF	PFC	Development	Other	TOTAL
	CIP		Bonds	Bonds			Fund	Funds ¹	
Concourse A and B Retrofit Project	\$176,800,000	\$21,300,000	\$91,500,000	\$0	\$0	\$14,000,000	\$20,500,000	\$29,500,000	\$176,800,000
Second Level Moving Walkway	12,000,000	-	-	-	-	-	12,000,000	-	12,000,000
Concourse C 3rd Floor Build-out	5,500,000	-	-	-	-	-	5,500,000	-	5,500,000
Consolidated Facilities Center	5,000,000	-	5,000,000	-	-	-	-	-	5,000,000
Airfield Pavement Maintenance	67,672,250	62,417,250	1,089,362	4,165,638	-	-	-	-	67,672,250
Roads/Utilities/Grounds Construction and Upgrades	6,200,000	-	6,200,000	-	-	-	-	-	6,200,000
Snow Storage Facilities	3,000,000	-	3,000,000	-	-	-	-	-	3,000,000
Taxiway/Runway Improvements	10,870,629	10,414,647	-	455,982	-	-	-	-	10,870,629
Site Development Preparation	2,000,000	-	-	-	-	-	2,000,000	-	2,000,000
Engine Run-up Pad	3,947,000	3,552,300	-	394,700	-	-	-	-	3,947,000
Land Acquisition and Mitigation	6,147,000	-	1,947,000	-	-	-	4,200,000	-	6,147,000
Equipment	26,033,000	14,936,000	10,977,000	-	120,000	-	-	-	26,033,000
Environmental Compliance and Cleanup	4,423,000	-	-	-	4,423,000	-	-	-	4,423,000
Noise Abatement Program Implementation	26,950,000	24,500,000	714,000	1,736,000	-	-	-	-	26,950,000
Deicing System	6,178,000	5,328,000	-	850,000	-	-	-	-	6,178,000
Security/Safety/Access Control Improvements	5,500,000	5,500,000	-	-	-	-	-	-	5,500,000
Information Technology Improvements	4,500,000	-	4,500,000	-	-	-	-	-	4,500,000
Energy and Terminal Systems Upgrades	1,269,000	-	1,269,000	-	-	-	-	-	1,269,000
Terminal Rehabilitation	9,570,000	-	8,570,000	-	-	-	1,000,000	-	9,570,000
GA Parking and Taxiway Relocation	5,330,000	5,000,000	330,000	-	-	-	-	-	5,330,000
Annual Improvements	6,546,000	-	-	-	5,246,000	-	1,300,000	-	6,546,000
Master Plan	4,400,000	4,000,000	400,000	-	-	-	-	-	4,400,000
Advanced Project Design	9,658,000	3,158,000	6,500,000	-	-	-	-	-	9,658,000
LOI - 1	15,976,250	14,776,250	1,200,000	-	-	-	-	-	15,976,250
LOI - 2	29,077,000	25,847,000	3,230,000	-	-	-	-	-	29,077,000
Department of Homeland Security Renovation	3,650,000	-	3,650,000	-	-	-	-	-	3,650,000
ARFF Building Rehabilitation	5,519,000	1,500,000	4,019,000	-	-	-	-	-	5,519,000
Total ANC - Projects	\$463,716,129	\$202,229,447	\$154,095,362	\$7,602,320	\$9,789,000	\$14,000,000	\$46,500,000	\$29,500,000	\$463,716,129
FAI - Project Descriptions									
Terminal Area Redevelopment	\$99,260,000	\$3,000,000	\$83,248,881	\$3,011,119	\$0	\$0	\$10,000,000	\$0	\$99,260,000
Runway Reconstruction	51,750,000	49,162,500	2,587,500	-	-	-	-	-	51,750,000
Equipment	5,182,700	-	2,934,000	1,431,700	-	817,000	-	-	5,182,700
GA Ramp Expansion	4,000,000	3,750,000	-	250,000	-	-	-	-	4,000,000
Taxiway A Expansion	17,500,000	16,437,500	-	1,062,500	-	-	-	-	17,500,000
Annual Improvements	1,650,000	-	-	-	1,650,000	-	-	-	1,650,000
Environmental Assessment and Cleanup	1,000,000	-	-	500,000	500,000	-	-	-	1,000,000
Total FAI - Projects	\$180,342,700	\$72,350,000	\$88,770,381	\$6,255,319	\$2,150,000	\$817,000	\$10,000,000	\$0	\$180,342,700
TOTAL AIAS	\$644,058,829	\$274,579,447	\$242,865,743	\$13,857,639	\$11,939,000	\$14,817,000	\$56,500,000	\$29,500,000	\$644,058,829

Source:

AIAS

1/ Other funds include funds from capital projects that were not included in the current AOA Original CIP, amounts from deferred and reprogrammed capital projects and interest earnings on previously issued bonds.

The FY06 – FY09 CIP represents a continuation of the AIAS capital program that was initiated in 2001 with the negotiation of the AOA and adoption of the Original CIP.

The Original CIP encompassed the period FY02 through FY06 and included the Terminal Redevelopment Project at ANC which resulted in the redevelopment of the South Terminal and Concourse C along with other projects needed to maintain the AIAS' existing assets and make needed infrastructure improvements.

The FY06 – FY09 CIP contains projects totaling approximately \$644.1 million, of which approximately \$463.7 million are planned for ANC and approximately \$180.4 million for FAI. A description of all of the projects included in the FY06 – FY09 CIP is provided below.

ANC PROJECTS

- **Concourse A and B Retrofit Project** – Upgrade and correct existing seismic and code-related deficiencies, enhance life safety and security systems, and renovate the older portion of the South Terminal. This project will address conditions noted in a detailed seismic analysis of the existing facilities, along with additional TSA security-related improvements. The older portion of the South Terminal consists of approximately 360,000 square feet and encompasses Concourse A and Concourse B, associated ticket counters, bag claim, bag make-up, gate lounges, airline operations areas and retail concession space. The following improvements are currently planned:
 - Structural upgrades and retrofit of the older portions of the South Terminal that are seismically deficient;
 - Replacement and reconfiguration of three outbound baggage belt systems to accommodate centralized TSA baggage screening;
 - Replacement and reconfiguration of three inbound baggage systems and two bag claim carousels;
 - Upgrading and replacement of code deficient heating, ventilation, electrical and life safety systems;
 - Enhancement of access control and building security systems;
 - Reconfiguration and expansion of passenger gate lounges and airside aprons to better match aircraft fleet mix and accommodate future growth;
 - Finalize ticket lobby renovations and relocation of airline ticket counters and airline ticket offices;
 - Relocation of TSA's centralized passenger screening area and reconfiguration of retail concession space;
 - Architectural enhancements and updating of interior finishes.

The project is currently under design with construction scheduled to begin in October 2006 using a phased approach to minimize passenger and operational disruptions. Project completion is scheduled for FY10.

- **Second Level Moving Walkway** – This project will provide for a direct, covered connection between Concourse C and the North Terminal.
- **Concourse C 3rd Floor Build-out** – This project will complete the construction of the third floor administrative office area for ANC staff.
- **Consolidated Facilities Center** – Currently, the facilities section at ANC maintains 25 buildings with 114 staff. Of those, 52 custodial staff manage 1.3 million square feet of facilities. Construction of the consolidated facilities center will allow personnel, repair shops and warehousing to be accommodated in a centralized area that will reduce response time and allow staff to be as efficient as possible.
- **Airfield Pavement Maintenance** – Rehabilitate the runways, taxiways and aprons located on the airfield in accordance with the Pavement Maintenance and Management Plan (“PMMP”). Associated improvements to be accomplished under this project include crack sealing, realigning taxiways and aircraft parking, upgrades to accommodate Design Group VI aircraft, fillet widening, pavement reconstruction, fuel hydrants, drainage improvements and loading bridge replacement at the North Terminal.
- **Roads/Utilities/Grounds Construction and Upgrades** – Construct road, utility and ground improvements at various airside and landside locations. This project will include work such as repairs/upgrades to public roads and the tug road system, repairs/upgrades to South Airpark sewer, airport mapping and surveying, constructing utilities to new development sites, constructing grounds, parking, trails, signage, lighting, traffic signals, drainage, landscaping, and utilities improvements, acquisition of easements, rights-of-ways and land interests.
- **Snow Storage Facilities** – Construct snow storage facilities and purchase snow melting equipment for snow storage and removal in the Aircraft Operations Area. Associated drainage improvements, oil/grease separators, sediment traps and related improvements will be constructed to comply with the airport’s storm water permit.
- **Taxiway/Runway Improvements** – This project includes upgrades to various taxiways to improve aircraft maneuvering, reduce congestion, improve safety and provide improved access to the airfield.
- **Site Development Preparation** – Prepare land and infrastructure for new development and redevelopment of existing areas. This project plans, designs and constructs basic site improvements such as site excavation and filling, permitting, site grading, utilities drainage, environmental compliance and mitigation measures on airport lands that are planned for development and redevelopment.
- **Engine Run-up Pad** – This project constructed a new engine run-up area at Taxiway J.

- **Land Acquisition and Mitigation** – Acquire land and complete other mitigation measures required to address noise compatibility, future development needs, FAA runway protection standards, and airport operational and mitigation requirements.
- **Equipment** – Scheduled replacement of equipment that has reached the end of its useful life and additional equipment and vehicles as necessary to meet the operational and support needs of the ANC. ANC uses a systematic equipment replacement program based on cost of maintenance, availability of parts, mileage and whether the equipment is still needed.
- **Environmental Compliance and Cleanup** – Conduct ongoing compliance-related programs and projects involving ANC air, water, soil, solid and hazardous waste in accordance with Federal, State and local environmental regulations.
- **Noise Abatement Program Implementation** – This includes projects such as sound proofing of existing residences in high noise areas; noise abatement studies; land acquisition; pilot education; local government land use controls implementation; business and community outreach programs on construction techniques for noise reduction and other noise related issues.
- **Deicing System** – This project was initially intended to implement the recommendations of the Airport/Airline Deicing Task Force (“DTF”). The DTF evaluated deicing collection options including deicing pads, storm sewer plugs, trench drains, vacuum sweepers and the potential need for treatment. After the initial evaluation, the project is being reconsidered and has not been implemented although it is included in the FY06 – FY09 CIP.
- **Security/Safety/Access Control Improvements** – Installation of security and safety improvements required by FAA or recommended by the Airport Security Consortium and ANC. The following types of improvements have been identified: access control system upgrades and surveillance devices; installation of new proximity card readers and badges; boundary and security fencing; and other airport security projects and equipment requirements.
- **Information Technology Improvements** – Upgrade and/or replace outdated telecommunications and information systems for increased capacity, service and features needed for airport operations. Current projects needed to modernize the Airport Information Technology include upgrading existing wiring, implementing a high-speed backbone network, planning, design, integration and enhancement of Geographic Information Systems and CADD enhancements.
- **Energy and Terminal Systems Upgrades** – Implement recommendations from the terminal energy envelope evaluation and complete electrical and energy equipment replacement/upgrades in the terminals. As funding allows, additional system upgrades and repairs will be completed on the facilities.
- **Terminal Rehabilitation** – Repair, replace, upgrade, ongoing maintenance, code and compliance projects for terminal buildings and ANC facilities, systems, utilities, equipment, furnishings, floor and wall coverings, lighting and signage. This project also assists with tenant relocations, terminal system and equipment evaluations, building maintenance and management programs, facility drawings and as-builts.
- **GA Parking and Taxiway Relocation** – Construct a taxiway, access road, tiedowns, and relocate general aviation wheeled aircraft parking to a new GA parking area near Lake Hood Strip. Other

items such as drainage, utilities, lighting, signage, parking, Lake Hood operations center, upgrades to Hood Strip, associated taxiways and upgrades to the lake spillway will be completed as funding permits.

- **Annual Improvements** – Annual funding to meet needs for unanticipated small projects and requirements that arise during the year. This annual request has consistently been used to correct minor deficiencies and solve problems created by unforeseen circumstances for ANC leaseholders and other users.
- **Master Plan** – The Master Plan will address airfield, terminal, cargo, general aviation and surface transportation needs and the preparation of a financial plan and assess potential environmental impacts.
- **Advance Project Design** – Complete planning analysis, financing plans, preliminary engineering, environmental, surveying, geotechnical investigation, cost estimating, feasibility analysis and design of future capital improvement projects. Prepare for future ANC and tenant development over the program period.
- **LOI – 1** – The projects approved for the first Letter of Intent (“LOI - 1”) funding, which was approved in the total amount of \$48.1 million, include the following; South Terminal apron replacement, reconstruction of the remain overnight parking positions, cargo apron reconstruction, a new remote cargo fueling apron and the reconstruction of Runway 7L/25R.
- **LOI – 2** – The projects approved for the second LOI (“LOI - 2”) which was approved in the total amount of \$51.3 million, included the following; construction of Taxiway Y, including interlinks and upgrades to Runway 7R/25L and Taxiways J, C and K.
- **Department of Homeland Security Renovation** – This project includes the refurbishment and upgrade of U.S. Immigration and Customs areas.
- **ARFF Building Rehabilitation** – This project includes refurbishment of the ARFF Building and the warm storage bays for the first response vehicles as well as construction of one additional bay and the extension of one existing bay.

FAI PROJECTS

- **Terminal Area Redevelopment** – This project includes the demolition of the 1952 and 1969 portions of the building that have been determined through replicated and detailed studies to be seismically deficient and not cost effective to remodel. This project also includes converting the 1985 area (approximately 40.0 percent of the future structure) to serve regional aircraft parking as well as the development of new and renovated facilities that will accommodate 384,000 domestic and international passenger enplanements annually with an expected peak hour of 434 enplanements and 483 deplanements. New facilities comprising approximately 60.0 percent of the future structure will include baggage claim, baggage makeup, and two domestic holdrooms as well as a new international holdroom and associated international inbound and outbound passenger processing. Planned renovations will be completed for the remaining portion of the terminal building principally in the mainline and regional passenger air carrier ticket lobby. Other elements of the project include three new and/or renovated domestic holdrooms, TSA upgraded baggage screening facilities and all other necessary terminal support and administrative areas.

Landside improvements include modifying existing vehicle and pedestrian access to accommodate building additions and renovations and expanding the existing parking lot to meet projected passenger traffic demand.

- **Runway Reconstruction** – This project will accomplish the design and construction required to rehabilitate the Runway 1L/19R and relocate the existing heavy cargo aircraft apron. The initial phase of the project will relocate four heavy cargo aircraft apron positions to the south end of the airfield due to safety issues associated with air to surface penetrations and passenger aircraft congestion. The second phase of the project will include reconstruction of the main Runway 1L/19R, which will have reached the end of its useful life coincident with the commencement of its construction, will be storm drain modifications, and limited reconstruction of interconnecting taxiways.
- **Equipment** – Scheduled replacement of equipment that has reached the end of its useful life and additional equipment and vehicles as necessary to meet the operational and support needs of the airport. Airport ARFF, maintenance, and service equipment replacement is based on age, total usage, and repair history.
- **GA Ramp Expansion** – This project added 68 electrical outlets to the GA tie down apron. These outlets also supply power to engine heaters for tenants' aircraft. In addition, apron and taxi lane markings were reconfigured to provide clearance for Design Group II aircraft.
- **Taxiway A Expansion** – This project will relocate the remaining sections of Taxiway A and includes storm drain modification, lighting system replacement, regulator building upgrades, reconstruction of interconnecting taxiways, certain apron area and construction of new access roads.
- **Annual Improvements** – This is an annual funding amount estimated to meet improvement or repair needs that arise during the year that cannot be foreseen during the budget planning process. The typical projects result from winter snow/ice damage, facility and equipment failures, changed operating requirements by the airlines or FAA, security requirements, etc.
- **Environmental Assessment Compliance and Cleanup** – EPA has adopted clean air, clean water, and other hazardous waste compliance standards, which must be met within a mandated time frame. This project will allow the airport to properly evaluate current hazardous waste problems, prepare necessary mitigation plans, start the environmental cleanup, conduct monitoring as necessary, and initiate proactive plans to prevent future contamination.

D. FY06 – FY09 CIP FUNDING SOURCES

1. FY06 – FY09 CIP

Total construction costs for the FY06 – FY09 CIP are approximately \$644.1 million. Funding for the FY06 – FY09 CIP includes \$242.9 million in Series 2006 Bonds proceeds, \$274.6 million in AIP entitlement and discretionary grants, \$14.8 million in PFC revenues, \$11.9 million in IARF monies and approximately \$13.9 million in prior bond proceeds. The majority of the Series 2006 Bonds proceeds are being used to fund the Concourse A and B Retrofit Project at ANC and the Terminal Area Redevelopment project at FAI.

Funding for the Concourse A and B Retrofit Project at ANC will consist of approximately \$91.5 million in Series 2006 Bonds proceeds and approximately \$85.3 million in other funds. The Concourse A and B Retrofit Project was previously approved by the Signatory Airlines at a budgeted amount of \$143.0 million however, based upon actual construction escalation factors that have exceeded 10.0 percent per year since early 2004, the project estimate has recently been updated to account for this increased escalation as well as an additional volatility factor due to high oil prices and the impacts of the Katrina/Rita Hurricanes. The current budget estimate is approximately \$176.8 million. The AIAS has identified existing project funding sources that it proposes to use to fund this difference without increasing the level of bond funding required. This proposed funding plan has been approved by the Signatory Airlines. Funding for the Terminal Area Redevelopment project at FAI will consist of approximately \$83.2 million in Series 2006 Bonds proceeds and approximately \$16.0 million in other funds.

2. Federal AIP Grants

In August 1998, the FAA awarded ANC the \$48.1 million LOI – 1. The projects approved for funding include the South Terminal apron replacement, reconstruction of the remaining overnight parking positions, cargo apron reconstruction, a new remote cargo fueling apron and reconstruction of Runway 7L/25R. Through FY05, ANC has received \$22.4 million in AIP discretionary funds and has applied approximately \$11.5 million in AIP entitlement funds for a total of \$33.9 million for LOI – 1. ANC expects to receive the remaining \$14.2 million in AIP entitlement and discretionary funds over the next three years for the total \$48.1 million in LOI – 1 funding. The total amount of AIP discretionary funding included in LOI – 1 is approximately \$32.0 million.

In February 2003, ANC was awarded LOI – 2, for a total of \$51.3 million for the construction of Taxiway Y, including interlinks and upgrades to Runway 7R/25L and Taxiways J, C and K. The discretionary amount approved under the LOI – 2 totals approximately \$39.4 million, and entitlement funds allocated under LOI - 2 equal approximately \$11.9 million. Both LOI – 1 and LOI – 2 provide annual grant funding over a period of 10 years for expenditures relating to the approved LOI projects. Total AIP Funds applied to the FY06 – FY09 CIP ANC projects equal \$202.2 million. Through FY05, ANC has received \$11.0 million in AIP discretionary funds and has applied approximately \$4.2 million in AIP entitlement funds for a total of \$15.2 million for LOI – 2. ANC expects to receive the remaining \$14.2 million in AIP entitlement and discretionary funds over the next seven years for the total \$51.3 million in LOI – 2 funding.

AIP entitlement and discretionary funding are subject to reauthorization by the federal government under the AIP program that has been in place since 1982. Typically, AIP funding levels are authorized for a three to four year period. The amount an airport receives in annual AIP entitlement funding is based on a formula using that airport's number of passengers and cargo operations. The amount of AIP discretionary funds available in any given year is based upon the total AIP authorization for each federal fiscal year. Both AIP funding sources represent a stable source of funding for eligible capital projects at airports. For purposes of this Report, it is assumed that the AIAS will receive all of the AIP funding as shown in Table III-1.

3. Passenger Facility Charges

The FAA's PFC program began in 1990 and like the AIP program has been used by airports since that time to fund eligible capital projects under the PFC program. ANC has PFC impose and use authority totaling \$14.8 million, at the \$3.00 level, which went into effect January 1, 2006 and expires July 1,

2009. In FY04, ANC analyzed the impact of increasing its PFC collection authority from \$3.00 to \$4.00 or \$4.50. However, the projected increase resulted in a loss of combined AIP and PFC revenues resulting from the reduction in total AIP entitlement funds from 50.0 percent to 75.0 percent as required by the PFC regulations. Currently, ANC is re-evaluating the potential impact of increasing its PFC collection authority although no decision has been made at this time. FAI has PFC impose and use authority totaling approximately \$5.5 million at the \$4.50 level through March 1, 2006. In January 2006, FAI submitted its latest PFC application to the FAA at the \$4.50 level. The total amount to be collected over a 20 year period is expected to equal approximately \$33.2 million. Of this amount, approximately \$32.4 million will be used to pay debt service on the Series 2006 Bonds. The AIAS has collected approximately \$5.4 million in PFC Revenues since the implementation of its PFC charge in October 2000. In total, AIAS expects to apply \$14.8 million of PFC Revenues toward the FY06 – FY09 CIP. Since AIAS has received approval for both ANC and FAI it is assumed that the amount of PFC funds shown in Table III-1 will be available.

4. International Airport Revenue Fund

The IARF is the fund into which all Revenues are required to be deposited as collected. IARF monies in the amount of \$11.9 million will be applied to the FY06 – FY09 CIP. The AIAS already has these amounts available to fund the FY06 – FY09 CIP.

5. Airport System Development Fund

The Airport System Development Fund was established under the current AOA and is assumed to continue under the new AOA. The fund deposit requirement under the current AOA was initially established at \$6.0 million and was subsequently reduced by the Master Supplement (see Chapter IV-B-6). A total of \$56.5 million in Airport System Development Fund deposits have been or will be collected under the current AOA and are available to the AIAS to fund a portion of the FY06 – FY09 CIP as shown in Table III-1.

6. Other Funds

Other funds are comprised of a number of different sources including amounts from capital projects that were not included in the current AOA Original CIP, amounts from several capital projects that were deferred, and amounts from airline approved capital projects that were reprogrammed. This category includes \$1.8 million in additional AIP funding and approximately \$13.0 million in interest earnings from previously issued bonds. All of these amounts are available to fund the FY06 – FY09 CIP as shown in Table III-1.

7. AIAS Revenue Bonds

- a. Series 1999A and 1999B Bonds – The majority of the proceeds of the \$179.2 million Series 1999A and 1999B Bonds were used to finance the TRP at ANC. Of the \$179.2 million in bond proceeds approximately \$14.3 million was used to redeem the Series 1998A International Airports System Revenue Bond Anticipation Notes, and \$5.0 million was used to retire the Series 1998B Notes.
- b. Series 1999C Bonds – The Series 1999C Bonds (“Series 1999C Bonds”) were issued as interim financing for the costs associated with the South Terminal airside projects pending receipts of grant funds under LOI - 1. These projects include the construction of the Concourse C apron,

reconstruction of the RON positions, expansion of the apron at Gates A5 through A9 and construction of the remote fueling area. The Series 1999C Bonds proceeds totaled \$25.0 million.

- c. Series 2002 Bonds –Proceeds from the Series 2002 Bonds funded project costs related to the Original CIP in FY02 and FY03. The Series 2002 Bonds were used for airside, terminal, landside and environmental projects at both ANC and FAI.
- d. Series 2003 Bonds – Proceeds from the Series 2003 Bonds funded projects for both ANC and FAI. Approximately \$13.9 million or 16.2 percent of the total proceeds funded a portion of the 2004 Program. Of the total remaining proceeds approximately \$48.0 million or 55.9 percent financed the completion of the South Terminal and Concourse C. Series 1993I Bonds were refunded with the remaining \$23.9 million or 27.9 percent.
- e. Series 2006 Bonds – The majority of the Series 2006 Bonds proceeds will be used to fund the construction costs of the Concourse A and B Retrofit Project at ANC and the Terminal Area Redevelopment project at FAI. The balance of the Series 2006 Bonds will be used to fund a portion of the construction costs of the FY06 – FY09 CIP, an escrow deposit for refunding a portion of the Series 1999B Bonds and Series 2002B Bonds, capitalized interest, Debt Service Reserve Fund requirements and cost of issuance.

E. FUTURE CAPITAL PROJECTS

In addition to the FY06 – FY09 CIP, the AIAS continues to evaluate future capital improvements and major rehabilitation projects that will be required at ANC and FAI. At this time, the AIAS has not specifically identified any capital projects beyond those included in the FY06 – FY09 CIP, however, it is anticipated that the AIAS will develop a new five year CIP before the end of FY09.

IV. FINANCIAL ANALYSIS

This chapter presents an overview of the AIAS's financial structure, historical financial results and financial forecasts of M&O Expenses, non-airline revenues, annual debt service and fund deposit requirements, airline revenues and an assessment of the financial impacts associated with the State's issuance of the Series 2006 Bonds on the AIAS's CPE.

A. FINANCIAL STRUCTURE OVERVIEW

The State owns, operates, maintains, regulates and promotes through its DOT&PF approximately 261 public airports within its boundaries. The majority of these airports are general aviation airports with 19 of them also providing scheduled jet airline service. AIAS is comprised of two airports: FAI and ANC, which includes Lake Hood.

The AIAS's financial operations are governed by the AOA, which was entered into in May 2001 and is scheduled to expire at midnight on June 30, 2007. The AOA is a residual operating agreement between the Signatory Airlines and the DOT&PF, which establishes methodologies for calculating rates and charges, approving capital projects and other operating aspects of the AIAS.

The AIAS uses cost centers for accounting and budgetary purposes and for generating the detail necessary to calculate cost-based user rates and charges. Consistent with the AIAS's accounting practices and the AOA; the following cost centers were used for the financial analyses contained herein:

- Airfield Cost Center
- Terminal Cost Center
- Aircraft Ramp Cost Center
- Other Buildings and Grounds Area Cost Center

DOT&PF operates the AIAS as an enterprise fund and accounts for its financial operations in accordance with Generally Accepted Accounting Principles ("GAAP") on a FY basis that runs from July 1 through June 30. For FY05, the audited financial statements show that the AIAS had total assets of \$1.1 billion and net assets of \$615.8 million. The AIAS's long-term debt obligations as of FY05 equaled \$399.5 million (excluding the current portion of long-term debt obligations, amortized bond issuance costs and discounts). Additional information regarding the AIAS's historical financial performance is provided in Section D of this chapter.

B. AIRLINE OPERATING AGREEMENTS

The terms of the AOA cover both the operational and planning aspects of the AIAS. Some of the key features of the AOA are discussed below following **Table IV-1** which lists the Signatory Airlines and their market share based on total FY05 landings.

Table IV-1
Alaska International Airports System
FY05 Signatory Airlines
Market Share by Landings

ANC Signatory Airlines	Percent of Market Share	FAI Signatory Airlines	Percent of Market Share
Alaska Airlines	21.8%	Alaska Airlines	37.1%
Era Aviation	13.6%	Frontier Flying Service	29.9%
PenAir	8.9%	Tatonduk Outfitters	16.6%
United Parcel Service	5.3%	Lufthansa Cargo	5.1%
EVA Airways	5.1%	Northern Air Cargo	4.1%
Northwest Airlines	4.9%	Cargolux Airlines	1.9%
FedEx	4.8%	Northwest Airlines	1.7%
Korean Air	4.5%	Era Aviation	1.4%
China Airlines	4.5%	Air North Charter & Training	1.1%
Frontier Flying Service	4.0%	Delta Air Lines	0.4%
Others ¹	22.6%	Others ²	0.7%
Total - ANC	100.0%	Total - FAI	100.0%

Source:

AIAS

1/ Other Signatory Airlines for ANC are Japan Airlines, Northern Air Cargo, Nippon Cargo Airlines, Cathay Pacific Airways, Tatonduk Outfitters, Asiana Airlines, United Airlines, Delta Air Lines, Continental Airlines, Lynden Air Cargo, Polar Air, Evergreen International Airlines and Air North.

2/ Other Signatory Airlines for FAI are Evergreen International Airlines, Lynden Air Cargo, United Parcel Service, FedEx, Japan Airlines, Nippon Cargo Airlines, PenAir, Cathay Pacific Airways, China Airlines and United Airlines.

1. Airlines Premises

The AOA classifies the majority of the Airports' passenger processing facilities as preferential use for each respective Signatory Airline. Passenger processing facilities are defined as those facilities (i.e., ticket counters, passenger holdrooms, baggage handling facilities and aircraft parking positions) that are essential properties to which an airline must have access in order to process its passengers. Every two years during the term of the AOA, DOT&PF may review the utilization rate established for the usage of the aircraft parking positions adjacent to terminals. The standard utilization rate is based upon the average number of passengers enplaned by the Signatory Airlines by type of aircraft parking position at the terminals (e.g., wide-body narrow-body or piston engine). Failure to meet the utilization rate minimums allows, but does not require, DOT&PF to reclaim the aircraft parking position in question along with a commensurate amount of passenger processing facilities inside the terminal. If there were no demand to lease such facilities by a new entrant or an expanding incumbent airline, DOT&PF would be expected to take no action.

2. Accommodation of New Entrant Airlines

If a new entrant airline commences service to ANC, FAI or both of the airports in the interval between biennial utilization rate reviews and the new entrant cannot find a place to operate in the terminal area, the AOA empowers DOT&PF to accommodate the new entrant by requiring one or more Signatory Airlines to provide the necessary facilities for the new entrant on a subordinate use basis. In so doing, DOT&PF would try to minimize schedule conflicts between the Signatory Airline and subordinate use

carriers and would plan for more permanent accommodation either through utilization rate realignment, when that became timely and appropriate, or through terminal expansion. The combination of the subordinate use provisions and the “use-it-or-lose-it” mechanisms of the preferential use regime provides DOT&PF with effective management tools to ensure the most efficient use of terminal facilities.

3. Ground-handling Agreements Between Airlines

The AOA gives AIAS management the right to approve ground-handling agreements between Signatory Airlines. Existing ground handling agreements are grandfathered and not subject to airport management approval so long as the Airport Director has been furnished with a copy of the agreement and so long as neither of the parties objects in writing to its terms or application. In the event of such a complaint, the agreement then becomes subject to AIAS approval.

4. Original CIP

The AOA contains provisions that encourage the development of longer term planning for the AIAS and facilitate the implementation of needed capital improvements. The Original CIP was agreed to by the Signatory Airlines as part of the AOA negotiations completed in CY01. While permitting modest adjustments in scope and timing of the projects comprising the Original CIP, the AOA allowed DOT&PF to proceed with the projects as described and finance their construction or installation with the proceeds of Bonds, International Airport Revenue Funds (“IARF”) or other available sources without further airline approvals. Based on discussions with the Signatory Airlines, regarding the South Terminal, which includes Concourse C, the DOT&PF agreed to defer certain capital projects that were included in the Original CIP, which deferral resulted in the 2004 Program. Subsequent to these discussions, the DOT&PF and the Signatory Airlines executed the Master Supplement. The Master Supplement and certain balloted approvals by the Signatory Airlines created the FY06 – FY09 CIP (see Table III-1).

5. Additional Capital Project Approval Process

The AOA gives DOT&PF several methods for undertaking new capital projects. For example, capital projects that meet the following conditions may be undertaken by DOT&PF after notice and discussion with the Signatory Airlines:

- To meet FAA requirements;
- To keep an essential part of one of the airports open in emergency conditions;
- To replace damaged or destroyed facilities when insurance proceeds are insufficient;
- To provide necessary facilities for a new entrant or expanding incumbent airline;
- To fund project whose construction or acquisition costs are \$500,000 or less;
- A project to be financed by the AIAS from sources that do not affect the Signatory Airlines’ rates and charges.

Other unanticipated projects that do not fall under the list of exceptions can be submitted to the Signatory Airlines for consideration and approval under the ballot approval process in the AOA.

6. Airport System Development Fund

The AOA also created an Airport System Development Fund of \$6.0 million per year (plus escalation based on the Consumer Price Index (“CPI”) that may be expended at DOT&PF’s discretion for any purpose for which Airport System revenues may lawfully be used. The Master Supplement reduced the amount deposited into the Airport System Development Fund by \$1.0 million annually beginning in FY04 through FY07. At the end of FY05, the Airport System Development Fund had a balance of approximately \$50.0 million.

C. RATES AND CHARGES METHODOLOGY

The AOA establishes a system of rates and charges that includes Terminal Rentals, fees for the use of FIS facilities (in connection with the processing of passengers and crew arriving from international points of origin), Aircraft Ramp Rentals, Fuel Flowage Fees and Landing Fees. Although the AOA establishes a substantially uniform approach to rates and fees, there are some minor differences between the terminal rental regimes in effect at ANC and those in effect at FAI arising from physical differences in the terminal facilities.

1. Terminal Rentals

Terminal Rentals are applicable to exclusively leased and preferentially leased space, which are payable monthly in advance based on Terminal Cost Center costs divided by the useable terminal area square footage. The resulting Terminal Rental Rate also forms the basis for the Common Use Premises Charge and, together with an aircraft parking component, the Airport Administered Premises Charge.

- a. Airport Administered Premises – are those portions of the terminal and associated Aircraft Parking Positions (i.e., passenger processing facilities) that are not preferentially leased to an airline but that are administered by ANC and FAI airport management for use by one or more airlines. The charge is a combination of the annualized terminal rental requirement for the area encompassed by such premises plus the annualized ramp rental requirement for the aircraft parking positions associated with such premises, apportioned over a negotiated proxy for the estimated number of passenger flights using such premises during the year.
- b. Common Use Premises – are those portions of the terminal that are available for use by all airlines and essentially are comprised of bag claim areas. The charge for such premises is the annualized terminal rental requirement for Common Use Premises. At FAI this requirement is determined based on the area designated as Common Use Premises and is apportioned among the airlines as a per passenger charge based on the number of enplaned passengers estimated to be carried on passenger flights using such premises during the FY. The Common Use Premises requirement at ANC is allocated one-half according to the square footage of the primary baggage claim belt assigned to the respective airlines and one-half according to each airline’s enplaned passenger count for the preceding month. For the two distinct terminal areas in use at ANC, (i.e. the North Terminal and the South Terminal) the annual Common Use Premises requirement is calculated based on square footage of only the South Terminal divided by the passengers on flights forecast to use that space, until enplaned passenger forecasts at ANC reach 3.0 million. Until that enplaned

passenger level is reached, all Common Use Premises at ANC, including such space in the North Terminal, is charged based on the South Terminal calculation. Any deficit in the ANC Common Use Premises requirement is allocated to the Landing Fee.

2. FIS Fees

FIS Fees are derived from the terminal rental requirement for such facilities apportioned over the number of flights forecast to use those facilities during the year. In order to encourage airlines to bring international flights into ANC and FAI, the per inspection FIS Fees are limited to \$35.00 per international arrival, with 50.0 percent of any shortfall added to the Terminal Cost Center, and the remaining shortfall added to the Landing Fee calculation.

3. Aircraft Ramp Rentals

Aircraft Ramp Rentals are calculated by allocating 10.0 percent of the estimated annual M&O Expenses of the Airfield Cost Center to each square foot occupied by all aircraft parking positions adjacent to terminals and aircraft parking positions that are remote from terminals. Signatory Airlines that have preferential use of aircraft parking positions adjacent to a terminal pay rentals that are the product of the area of such preferential aircraft parking positions multiplied by the rental rate derived above. Signatory Airlines using aircraft parking positions not subject to preferential use privileges must pay fees derived from the amount of revenue required from the aircraft parking positions (net of rentals payable by Signatory Airlines having preferential use privileges described above) apportioned over the projected uses of such parking positions, using a formula weighted for size and type of aircraft as well as duration of occupancy.

4. Fuel Flowage Fees

Fuel Flowage Fees are charged based upon gallons uplifted annually. For Signatory Airlines, the rate is specified in the AOA. All other purchasers of aviation fuel pay a higher rate set by order of the Commissioner.

5. Landing Fees

Landing Fees are payable by Signatory Airlines, as well as other operators of aircraft with a CMGTW of 6,000 pounds or more, for the use of the airports and are calculated by determining total annual AIAS expenses, including M&O Expenses, annual debt service, debt service coverage and other fund deposit requirements, less all other operating revenues and interest earnings, and dividing by projected total annual CMGTW of all landings at AIAS of aircraft subject to payment of Landing Fees.

6. Mid-year Rates and Charges Adjustment

Under the terms of the AOA, all rates and charges are to be adjusted annually. In addition, DOT&PF may perform a mid-year adjustment in the event that year-end projections indicate an overpayment or underpayment by 5.0 percent in the aggregate. Moreover, in the event of emergency or unforeseen conditions, DOT&PF may require an immediate extraordinary adjustment in Landing Fees at any time if it appears during the course of a FY that projected AIAS revenues will be insufficient and the shortfall cannot be met by reduction of M&O Expenses or the use of the Reserve Account (defined as the account to establish and maintain the Reserve Requirement). Similarly, if Landing Fee revenues

themselves are projected to be short by more than 10.0 percent of the required amount, DOT&PF may adjust the Landing Fee for the balance of the FY to cover the deficit.

D. FLOW OF FUNDS

Under the State Bond Committee Resolution No. 68-4 adopted April 11, 1968, amended and restated by the State Bond Committee Resolution No. 99-01, the Bonds are revenue obligations of the AIAS, payable solely from and secured by a pledge of all Revenues of the AIAS. The Bond Resolution provides that M&O Expenses may be paid from Revenues prior to debt service to the extent permitted under Alaska Statutes 37.15.410 – 37.15.550. Under the Bond Resolution, Revenues are required to be deposited in the IARF, and must be maintained and segregated from all other State funds so long as any Bonds are outstanding.

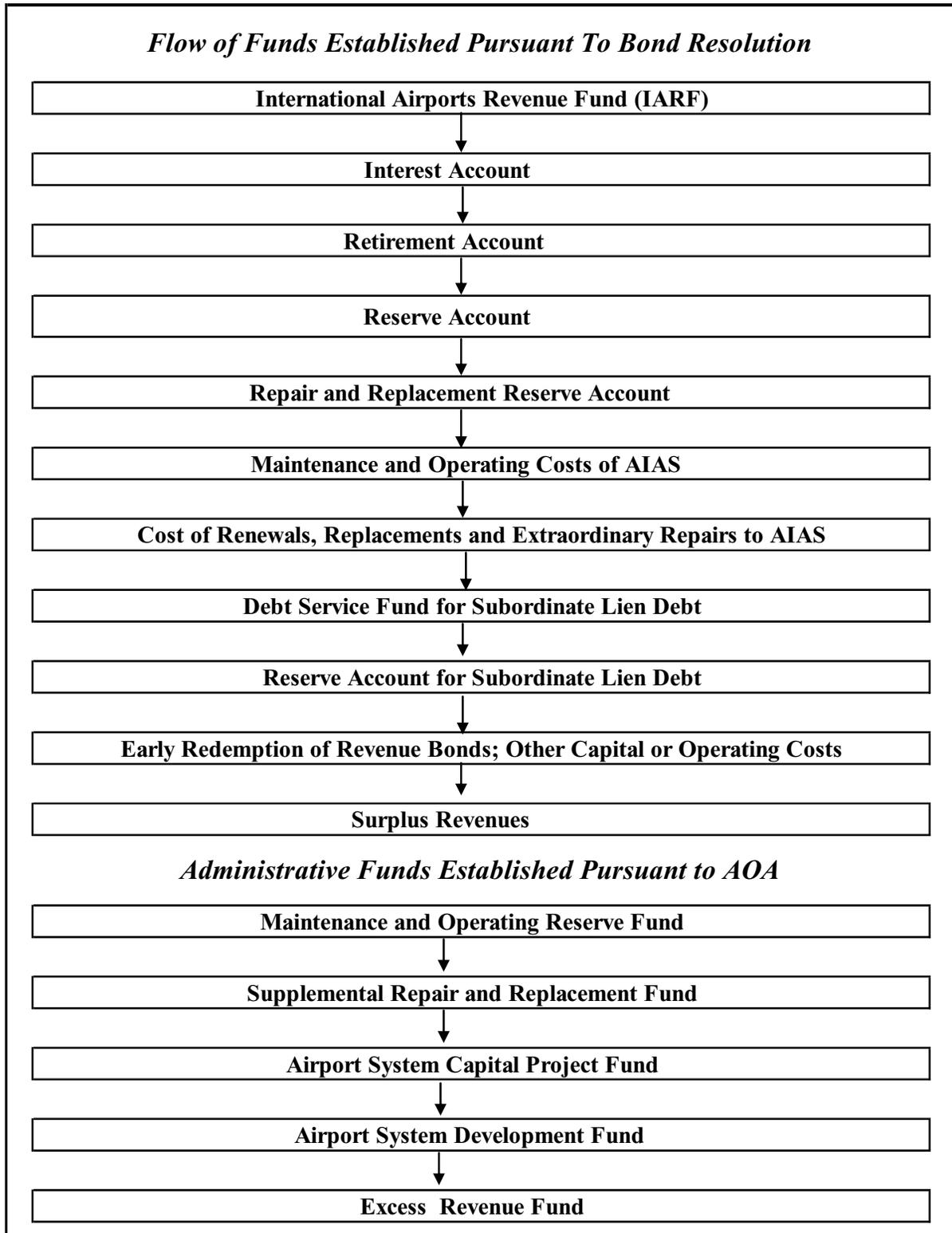
The Resolution also establishes the Bond Redemption Fund, which is subdivided into three accounts: the Interest Account, the Retirement Account and the Reserve Account, with sub-accounts established within each account for each series of bonds issued under the Bond Resolution. The State is required to deposit to the three sub-accounts the amount that will be necessary to satisfy the principal, interest and minimum sinking fund payments due during the FY on all outstanding bonds, as well as an amount required to maintain a balance equal to the maximum annual debt service on all bonds outstanding at that time. In addition, the Bond Resolution established the Repair and Replacement Reserve Account within the IARF Fund, which is required to maintain a minimum balance of \$500,000.

In support of the Bond Resolution, DOT&PF created funds to account for Revenue received and costs spent in the AIAS. The AOA established several supplemental funds that are funded from the annual calculation of rates and charges. These funds include the Maintenance and Operating Reserve Fund (“M&O Reserve Fund”), the Supplemental Repair and Replacement Fund (“Supplemental R&R Fund”), the Airport System Capital Project Fund, the Airport System Development Fund and the Excess Revenue Fund, above and beyond the Bond Resolution’s stipulation.

- The M&O Reserve Fund requirement is set to maintain a balance equal to 25.0 percent of the annual estimated M&O Expenses for each FY.
- The Supplemental R&R Fund was funded to a balance of \$1.5 million in the first year of the AOA and thereafter is to be maintained at that level plus CPI escalation.
- The Airport System Capital Project Fund is to equal the amount authorized from rates and charges in the annual budget for each FY for Capital Projects approved under the AOA.
- The Airport System Development Fund was set at \$6.0 million in the first year of the AOA, and thereafter, annual deposits to this fund were to equal \$6.0 million escalated by the CPI. (From FY04 – FY07 this deposit requirement has been reduced by \$1.0 million annually as described above.) The Airport System Development Fund may be used by the AIAS to finance tenant improvements on AIAS property under stated guidelines or for any other purpose for which Revenues can lawfully be used.
- Excess Revenue Fund – Revenues in excess of the amount of debt service coverage collected by the AIAS after all other costs or obligations of the AIAS have been satisfied in a FY are to be deposited to the Excess Revenue Fund and are to be applied, in part, to Landing Fees for the next FY or for any other purpose that is permissible under State law and the Bond Resolution upon the written request of the Airline/Airport Affairs Committee.

Exhibit IV-1 depicts the flow of funds as described in the Resolution and the AOA.

**Exhibit IV-1
Alaska International Airports System**



E. AOA NEGOTIATIONS

As described earlier, the DOT&PF and the Signatory Airlines executed the Master Supplement that was effective as of September 2004, extending the current AOA to June 30, 2007. Currently, the DOT&PF and the Signatory Airlines have begun negotiating the terms of a new AOA, which will replace the current AOA upon its expiration, if not sooner. Although the specific terms and conditions of the new AOA, including the manner of cost allocation and recovery for certain types of costs, may differ from those currently in place, the State and the current Signatory Airlines have agreed that the rates and charges methodology will remain residual for the AIAS. In December 2005, the Signatory Airlines and the AIAS exchanged initial general proposals for revisions to the current AOA as part of the negotiation process.

As of the date of this Report, no further negotiations between the AIAS and the Signatory Airlines have occurred although additional meetings will be held. Negotiations are expected to conclude prior to the start of FY07. For purposes of this Report, the calculation of Landing Fees, Terminal Rental Rates and other airline rates and charges are presented using the methodology in the current AOA throughout the Forecast Period.

F. HISTORICAL FINANCIAL OPERATIONS

Table IV-2 presents the AIAS's selected audited financial information for FY01 through FY05. During this period, operating revenues increased from \$73.9 million to \$99.4 million. The greatest increase in operating revenues was in the airfield operations category, which reflects the airlines' payments for Landing Fees and Fuel Flowage Fees.

Concession fees increased from \$8.5 million in FY01 to \$9.2 million in FY05, while vehicle parking fees decreased from \$5.3 million in FY01 to \$3.3 million FY05, due primarily to the ANC's concession agreement with APCOA Standard Parking, which became effective in October 2001. The reduction in parking revenues was somewhat offset by a reduction in expenses through conversion of certain airport responsibilities to parking concession responsibilities. This revenue stream was, however, also heavily influenced by loss of some parking activity to a private off-airport parking provider. The ANC parking program was again modified as of September 1, 2005 and re-established as a management contract.

Table IV-3 depicts the distribution of operating revenues as presented in the audited financials statements for FY05.

Operating expenses increased from \$44.8 million in FY01 to \$91.4 million in FY05. The largest increase in operating expenses was in the building maintenance category, which increased from \$11.9 million in FY01 to \$22.3 million in FY05, an increase of approximately 87.9 percent. This increase was primarily attributable to staff expansions and the opening of the new facilities in the South Terminal, which includes Concourse C.

Table IV-2
Alaska International Airports System
Audited Financial Information

Historical Financial Results	Fiscal Year				
	2001	2002	2003	2004	2005
Operating Revenues					
Airfield Operations					
Landing Fees	\$16,281,780	\$21,517,414	\$23,817,471	\$20,770,902	\$36,198,793
Fuel Flowage Fees	26,172,730	17,927,309	21,623,153	23,624,384	26,161,864
Aircraft Docking Fees	1,065,420	855,088	749,399	619,629	774,124
Federal Inspection Services Fees	501,705	633,707	707,345	711,106	798,081
Aircraft Parking Fees	724,549	2,367,258	3,312,197	4,607,841	4,639,499
Aircraft Ramp Fees	0	822,421	789,967	798,259	971,550
Concession Fees	8,484,722	7,836,113	9,108,738	8,029,543	9,236,737
Terminal Rents	8,318,032	8,900,823	10,014,520	10,408,865	12,321,949
Vehicle Parking Fees	5,304,174	3,269,179	2,994,631	2,853,106	3,333,895
Passenger Facility Charges ¹	3,809,502	0	0	0	0
Land Rental Fees	2,948,292	3,122,919	3,141,866	3,657,924	3,738,534
Other Revenues	310,879	683,488	493,696	385,546	1,199,666
Total Operating Revenues ¹	\$73,921,785	\$67,935,719	\$76,752,983	\$76,467,105	\$99,374,692
Operating Expenses					
Facilities (Building Maintenance)	\$11,850,165	\$12,789,761	\$13,338,524	\$14,089,639	\$22,272,369
Field and Equipment Maintenance	11,066,513	11,168,454	11,981,927	12,018,853	13,690,208
Safety	7,681,975	8,211,904	9,094,883	8,271,064	9,167,847
Homeland Security	0	66,427	332,916	0	0
Administration	6,690,964	8,354,586	8,599,966	7,864,304	9,007,145
Operations	2,561,884	3,191,031	3,459,870	3,369,522	3,671,117
Environmental Expenses	2,176,285	2,176,194	5,187,806	1,907,437	1,493,820
Vehicle Parking and Curbside Services	2,050,083	1,091,738	969,448	1,008,680	1,121,240
Risk Management	720,144	728,574	726,690	708,344	706,276
Depreciation and Amortization ²	0	19,915,023	21,732,751	27,259,159	30,273,373
Total Operating Expenses	\$44,798,013	\$67,693,692	\$75,424,781	\$76,497,002	\$91,403,395
Operating Income ^{1/2}	\$29,123,772	\$242,027	\$1,328,202	(\$29,897)	\$7,971,297
Depreciation and Amortization Expense ¹					
On Assets Acquired with IARF funds	\$12,591,014	\$0	\$0	\$0	\$0
On Assets Acquired with Capital Grants	7,082,471	0	0	0	0
Income (Loss) from Operations	\$9,450,287	\$242,027	\$1,328,202	(\$29,897)	\$7,971,297
Non-Operating Revenue (Expense)					
Investment Income	\$8,242,848	\$5,724,661	\$6,566,924	\$1,057,074	\$5,162,884
Interest Expense	(1,759,990)	(1,189,843)	(1,473,267)	(645,481)	(17,810,930)
Arbitrage Rebate			(5,452,969)	1,203,962	108,355
Sound Insulation Program			(993,527)	(4,332,812)	(3,136,057)
Insurance Recovery				0	13,000,000
BJA Drug Enforcement	0	13,564	154,087	612,960	769,960
Reimbursable Service Income	1,743,696	443,374	1,196,874	875,941	251,158
Reimbursable Service Expense	(1,743,696)	(443,374)	(1,196,874)	(875,941)	(251,158)
Total Non-Operating Revenues (Expenses)	\$6,482,858	\$4,548,382	(\$1,198,752)	(\$2,104,297)	(\$1,905,788)
Income (Loss) before Capital Contributions	\$35,606,630	\$4,790,409	\$129,450	(\$2,134,194)	\$6,065,509
Capital Contributions:					
Corporate	\$16,000,000				
Federal Aviation Administration	12,023,859	18,757,487	37,883,268	43,874,121	50,529,888
Passenger Facility Charges	0	4,638,481	4,251,820	4,736,195	5,288,290
Total Capital Contributions	\$28,023,859	\$23,395,968	\$42,135,088	\$48,610,316	\$55,818,178
Net Income	\$43,957,004	\$28,186,377	\$42,264,538	\$46,476,122	\$61,883,687

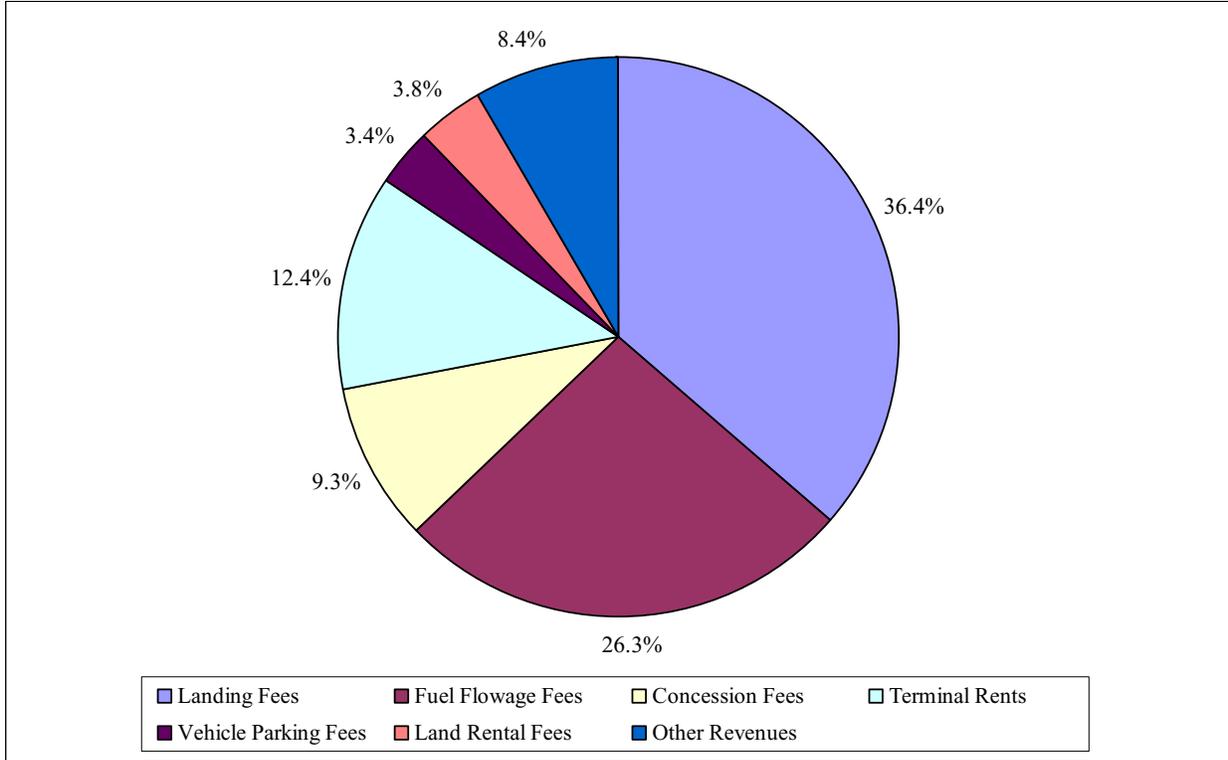
Source:

AIAS Audited Financial Statements FY01, FY02, FY03, FY04 and FY05

1/ IN FY01, PFC revenues were reported as operating revenues. For FY 2002 and thereafter PFC revenues were reported as Capital Contributions.

2/ AIAS implemented Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments, as amended, and GASB Statement No. 38, Certain Financial Statement Disclosures, as of July 2001. As a result of these standards, depreciation is no longer segregated between assets acquired with capital grants from assets acquired from International Airport Revenue Funds in the AIAS's financial statements.

**Table IV-3
Alaska International Airports System
FY05 Operating Revenues**



<u>Operating Revenues</u>	<u>FY05</u>
Landing Fees	\$36,198,793
Fuel Flowage Fees	26,161,864
Concession Fees	9,236,737
Terminal Rents	12,321,949
Vehicle Parking Fees	3,333,895
Land Rental Fees	3,738,534
Other Revenues ¹	8,382,920
Total Operating Revenues	\$99,374,692

Source:

AIAS Audited Financial Statements FY05

1/ Other Revenues includes Aircraft Docking Fees, FIS Fees, Aircraft Parking Fees and Other Revenues.

G. MAINTENANCE AND OPERATING EXPENSES

This section discusses projections for the major categories of M&O Expenses for the Forecast Period. The incremental impacts expected to be incurred after completion of the Concourse A and B Retrofit Project at ANC and the Terminal Area Redevelopment project at FAI are included in these forecasts and are discussed below.

M&O Expenses represent those costs incurred by DOT&PF either directly or indirectly to maintain and operate the AIAS. For budgeting purposes, the AIAS classifies M&O Expenses into five major categories: Administration, Field and Equipment Maintenance, Facilities, Safety and Operations. **Table IV-4** presents M&O Expenses for the Forecast Period. M&O Expense projections for the Forecast Period are based on the AIAS's FY06 budget and are escalated annually for inflation along with incremental increases for new facilities. For ANC, it is assumed that total M&O Expenses will increase by approximately 5.0 percent in FY09 with the Concourse A and B Retrofit Project in June 2009. For FAI, it is assumed that total M&O Expenses will increase by approximately 5.0 percent in FY10 with the completion of the Terminal Area Redevelopment project.

1. Administration

This category covers M&O Expenses for salaries and wages of AIAS personnel and includes benefits, severance pay, vacation pay and other fees. Administration costs for the AIAS in FY06 are budgeted at \$8.5 million. By FY15, administration expenses are expected to increase to \$10.6 million, at an AACGR of 2.6 percent.

2. Field and Equipment Maintenance

The Field and Equipment Maintenance category includes items required for the daily operation, maintenance and repair of all airfield and roadways, as well as landside improvements. Currently, the FY06 budget for Field and Equipment Maintenance costs is \$14.4 million and is expected to increase to \$18.0 million by FY15 at an AACGR of 2.6 percent.

3. Facilities/Building Maintenance

The Facilities category is the largest M&O Expense category representing one third of the total budget in FY06. This category includes items necessary to maintain and operate all buildings operated by the AIAS. The total cost budgeted for maintaining these facilities for FY06 is \$21.5 million. It is estimated that by FY15 M&O Expenses for Facilities will increase to approximately \$26.9 million, which equates to an AACGR of 2.6 percent.

4. Safety

This category includes expenses for policing and security at the AIAS. In FY06 the total budgeted costs associated with safety represented approximately 15.5 percent of the total M&O Expense budget or \$10.0 million. This amount is expected to increase to approximately \$12.6 million by FY15, at an AACGR of 2.6 percent.

Table IV- 4
Alaska International Airports System
Maintenance & Operating Expenses

M&O Expenses	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Administration	\$8,478,200	\$8,647,764	\$8,820,719	\$9,362,141	\$9,635,930	\$9,828,649	\$10,025,222	\$10,225,726	\$10,430,241	\$10,638,846
Field and Equipment Maintenance	14,360,700	14,647,914	14,940,872	15,824,124	16,321,708	16,648,142	16,981,105	17,320,727	17,667,141	18,020,484
Facilities/Building Maintenance	21,474,500	21,903,990	22,342,070	23,773,728	24,406,924	24,895,062	25,392,964	25,900,823	26,418,839	26,947,216
Safety	10,028,600	10,229,172	10,433,755	11,022,821	11,398,043	11,626,004	11,858,524	12,095,695	12,337,608	12,584,361
Operations	6,758,100	6,893,262	7,031,127	7,444,836	7,680,944	7,834,563	7,991,254	8,151,079	8,314,101	8,480,383
Other	3,544,128	3,578,898	3,650,475	3,723,485	3,797,955	3,873,914	3,951,392	4,030,420	4,111,028	4,193,249
Total M&O Expenses	\$64,644,228	\$65,901,000	\$67,219,020	\$71,151,134	\$73,241,504	\$74,706,334	\$76,200,460	\$77,724,470	\$79,278,959	\$80,864,538

Average Annual Compound Growth Rate

2006 - 2010	3.2%
2010 - 2015	2.0%
2006 -2015	2.5%

Source:

AIAS and AXIS Consulting Inc.

5. Operations

This category includes all expenses associated with aircraft parking operations either at the terminal or at airport-operated remote hardstand positions. The costs for GA facilities are also included in this category. In FY06, the total operations expense budgeted by the AIAS was \$6.8 million, by FY15 it is estimated annual operations expenses will increase to \$8.5 million at an AACGR of 2.6 percent.

6. Other

This category includes all miscellaneous M&O Expenses associated with AIAS operations for both airfield and terminal facilities. In FY06, the total amount budgeted by the AIAS was \$3.5 million and is forecast to increase to \$4.2 million by FY15 at an AACGR of 1.9 percent.

H. NON – AIRLINE REVENUES

The forecast of Non-Airline Revenues is shown in **Table IV-5**. The forecast was developed based on the AIAS's current FY06 budget. The remaining forecasts (FY07 – FY15) were determined by increasing the individual FY06 estimated Non-Airline Revenues categories for either annual inflation or the enplaned passenger growth rate. The major Non-Airline Revenues categories consist of public parking, terminal concessions, rental car revenues and other. The forecast assumes that total Non-Airline Revenues will increase at an AACGR of 2.2 percent over the Forecast Period.

1. Public Parking

Public parking revenues for FY06 are forecast to equal \$5.6 million. By FY15, parking revenues are projected to increase to \$6.7 million. The forecast assumes that there will be no additional parking facilities at either ANC or FAI during the Forecast Period. The total number of public parking spaces at ANC is 3,522 and 428 at FAI. The forecast further assumes that rates will not increase over the Forecast Period and that off-airport parking competition will not further reduce ANC parking revenues.

2. Terminal Concessions

Terminal concessions at ANC and FAI consist of food and beverage, news and gifts, specialty retail, duty free, advertising and a variety of other passenger-oriented services. Terminal concession revenues for FY06 are forecast to equal \$4.2 million. The budgeted revenue amount for FY06 includes an incremental increase for the new concession program that was implemented as part of the TRP at ANC. Terminal concession revenues at the AIAS are forecast to increase to \$5.8 million in FY15.

3. Rental Car Revenues

Rental car operations provide the second largest source of concession revenues. Rental car revenues are defined in the Concession Agreements and provide the AIAS with 10.0 percent of the rental car company's gross revenues. In FY06, rental car revenues are forecast to equal \$5.1 million, increasing to \$6.0 million in FY15.

Table IV- 5
Alaska International Airports System
Non-Airline Revenues

Non-Airline Revenues	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public Parking	\$5,643,052	\$5,754,302	\$5,869,388	\$5,986,392	\$6,105,315	\$6,216,565	\$6,329,732	\$6,446,737	\$6,565,659	\$6,686,499
Terminal Concessions	4,224,126	4,375,505	4,533,869	4,697,962	4,867,968	5,036,309	5,210,701	5,392,943	5,581,685	5,777,135
Rental Car	5,068,081	5,167,996	5,271,356	5,376,438	5,483,243	5,583,158	5,684,795	5,789,878	5,896,683	6,005,211
Ground Leases and Other Revenues	5,855,078	5,971,726	6,080,221	6,190,778	6,303,428	6,415,500	6,529,728	6,646,683	6,765,858	6,887,287
Total Non-Airline Revenues	\$20,790,338	\$21,269,530	\$21,754,834	\$22,251,571	\$22,759,954	\$23,251,532	\$23,754,957	\$24,276,241	\$24,809,885	\$25,356,132

Average Annual Compound Growth Rate

2006 - 2010	2.3%
2010 - 2015	2.2%
2006 -2015	2.2%

Source:

AIAS and AXIS Consulting Inc.

As previously described, a private developer has begun a project to construct a CRCF and related infrastructure improvements. When completed, the CRCF will have eight rental car companies operating from the facility, with the possibility of adding companies beginning in FY10. The facility will be owned by the AIAS, but operated by a tenant company. The capital cost of the CRCF will be paid through a Customer Facility Charge (“CFC”) and M&O Expenses for the CRCF will be covered primarily by a Facility Maintenance Charge (“FMC”), both added per transaction day to the daily rental rates charged to rental car customers.

On May 24, 2005, the Commissioner of the DOT&PF signed an order establishing the CFC at \$4.00 per transaction day. The rental car companies began collecting and remitting to the CRCF Bond Trustee the initial CFC on June 24, 2005. On December 14, 2005, a combined level of the CFC and FMC was established at \$4.30 per transaction day and will begin on February 1, 2006. The combined CFC and FMC will continue to increase up to a maximum of \$8.54 per transaction day through FY31. The CFC and the FMC proceeds that are collected by the rental car companies and remitted to the CRCF Bond Trustee are not considered Revenues under the Bond Resolution.

The CRCF is scheduled to be completed in FY08 and will include customer service areas, office space and 1,080 parking spaces for rental car operations. In the feasibility study prepared for the CRCF, a sensitivity analysis evaluated the impact of the implementation of the CFC and FMC on the potential reduction in the total number of transaction days. The sensitivity analysis projected a potential reduction of approximately 5.0 percent in total transaction days over their forecast period, but only a 0.3 percent reduction in the AACGR. Based on the results of the sensitivity analysis, this Report did not adjust the forecast of rental car revenues due to the implementation of the CFC and FMC.

4. Ground Leases and Other Revenues

Other revenues are generated from facilities located at the airports but are not within the terminal facilities or are not directly related to passenger activities. Revenues in this category include land rentals, GA aircraft tie down permit fees and several smaller miscellaneous items. Other revenues are forecast to equal \$5.9 million in FY06 and \$6.9 million in FY15.

I. DEBT SERVICE AND FUND DEPOSIT REQUIREMENTS

Table IV-6 shows annual debt service requirements for all of the outstanding Bonds and the Series 2006 Bonds which will be collected through airline rates and charges. As part of the Resolution’s rate covenant, the DOT&PF agrees to collect from the Signatory Airlines’ Net Revenues equal to 1.25 times the Aggregate Annual Debt Service requirement. In order to meet this rate covenant, the Aggregate Annual Debt Service requirement also includes an amount equal to 25.0 percent of the Aggregate Annual Debt Service requirement. The AIAS will also apply PFC Revenues annually ranging from \$2.0 million in FY06, increasing to \$3.4 million in FY10 and remaining at that level through the end of the Forecast Period. As shown in Table IV-6, the Aggregate Annual Debt Service requirement net of PFC Revenues in FY06 equals \$38.4 million. In FY15, the Aggregate Annual Debt Service requirement net of PFC Revenues is projected to equal \$58.4 million.

Table IV-7 identifies annual Fund Deposit Requirements that are collected through airline rates and charges under the terms of the Resolution and the AOA. The Repair and Replacement Reserve Account requires a balance equal to \$500,000, which has been fully funded as of the date of this Report.

Table IV- 6
Alaska International Airports System
Debt Service Requirement

Annual Debt Service	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Series 1999 A	\$11,853,773	\$11,752,944	\$11,752,583	\$11,725,106	\$11,722,811	\$11,708,532	\$11,701,487	\$11,693,966	\$11,685,869	\$11,675,832
Series 1999 B	1,190,896	757,553	756,953	760,453	757,696	758,445	757,620	755,100	755,723	754,673
Series 1999 C	2,033,139	2,016,264	2,015,274	2,011,577	2,010,164	2,006,016	2,008,141	2,006,149	2,000,610	1,991,960
Series 2002 A and B	10,521,938	5,269,603	5,643,724	5,260,693	5,253,438	5,235,775	5,226,588	5,220,840	5,207,736	5,198,174
Series 2003 A and B	6,760,166	6,936,791	7,585,108	7,582,670	7,585,408	7,554,484	7,563,493	7,584,030	7,589,908	7,591,035
Series 2006 A, B, C and D ¹	0	5,403,686	13,649,838	22,250,598	22,241,660	22,220,729	22,218,423	22,212,069	22,206,560	22,192,954
Total Annual Debt Service	\$32,359,910	\$32,136,840	\$41,403,477	\$49,591,096	\$49,571,176	\$49,483,980	\$49,475,750	\$49,472,154	\$49,446,405	\$49,404,627
Debt Service Coverage Requirement	8,089,978	8,034,210	10,350,869	12,397,774	12,392,794	12,370,995	12,368,938	12,368,038	12,361,601	12,351,157
Less:										
PFC Revenues Applied to Debt Service	(2,000,000)	(3,200,000)	(3,200,000)	(3,200,000)	(3,400,000)	(3,400,000)	(3,400,000)	(3,400,000)	(3,400,000)	(3,400,000)
Total Debt Service Requirement	\$38,449,888	\$36,971,050	\$48,554,347	\$58,788,870	\$58,563,970	\$58,454,976	\$58,444,688	\$58,440,192	\$58,408,007	\$58,355,783

Source:

AIAS and AXIS Consulting Inc.

1/ Debt Service Requirements in FY06 and FY07 are assumed to be funded in whole or in part with capitalized interest and other AIAS funds.

Table IV- 7
Alaska International Airports System
Fund Deposit Requirements

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund Deposit Requirements ¹										
Maintenance and Operating Reserve Fund	\$1,706,864	\$323,044	\$329,505	\$983,029	\$522,592	\$366,208	\$373,532	\$381,002	\$388,622	\$396,395
Supplemental Repair and Replacement Fund	1,630,008	1,662,608	1,695,860	1,729,778	1,764,373	1,799,661	1,835,654	1,872,367	1,909,814	1,948,010
Airport System Capital Project Fund	1,600,000	3,434,000	3,386,000	2,599,000	0	0	0	0	0	0
Airport System Development Fund	6,729,499	6,864,089	7,001,371	7,141,398	7,284,226	7,429,911	7,578,509	7,730,079	7,884,681	8,042,374
Total Fund Deposit Requirements	\$11,666,371	\$12,283,741	\$12,412,736	\$12,453,204	\$9,571,192	\$9,595,779	\$9,787,694	\$9,983,448	\$10,183,117	\$10,386,779

Source:

AIAS and AXIS Consulting Inc.

1/ Required pursuant to the AOA.

Additional funds established under the current AOA include the M&O Reserve Fund, the Supplemental R&R Fund, the Airport System Capital Project Fund, the Airport System Development Fund and the Excess Revenue Fund. Although it is possible that these funds or their deposit requirements may change under a new AOA, absent a reliable basis for assuming a specific change, this Report assumes that the funds and their deposit requirements will continue throughout the Forecast Period.

The M&O Reserve Fund deposit requirement for a FY equals the amount necessary to maintain the fund at 25.0 percent of the M&O Expenses projected for that FY. The projected amount of the M&O Reserve Fund deposit requirement ranges from approximately \$1.7 million in FY06 to approximately \$0.4 million in FY15. These forecasted amounts assume that the M&O Reserve Fund is not actually used to make up M&O Expense shortfalls and that deposits need only add 25.0 percent of the increase in the annual M&O Expense budget over that of the previous FY.

In FY06, the deposit requirement for the Supplemental R&R Fund is \$1.6 million. The deposit requirement for the Supplemental R&R Fund for each successive FY is increased annually by the CPI, resulting in a deposit requirement projected at \$1.9 million by FY15.

The deposit requirement for the Airport System Capital Project Fund equals the amount authorized to be included in the calculation of rates and charges in the annual budget for each FY for Capital Projects approved by the Signatory Airlines, plus the amount authorized to be included in the calculation of rates and charges in the annual budget for each FY for Capital Projects not requiring Signatory Airline approval. As shown in Table IV-7, deposit requirements for FY06 through FY09 range from \$1.6 million to \$2.6 million. For purposes of this Report, it is assumed that no additional projects will be funded through the Airport System Capital Project Fund prior to FY10.

The Airport System Development Fund deposit requirement for FY06 is \$6.7 million. Under the terms of the AOA, the deposit requirement is to be escalated at a rate equal to the estimated annual increase in the CPI for each successive FY resulting in a deposit requirement projected at \$8.0 million in FY15. Under the terms of the Master Supplement, the deposit requirement for the Airport System Development Fund has been reduced by \$1.0 million per year through FY07.

J. AIRLINE RATES & CHARGES

The AOA provides for the calculation of all airline rates, including Terminal Rentals, Aircraft Ramp Rentals, Fuel Flowage Fees and Landing Fees as well as other fees and charges such as FIS Fees, Common Use Premises Charges and Airport Administered Use Charges. Although it is possible that the rates and charges levels and methodology may change under a new AOA, absent a reliable basis for assuming a specific change, this Report assumes for forecasting purposes that airline rates and charges methodology will continue throughout the Forecast Period in the same manner as provided under the current AOA.

1. Terminal Rentals

The Terminal Rental Rate is calculated by taking the total AIAS terminal requirement and dividing that amount by the total useable square feet of AIAS terminal premises. The Terminal Rental Rate in FY06 is projected at \$46.55 and is projected to increase to \$48.68 in FY07 with the inclusion of the Series 2006 Bonds annual debt service in the rate calculation. In FY15, the Terminal Rental Rate is forecast to equal \$62.62. Signatory Airline terminal rental revenues are determined by multiplying the amount of exclusive and preferential use premises leased by the Signatory Airlines at each airport by the Terminal Rental Rate for that FY. In FY06, the Signatory Airlines are leasing 207,353 square feet

at ANC and 12,978 square feet at FAI, resulting in forecast terminal rental revenues of \$9.7 million and \$0.6 million respectively for a total of \$10.3 million. With the completion of the Concourse A and B Retrofit Project at ANC and the Terminal Area Redevelopment project at FAI, Signatory Airline exclusive and preferential leased premises rentals are forecast to increase in FY10 to \$12.4 million at ANC and \$0.8 million at FAI. Terminal rental revenues in FY15 are forecast to equal \$13.0 million at ANC and \$0.8 million at FAI for a total of \$13.8 million (see **Table IV-8**).

2. Aircraft Ramp Rentals

The Aircraft Ramp Rental Rate is calculated by determining the Aircraft Ramp Rental requirement, which as defined in the AOA, is currently equal to 10.0 percent of the annual M&O Expenses allocated to the airfield cost center, divided by the total aircraft ramp area at both airports. The total aircraft ramp area is approximately 2.4 million square feet at ANC and approximately 452,000 square feet at FAI. In FY06, the Signatory Airlines have preferential use privileges in 874,480 square feet at ANC and 76,403 square feet at FAI.

In FY06, the Aircraft Ramp Rental Rate is calculated at \$0.98 per square foot, which when multiplied by the total square feet of aircraft ramp area in which Signatory Airlines have preferential use privileges, produces Aircraft Ramp Rental revenues of \$0.9 million. In FY15, the Aircraft Ramp Rental Rate is forecast to increase to \$1.23, resulting in Aircraft Ramp Rental revenues of \$1.2 million. For purposes of this Report, it is assumed that the Signatory Airlines will not extend their preferential use privileges to any additional ramp areas during the Forecast Period (see **Table IV-9**).

3. Fuel Flowage Fees

Fuel Flowage Fee revenues at AIAS are based upon gallons up-lifted at specified rates. The Fuel Flowage Fee in FY06 is \$0.027 per gallon for Signatory Airlines as established under the AOA and \$0.033 per gallon for all other aviation fuel purchasers as established by order of the Commissioner. Based on the forecast of gallons up-lifted total Fuel Flowage Fees are forecast to equal \$24.3 million in FY06 and are forecast to increase to \$36.6 million in FY15. Although the Fuel Flowage Fee per gallon may be increased in the future, for purposes of this Report, it is assumed that they will remain constant throughout the Forecast Period (see **Table IV-10**).

4. Landing Fees

Landing Fees are calculated by dividing the total Landing Fee requirement (the total AIAS revenue requirement minus other operating revenues) by the forecast Signatory Airline CMGTW. For FY06 the Landing Fee is \$1.11 per 1,000 of CMGTW pounds. In FY10, when the Concourse A and B Retrofit Project at ANC and the Terminal Area Redevelopment project at FAI are scheduled to be completed, the Landing Fee will increase to \$1.30. By FY15, the Landing Fee is projected to decrease to \$1.00 per 1,000 pounds (see **Table IV-10**).

Table IV-8
Alaska International Airports System
Terminal Rental Revenues

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Terminal Rental Rate Calculation										
M&O Expenses	\$29,676,258	\$30,269,783	\$30,875,179	\$32,784,793	\$33,641,378	\$34,314,206	\$35,000,490	\$35,700,500	\$36,414,510	\$37,142,800
Annual Debt Service	20,916,436	22,219,773	27,755,654	32,741,859	32,731,132	32,674,520	32,672,655	32,673,261	32,659,856	32,633,451
Annual Debt Service Coverage Requirement	5,229,109	5,554,943	6,938,914	8,185,465	8,182,783	8,168,630	8,168,630	8,168,164	8,168,315	8,164,964
Fund Deposit Requirement	6,073,706	7,373,881	7,407,179	7,025,765	4,374,766	4,369,887	4,441,543	4,514,632	4,589,183	4,665,225
FIS Fee Revenue Requirement	410,178	447,652	553,353	677,330	644,954	652,352	662,132	672,131	682,070	691,973
Total	\$62,305,687	\$65,866,032	\$73,530,279	\$81,415,212	\$79,575,014	\$80,179,596	\$80,944,984	\$81,728,840	\$82,510,584	\$83,291,811
Less:										
Parking Revenues	(5,893,052)	(5,754,302)	(6,369,388)	(5,986,392)	(6,105,315)	(6,216,565)	(6,329,732)	(6,446,737)	(6,565,659)	(6,686,499)
PFC Revenues	(2,000,000)	(3,200,000)	(3,200,000)	(3,200,000)	(3,400,000)	(3,400,000)	(3,400,000)	(3,400,000)	(3,400,000)	(3,400,000)
Net Terminal Cost Center Requirement	\$54,412,634	\$56,911,730	\$63,960,890	\$72,228,820	\$70,069,699	\$70,563,031	\$71,215,251	\$71,882,104	\$72,544,925	\$73,205,312
Usable Premises (Building less Mechanical/Electrical)	1,168,996	1,168,996	1,168,996	1,168,996	1,168,996	1,168,996	1,168,996	1,168,996	1,168,996	1,168,996
AIAS Terminal Rental Rate	\$46.55	\$48.68	\$54.71	\$61.79	\$59.94	\$60.36	\$60.92	\$61.49	\$62.06	\$62.62
AIAS Leased Terminal Premises (Exclusive and Preferential)										
ANC Leased Premises (Sq. Ft.)	207,353	207,353	207,353	207,353	207,353	207,353	207,353	207,353	207,353	207,353
FAI Leased Premises (Sq. Ft.)	12,978	12,978	12,978	12,978	12,978	12,978	12,978	12,978	12,978	12,978
AIAS Leased Premises	220,331									
AIAS Terminal Rental Requirements										
ANC Exclusive/Preferential Use Premises Rentals	\$ 9,651,550	\$ 10,094,832	\$ 11,345,191	\$ 12,811,731	\$ 12,428,753	\$ 12,516,259	\$ 12,631,947	\$ 12,750,232	\$ 12,867,801	\$ 12,984,938
FAI Exclusive/Preferential Use Premises Rentals	604,080	631,825	710,083	801,872	777,902	783,379	790,620	798,023	805,382	812,713
AIAS Terminal Rental Revenues	\$ 10,255,630	\$ 10,726,656	\$ 12,055,274	\$ 13,613,604	\$ 13,206,655	\$ 13,299,638	\$ 13,422,567	\$ 13,548,255	\$ 13,673,183	\$ 13,797,652

Source:

AIAS and AXIS Consulting Inc.

Table IV-9
Alaska International Airports System
Aircraft Ramp Rental Revenues

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<u>Aircraft Ramp Rental Calculation</u>										
Operating Expenses ¹	\$ 2,831,639	\$ 2,888,272	\$ 2,946,037	\$ 3,109,783	\$ 3,209,190	\$ 3,273,373	\$ 3,338,841	\$ 3,405,618	\$ 3,473,730	\$ 3,543,205
AIAS Aircraft Ramp Rental Requirement	\$ 2,831,639	\$ 2,888,272	\$ 2,946,037	\$ 3,109,783	\$ 3,209,190	\$ 3,273,373	\$ 3,338,841	\$ 3,405,618	\$ 3,473,730	\$ 3,543,205
Aircraft Ramp Area										
ANC Terminal Ramp	1,465,240	1,465,240	1,465,240	1,465,240	1,465,240	1,465,240	1,465,240	1,465,240	1,465,240	1,465,240
ANC Remote Ramp	962,320	962,320	962,320	962,320	962,320	962,320	962,320	962,320	962,320	962,320
FAI Terminal Ramp	162,267	162,267	162,267	162,267	162,267	162,267	162,267	162,267	162,267	162,267
FAI Cargo Ramp	244,742	244,742	244,742	244,742	244,742	244,742	244,742	244,742	244,742	244,742
FAI Remote Parking	45,375	45,375	45,375	45,375	45,375	45,375	45,375	45,375	45,375	45,375
Total Aircraft Ramp Area (sq.ft.)	2,879,944	2,879,944	2,879,944	2,879,944	2,879,944	2,879,944	2,879,944	2,879,944	2,879,944	2,879,944
Aircraft Ramp Rental Rate (per sq. ft.)	\$0.98	\$1.00	\$1.02	\$1.08	\$1.11	\$1.14	\$1.16	\$1.18	\$1.21	\$1.23
Preferential Ramp Area - AIAS (sq.ft.)	950,883	950,883	950,883	950,883	950,883	950,883	950,883	950,883	950,883	950,883
AIAS Aircraft Ramp Rental Revenues	\$934,934	\$953,633	\$972,705	\$1,026,770	\$1,059,591	\$1,080,783	\$1,102,399	\$1,124,447	\$1,146,936	\$1,169,875

Source:

AIAS and AXIS Consulting Inc.

1/ M&O Expenses for the Aircraft Ramp are equal to 10.0 percent of the total M&O Expenses allocated to the Airfield.

Table IV-10
Alaska International Airports System
Landing Fee

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
AIAS Requirements:										
M&O Expenses	\$ 64,608,823	\$ 65,901,000	\$ 67,219,020	\$ 71,151,134	\$ 73,241,504	\$ 74,706,334	\$ 76,200,460	\$ 77,724,470	\$ 79,278,959	\$ 80,864,538
Environmental Expenses	-	-	-	-	-	-	-	-	-	-
Airport System Debt Service ¹	30,359,910	28,936,840	38,203,477	46,391,096	46,171,176	46,083,980	46,075,750	46,072,154	46,046,405	46,004,627
Airport System Debt Service Coverage	8,089,978	8,034,210	10,350,869	12,397,774	12,392,794	12,370,995	12,368,938	12,368,038	12,361,601	12,351,157
M&O Reserve Fund	1,706,864	323,044	329,505	983,029	522,592	366,208	373,532	381,002	388,622	396,395
Repair and Replacement Fund	-	-	-	-	-	-	-	-	-	-
Supplemental Repair and Replacement Fund	1,630,008	1,662,608	1,695,860	1,699,777	1,717,596	1,717,675	1,717,757	1,717,840	1,717,925	1,718,011
Airport System Capital Project Fund	1,600,000	3,434,000	3,386,000	2,599,000	-	-	-	-	-	-
Airport System Development Fund	6,729,499	6,864,089	7,001,371	7,141,398	7,284,226	7,429,911	7,578,509	7,730,079	7,884,681	8,042,374
Total AIAS Requirements	\$ 114,725,082	\$ 115,155,791	\$ 128,186,102	\$ 142,363,209	\$ 141,329,888	\$ 142,675,103	\$ 144,314,946	\$ 145,993,583	\$ 147,678,194	\$ 149,377,102
Less:										
Non-Airline Revenues ²	\$ 17,007,194	\$ 17,410,725	\$ 17,829,793	\$ 18,258,969	\$ 18,698,441	\$ 19,119,746	\$ 19,551,493	\$ 19,999,662	\$ 20,458,731	\$ 20,928,911
Signatory Airline Terminal Rentals	10,255,630	10,726,656	12,055,274	13,613,604	13,206,655	13,299,638	13,422,567	13,548,255	13,673,183	13,797,652
Common Use Premises Charges - ANC	1,584,476	1,657,052	1,862,072	2,102,447	2,039,360	2,053,583	2,072,356	2,091,616	2,110,687	2,129,754
Common Use Premises Charges - FAI	1,018,390	1,065,163	1,197,096	1,351,839	1,311,429	1,320,662	1,332,869	1,345,350	1,357,755	1,370,115
FIS Fees	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470
Aircraft Ramp Rental Revenues	934,934	953,633	972,705	1,026,770	1,059,591	1,080,783	1,102,399	1,124,447	1,146,936	1,169,875
Airport Administered Use Charges - ANC	819,870	799,594	904,863	1,033,601	1,030,591	1,060,332	1,093,027	1,126,862	1,161,616	1,197,336
Airport Administered Use Charges - FAI	98,558	102,829	114,520	128,567	125,394	126,422	127,713	129,032	130,350	131,669
Aircraft Parking Charges	1,896,705	1,934,639	1,973,332	2,083,013	2,149,598	2,192,590	2,236,442	2,281,171	2,326,794	2,373,330
Ground Leases	3,774,007	3,849,487	3,915,537	3,982,908	4,051,627	4,121,720	4,193,215	4,266,139	4,340,523	4,416,394
Fuel Flowage Fees - ANC	23,276,381	26,121,670	27,114,294	28,144,637	29,214,133	30,324,270	31,476,593	32,672,703	33,914,266	35,203,008
Fuel Flowage Fees - FAI	1,046,948	1,050,994	1,090,932	1,132,388	1,175,418	1,220,084	1,266,447	1,314,572	1,364,526	1,416,378
Non - Signatory Landing Fees	6,522,151	5,887,914	7,733,777	9,143,261	9,101,383	9,028,279	8,966,544	8,897,763	8,817,074	8,725,192
Investment Earnings ³	3,500,000	3,500,000	3,000,000	2,500,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Excess Revenue Credit	8,520,569	9,089,978	8,034,210	10,350,869	8,667,614	8,656,994	8,812,998	8,972,121	9,134,428	9,299,980
Activity Variance (Due to/Due from)	-	-	-	-	-	-	-	-	-	-
Total Landing Fee Credits	\$ 81,067,283	\$ 84,961,803	\$ 88,609,874	\$ 95,664,341	\$ 94,642,705	\$ 96,416,572	\$ 98,466,132	\$ 100,581,164	\$ 102,748,338	\$ 104,971,063
Landing Fee Requirements	\$ 33,657,799	\$ 30,193,988	\$ 39,576,228	\$ 46,698,867	\$ 46,687,182	\$ 46,258,531	\$ 45,848,814	\$ 45,412,419	\$ 44,929,855	\$ 44,406,039
Signatory CMGTW (1,000 lb.)	30,310,620	31,475,693	32,920,685	34,365,677	36,030,140	37,731,461	39,432,782	41,134,103	42,835,424	44,535,907
Signatory Landing Fee	\$1.11	\$0.96	\$1.20	\$1.36	\$1.30	\$1.23	\$1.16	\$1.10	\$1.05	\$1.00
Non-Signatory Landing Fee	\$1.11	\$0.96	\$1.20	\$1.36	\$1.30	\$1.23	\$1.16	\$1.10	\$1.05	\$1.00

Source:

AIAS and AXIS Consulting Inc.

1/ Net of PFC Revenues

2/ Non-Airline Revenues do not include Ground Leases.

3/ Investment Earnings represent interest earned on IARF, M&O Expense Reserve Fund, Supplemental Repair and Replacement Fund and Excess Revenue Fund.

K. COST PER ENPLANED PASSENGER

A passenger airline's CPE is often used as a benchmark tool for comparing one airport to another. Because of the unique roles of both ANC and FAI and the AIAS's significant cargo operations, it is difficult to find comparable airports. However, passenger airline costs can be isolated by deducting airline revenues associated with cargo operators from total airline revenues to derive a projection of the average CPE for passenger airlines. That CPE can be used to compare the AIAS to other airports with similar operating profiles. The CPE is calculated by dividing total passenger airline revenues by the number of enplaned passengers at the AIAS. Although adjustment to the allocation of AIAS costs between cargo and passenger airlines is part of current AOA discussions, absent a reliable basis for assuming a specific change, this Report assumes for forecasting purposes that the cost allocation will remain constant for the Forecast Period. **Table IV-11** shows the CPE for the Forecast Period.

The CPE is expected to increase from approximately \$8.62 in FY06 to \$10.28 in FY10 when the Concourse A and B Retrofit Project at ANC and the Terminal Area Redevelopment project at FAI are completed. The forecast CPE gradually decreases during the Forecast Period to \$9.83 in FY15 as passenger activity increases over time.

L. DEBT SERVICE COVERAGE REQUIREMENT

Table IV-12 presents a calculation of the debt service coverage requirement for the Forecast Period at the AIAS. The debt service coverage requirement, referred to in the Bond Resolution as the Rate Covenant, is the level of Net Revenues that the AIAS is required to collect in a FY which is at least sufficient to achieve a specified ratio to ensure a margin of Net Revenues available to pay debt service. Net Revenues are calculated by subtracting M&O Expenses from Revenues. The gross debt service requirement for a FY is the sum of the aggregate debt service for the year plus any required deposits to the Reserve Fund or Repair and Replacement Fund. The annual gross debt service requirement is divided into the projected Net Revenue amount to calculate the annual debt service coverage ratio. As shown in Table IV-12, Net Revenues available to pay debt service are projected to increase from \$45.8 million in FY06 to approximately \$67.1 million in FY15. The debt service coverage ratio for the Forecast Period ranges from 1.42 in FY06 to 1.36 in FY15 exceeding the 1.25 Rate Covenant requirement in each FY of the Forecast Period. The higher coverage ratio is a result of the inclusion of Excess Revenues in the debt service coverage calculation.

M. CONCLUSION

The projected financial performance of the AIAS has been evaluated using a passenger airline CPE and a coverage ratio test. Both statistics provide insight regarding the expected financial performances of the AIAS given anticipated future air carrier activity levels and their ability to generate sufficient revenues to cover M&O Expenses and pay annual debt service requirements on the existing Bonds and the Series 2006 Bonds. While airline operating costs increase in large part due to rising fuel prices, airport facility costs (i.e., airline CPE) continue to be scrutinized as the airlines attempt to return to profitability.

Table IV - 11
Alaska International Airports System
Airline Cost Per Enplaned Passenger

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Air Carrier/Cargo Revenues										
Signatory Airline Terminal Rentals	\$10,255,630	\$10,726,656	\$12,055,274	\$13,613,604	\$13,206,655	\$13,299,638	\$13,422,567	\$13,548,255	\$13,673,183	\$13,797,652
Common Use Premises Charges - ANC	1,584,476	1,657,052	1,862,072	2,102,447	2,039,360	2,053,583	2,072,356	2,091,616	2,110,687	2,129,754
Common Use Premises Charges - FAI	1,018,390	1,065,163	1,197,096	1,351,839	1,311,429	1,320,662	1,332,869	1,345,350	1,357,755	1,370,115
FIS Fees	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470
Aircraft Ramp Rental Revenues	934,934	953,633	972,705	1,026,770	1,059,591	1,080,783	1,102,399	1,124,447	1,146,936	1,169,875
Airport Administered Use Charges - ANC	819,870	799,594	904,863	1,033,601	1,030,591	1,060,332	1,093,027	1,126,862	1,161,616	1,197,336
Airport Administered Use Charges - FAI	98,558	102,829	114,520	128,567	125,394	126,422	127,713	129,032	130,350	131,669
Aircraft Parking Charges	1,896,705	1,934,639	1,973,332	2,083,013	2,149,598	2,192,590	2,236,442	2,281,171	2,326,794	2,373,330
Ground Leases (Airline Only)	1,068,459	1,089,829	1,111,625	1,133,858	1,156,535	1,179,665	1,203,259	1,227,324	1,251,870	1,276,908
Fuel Flowage Fees - ANC	23,276,381	26,121,670	27,114,294	28,144,637	29,214,133	30,324,270	31,476,593	32,672,703	33,914,266	35,203,008
Fuel Flowage Fees - FIA	1,046,948	1,050,994	1,090,932	1,132,388	1,175,418	1,220,084	1,266,447	1,314,572	1,364,526	1,416,378
Signatory Airline Landing Fees	33,657,799	30,193,988	39,576,228	46,698,867	46,687,182	46,258,531	45,848,814	45,412,419	44,929,855	44,406,039
Total Air Carrier/Cargo Revenues	\$76,469,620	\$76,507,516	\$88,784,410	\$99,261,059	\$99,967,358	\$100,928,030	\$101,993,956	\$103,085,221	\$104,179,309	\$105,283,533
Less:										
All-Cargo Revenues	(\$51,098,332)	(\$50,700,833)	(\$59,322,186)	(\$66,247,953)	(\$67,243,936)	(\$67,937,038)	(\$68,685,433)	(\$69,451,848)	(\$70,221,706)	(\$71,000,536)
Total Passenger Airline Revenues	\$25,371,288	\$25,806,684	\$29,462,224	\$33,013,106	\$32,723,422	\$32,990,992	\$33,308,523	\$33,633,373	\$33,957,604	\$34,282,997
Total Enplanements	2,942,000	3,000,000	3,060,000	3,121,000	3,183,000	3,241,000	3,300,000	3,361,000	3,423,000	3,486,000
Airline Cost Per Enplaned Passenger	\$8.62	\$8.60	\$9.63	\$10.58	\$10.28	\$10.18	\$10.09	\$10.01	\$9.92	\$9.83

Source:

AIAS and AXIS Consulting Inc.

1/ All-Cargo Revenues include the allocated portion of Aircraft Ramp Rental Revenues, Aircraft Parking Charges, Ground Leases, Fuel Flowage Fees and Signatory Airline Landing Fees.

Table IV-12
Alaska International Airports System
Debt Service Coverage Ratio

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues										
AIAS Landing Fees	\$40,179,950	\$36,272,706	\$47,644,212	\$56,327,389	\$56,069,403	\$55,619,039	\$55,238,722	\$54,814,989	\$54,317,903	\$53,751,860
Signatory Airline Terminal Rentals	10,255,630	10,726,656	12,055,274	13,613,604	13,206,655	13,299,638	13,422,567	13,548,255	13,673,183	13,797,652
Common Use Premises Charges - ANC	1,584,476	1,657,052	1,862,072	2,102,447	2,039,360	2,053,583	2,072,356	2,091,616	2,110,687	2,129,754
Common Use Premises Charges - FAI	1,018,390	1,065,163	1,197,096	1,351,839	1,311,429	1,320,662	1,332,869	1,345,350	1,357,755	1,370,115
FIS Fees	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470	811,470
Aircraft Ramp Rental Revenues	934,934	953,633	972,705	1,026,770	1,059,591	1,080,783	1,102,399	1,124,447	1,146,936	1,169,875
Airport Administered Use Charges - ANC	819,870	799,594	904,863	1,033,601	1,030,591	1,060,332	1,093,027	1,126,862	1,161,616	1,197,336
Airport Administered Use Charges - FAI	98,558	102,829	114,520	128,567	125,394	126,422	127,713	129,032	130,350	131,669
Aircraft Parking Charges	1,896,705	1,934,639	1,973,332	2,083,013	2,149,598	2,192,590	2,236,442	2,281,171	2,326,794	2,373,330
Fuel Flowage Fees - ANC	23,276,381	26,121,670	27,114,294	28,144,637	29,214,133	30,324,270	31,476,593	32,672,703	33,914,266	35,203,008
Fuel Flowage Fees - FAI	1,046,948	1,050,994	1,090,932	1,132,388	1,175,418	1,220,084	1,266,447	1,314,572	1,364,526	1,416,378
Ground Leases (Airline Only)	1,068,459	1,089,829	1,111,625	1,133,858	1,156,535	1,179,665	1,203,259	1,227,324	1,251,870	1,276,908
Non-Airline Revenues ¹	19,721,879	20,179,701	20,643,209	21,117,713	21,603,419	22,071,867	22,551,698	23,048,917	23,558,015	24,079,224
Excess Revenues	7,770,569	8,089,978	8,034,210	10,350,869	8,667,614	8,656,994	8,812,998	8,972,121	9,134,428	9,299,980
Total Revenues	\$110,484,219	\$110,855,913	\$125,529,814	\$140,358,163	\$139,620,611	\$141,017,398	\$142,748,559	\$144,508,830	\$146,259,799	\$148,008,559
M&O Expenses										
Administration	\$8,478,200	\$8,647,764	\$8,820,719	\$9,362,141	\$9,635,930	\$9,828,649	\$10,025,222	\$10,225,726	\$10,430,241	\$10,638,846
Field and Equipment Maintenance	14,360,700	14,647,914	14,940,872	15,824,124	16,321,708	16,648,142	16,981,105	17,320,727	17,667,141	18,020,484
Facilities/Building Maintenance	21,474,500	21,903,990	22,342,070	23,773,728	24,406,924	24,895,062	25,392,964	25,900,823	26,418,839	26,947,216
Safety	10,028,600	10,229,172	10,433,755	11,022,821	11,398,043	11,626,004	11,858,524	12,095,695	12,337,608	12,584,361
Operations	6,758,100	6,893,262	7,031,127	7,444,836	7,680,944	7,834,563	7,991,254	8,151,079	8,314,101	8,480,383
Environmental	0	0	0	0	0	0	0	0	0	0
Other	3,544,128	3,578,898	3,650,475	3,723,485	3,797,955	3,873,914	3,951,392	4,030,420	4,111,028	4,193,249
Total M&O Expenses	\$64,644,228	\$65,901,000	\$67,219,020	\$71,151,134	\$73,241,504	\$74,706,334	\$76,200,460	\$77,724,470	\$79,278,959	\$80,864,538
Net Revenues Available to Pay Debt Service	\$45,839,991	\$44,954,914	\$58,310,794	\$69,207,029	\$66,379,107	\$66,311,065	\$66,548,099	\$66,784,361	\$66,980,840	\$67,144,021
Debt Service										
Series 1999 A	\$11,853,773	\$11,752,944	\$11,752,583	\$11,725,106	\$11,722,811	\$11,708,532	\$11,701,487	\$11,693,966	\$11,685,869	\$11,675,832
Series 1999 B	1,190,896	757,553	756,953	760,453	757,696	758,445	757,620	755,100	755,723	754,673
Series 1999 C	2,033,139	2,016,264	2,015,274	2,011,577	2,010,164	2,006,016	2,008,141	2,006,149	2,000,610	1,991,960
Series 2002 A and B	10,521,938	5,269,603	5,643,724	5,260,693	5,253,438	5,235,775	5,226,588	5,220,840	5,207,736	5,198,174
Series 2003 A and B	6,760,166	6,936,791	7,585,108	7,582,670	7,585,408	7,554,484	7,563,493	7,584,030	7,589,908	7,591,035
Series 2006 A, B, C and D ²	0	5,403,686	13,649,838	22,250,598	22,241,660	22,220,729	22,218,423	22,212,069	22,206,560	22,192,954
Total Debt Service	\$32,359,910	\$32,136,840	\$41,403,477	\$49,591,096	\$49,571,176	\$49,483,980	\$49,475,750	\$49,472,154	\$49,446,405	\$49,404,627
Net Revenues	\$13,480,081	\$12,818,074	\$16,907,317	\$19,615,933	\$16,807,931	\$16,827,084	\$17,072,349	\$17,312,207	\$17,534,434	\$17,739,394
Debt Service Coverage Ratio	1.42	1.40	1.41	1.40	1.34	1.34	1.35	1.35	1.35	1.36

Source:

AIAS and AXIS Consulting Inc.

^{1/} Excludes airline only ground leases.^{2/} Debt Service Requirements in FY06 and FY07 are assumed to be funded in whole or in part with capitalized interest and other AIAS funds.

Based upon the analysis and findings within this Report, it is the opinion of AXIS Consulting Inc. that:

- The economic base of the State, as defined in this Report, is sufficient to support future demand for passenger and cargo airline services.
- The projected airline CPE for the AIAS is reasonable and will likely remain within a relatively narrow range after the Series 2006 Bonds are included in the rates and charges. Additionally, the debt service coverage ratio exceeds the Rate Covenant requirement of 1.25 throughout the Forecast Period.
- Domestic air carriers will continue to operate in a competitive environment, resulting in average fares that will remain reasonable; LCC's will expand across the U.S. but will only provide limited air service at the AIAS.
- The AIAS, in particular ANC, through which a large number of Alaska air travelers must pass, is likely to remain the most viable and economically reasonable transportation alternative for the State. The AIAS provides the majority of regularly scheduled and charter air service to destinations in the Lower-48 states and to international destinations, as well as intrastate scheduled and charter flights. Additionally, both ANC and FAI will continue to function as key cargo centers for a large number of all-cargo carriers.
- The percentage of O&D passengers at both ANC and FAI will continue to remain near their currently high levels, providing a stable base of air traffic demand in the AIAS through the Forecast Period.

The financial projections and other forecasts presented in this Report are based on what AXIS Consulting Inc. believes to be a reasonable evaluation of current conditions and reasonable assumptions regarding future conditions. However, achievement of any financial projection or of any forecast is dependent upon future events, which cannot be assured. Therefore, the actual results will vary, perhaps significantly, from the projections and forecasts contained in the Report.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF
THE STATE OF ALASKA INTERNATIONAL AIRPORTS SYSTEM
(AN ENTERPRISE FUND OF THE STATE OF ALASKA)
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004

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STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Financial Statements and Schedules

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

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**STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM**

Management's Discussion and Analysis

June 30, 2005

(Unaudited)

The following discussion and analysis of the financial performance and activity of the State of Alaska International Airport System (the Airport System) is to provide an introduction and understanding of the basic financial statements of the Airport System for the year ended June 30, 2005. This discussion has been prepared by management and should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

Using the Financial Statements (Check CAFR for updated language here)

The Airport System financial report includes three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Beginning in fiscal year ended June 30, 2002, the Airport System adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34) as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statements Note Disclosures*, effective July 1, 2001. According to GASB the objective in developing the new reporting standards is "to enhance the understanding and usefulness of the general purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies and investors and creditors."

Airport System's Activity Highlights

The airline industry continued to recuperate from 2001 terrorist attacks, with most carriers seeing modest increases in passenger and cargo loads. However, substantial fuel price hikes, which forced carriers to further lower their cost structures continue to offset much of their progress.

After stagnant cargo and passenger activity in 2002 and 2003, most statistical categories at Anchorage International Airport (ANC) and Fairbanks International Airport (FIA), now well exceed pre-9/11 activity levels. 2005 gross landed weight for the Airport System was up 5.1 billion lbs. over 2002 levels, influenced primarily by continued vibrant growth in cargo tonnage.

The State of Alaska Department of Transportation and Public Facilities (DOT&PF) and most of the regularly scheduled (Signatory) airlines currently operate under a five-year residual rate-making type Operating Agreement which became effective July 1, 2001 and was originally scheduled to terminate on June 30, 2006. This agreement changed the Airport System's fee structure and resulted in significant decreases in landing fee revenue, offset by corresponding increases in fuel flowage fees and aircraft parking revenue.

During 2003, the DOT&PF and signatory airlines began negotiating a change in the operating agreement and the original 5-year CIP program incorporated in that document. This proposed amendment, driven by cost overruns on the terminal redevelopment project, deferred \$58.8 million in capital projects originally scheduled for construction in 2004-2006. This deferral created the additional funding needed to substantially complete the new concourse by 2005. As part of this revision the two parties agreed to extend the agreement to June 30, 2007.

**STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM**

Management's Discussion and Analysis

(Unaudited)

This new agreement also reduces the annual deposit requirement to the Airport System Development Fund by \$1.0 million beginning in 2004, through 2007. Additionally, both parties agreed to apply \$2.0 million in annual passenger facility charges (PFC) revenues towards eligible debt service over the same period. The method for calculating airline rates and fees was not changed.

Signatory and non-signatory airline landing fees were set at \$1.07 (per 1000lbs. Certified Maximum Gross Take-off Weight – CMGTW) for all of fiscal year 2005. Comparatively, landing fees were \$0.66 during all of fiscal year 2004.

Operating Activity for 2005 and 2004

	<u>2005</u>	<u>%Change</u>	<u>2004</u>
<u>Enplanements (number of passengers):</u>			
ANC	2,392,920	6.3%	2,250,910
FIA	<u>459,900</u>	5.6%	<u>435,368</u>
Airport System Total	<u>2,852,820</u>	6.2%	<u>2,686,278</u>
<u>Landings :</u>			
ANC	95,943	4.7%	91,663
FAI	<u>28,695</u>	(4.0%)	<u>29,893</u>
Airport System Total	<u>124,638</u>	2.5%	<u>121,556</u>
<u>Landed Weight (CMGTW):</u>			
ANC	32,160,263	8.9%	29,538,985
FIA	<u>1,964,976</u>	(1.4%)	<u>1,992,350</u>
Airport System Total	<u>34,125,239</u>	8.2%	<u>31,531,335</u>

The Airport System activity-based revenues include parking, rental car, landing fees, international arrival fees and passenger conveyance fees. Operating revenues are directly related to the Airport System contractual agreements with the Signatory Airlines, which establish procedures for calculating landing fees, terminal rents, and aircraft parking fees. The Airport System also receives passenger facility charges (PFC) revenues according to an agreement with the FAA (see Note 15). Aggregate Airport System operating revenue increased considerably during 2005, with modest increases in landing fees, terminal rents, fuel flowage fees and concession income. Aircraft landings and overall takeoff weight also showed strong growth over the prior year, and passenger enplanement activity remained steady. Auto parking revenue began to rebound during 2005, after several years of declines resulting from increased competition with an off-airport concessionaire.

**STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM**

Management's Discussion and Analysis

(Unaudited)

<u>Revenue Classifications</u>	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease) from 2004</u>	<u>Increase (Decrease) from 2004</u>
Concessions	\$ 9,236,737	8,029,543	1,207,194	15.0%
Rents	16,060,483	14,066,289	1,994,194	14.2%
Landing fees	36,198,794	20,770,092	15,428,702	74.3%
Fuel flowage fees	26,161,864	23,624,384	2,537,480	10.7%
Aircraft parking	4,639,499	4,607,841	31,658	0.7%
Vehicle parking	3,333,895	2,583,106	750,789	29.1%
Other	<u>3,743,420</u>	<u>2,785,850</u>	<u>957,570</u>	<u>34.4%</u>
Total	<u>\$ 99,374,692</u>	<u>76,467,105</u>	<u>22,907,587</u>	<u>30.0%</u>
 Passenger facility charge	 \$ <u>5,288,290</u>	 <u>4,736,195</u>	 <u>552,095</u>	 <u>11.4%</u>

Operating expenses net of depreciation increased notably between 2004 and 2005. The Facilities section incurred operating costs related to the opening of the new "C" concourse in June 2004. Environmental expenses fell slightly, while depreciation and amortization expenses increased with the addition of assets related to the new terminal, as well as extensive other capital spending in 2005. The Airport System Safety component expenses continued to reflect new passenger and perimeter security spending, residual impacts of 9/11.

<u>Expense Classifications</u>	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease) from 2004</u>	<u>Increase (Decrease) from 2004</u>
Facilities	\$ 22,272,369	14,089,639	8,182,730	58.0%
Field and equipment maintenance	13,690,208	12,018,853	1,671,355	13.9%
Safety	9,167,847	8,271,064	896,783	10.8%
Administration	9,007,145	7,864,304	1,142,841	14.5%
Operations	3,671,117	3,369,522	301,595	8.9%
Environmental expenses	1,493,820	1,907,437	(413,617)	(21.6%)
Other expenses	<u>1,827,516</u>	<u>1,717,024</u>	<u>110,492</u>	<u>6.4%</u>
Total	<u>\$ 61,130,022</u>	<u>49,237,843</u>	<u>11,892,179</u>	<u>24.1%</u>

Non-operating loss was \$1.9 million in 2005, versus a 2004 loss of \$2.1 million. Investment income rebounded in 2005, rising \$4.1 million, as interest rates began to rise. Interest expense jumped by \$17.2 million in the same period, as debt service related to the new "C" concourse became due. Finally, the Airport System recognized \$13.0 million in proceeds from claims against contractors involved in the construction of Terminal C.

**STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM**

Management's Discussion and Analysis

(Unaudited)

Changes in Net Assets

Airport System fiscal year 2005 income before capital contributions was \$6.1 million, up from a 2004 loss of \$2.1 million. Capital contributions from the Federal Aviation Administration totaled \$50.5 million and 43.9 million respectively, in 2005 and 2004. Capital contributions include mainly federal grants for capital improvements. PFC collections rose 11.7% during the year. The change in net assets is an indicator of whether the overall fiscal condition of the Airport System has improved or worsened during the year. For the year ended June 30, 2005 net assets increased \$61.9 million.

The following is a summary of the Revenues, Expenses and Changes in Net Assets:

	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 99,374,692	76,467,105
Operating expenses, excluding depreciation and amortization expense	(61,130,022)	(49,237,843)
Operating income before depreciation	38,244,670	27,229,262
Depreciation and amortization expenses	(30,273,373)	(27,259,159)
Non-operating revenues	19,041,199	2,873,996
Non-operating expenses	(20,946,987)	(4,978,293)
Capital contributions	<u>55,818,178</u>	<u>48,610,316</u>
Change in net assets	<u>\$ 61,883,687</u>	<u>46,476,122</u>

Financial Position

A summarized comparison of the Airport System's assets, liabilities and net assets at June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 156,977,306	136,762,539
Non-current assets		
Capital assets, net	765,159,632	699,788,338
Other non-current assets	<u>151,735,530</u>	<u>197,257,867</u>
Total Assets	<u>\$ 1,073,872,468</u>	<u>1,033,808,744</u>
Liabilities		
Current liabilities	\$ 58,372,794	69,608,977
Non-current liabilities		
Long-term debt outstanding and other restricted	<u>399,733,670</u>	<u>410,317,450</u>
Total Liabilities	<u>\$ 458,106,464</u>	<u>479,926,427</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 474,258,375	449,087,575
Restricted	24,437,265	18,662,982
Unrestricted	<u>117,070,364</u>	<u>86,131,760</u>
Total Net Assets	<u>\$ 615,766,004</u>	<u>553,882,317</u>

**STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM**

Management's Discussion and Analysis

(Unaudited)

Current assets increased by \$20.2 million, principally in cash and receivables from insurance proceeds. The Airport System's capital assets are constructed using the proceeds of revenue bonds but also include property acquired through leases, Airport System revenues, capital contributions from federal and state grants, and PFC's. The Airport System has invested in Construction in Process (CIP) in 2005 approximately \$62.2 million, a decrease of about \$186.7 million over 2004. This change relates to ANC's Concourse "C" which had been under construction since 1999 and was placed in service during 2005. Other non-current assets decreased \$45.5 million during 2005 as the AIAS continued to expend construction funds, which comprise the majority of this category.

Current liabilities decreased by \$11.2 million, precipitated mostly by a drop in state general fund liability. Net assets, which represent the residual interest in the Airport System's assets after liabilities are deducted, are \$615.8 million at June 30, 2005. Investment in capital assets net of related debt increased by \$25.2 million to \$474.3 million mainly as a result of debt service payments and capital assets acquired through capital contributions. Debt service reserve of \$14.5 million is maintained in accounts held by the Airport System's trustee and netted against debt in deriving the value of investment in capital assets. The restricted and unrestricted remaining net assets are derived from Airport System operations and grant and PFC collections. The 2005 restricted assets of \$151.7 million are subject to external restrictions on how they may be used under the Bond Resolutions, state and federal regulations. The remaining unrestricted non-capital assets of \$157.0 million may be used to meet any of the Airport System's ongoing operations, subject to legislative approval and consent from the Signatory Airlines.

Cash and Investment Management

The Airport System's cash and cash equivalents increased to \$120.7 million as of June 30, 2005, up from \$113.9 million a year earlier. Cash and cash equivalents are considered highly liquid investments with an original maturity of three months or less.

The State Treasury Division of the Department of Revenue following the appropriate Alaska Statutes controls cash and investments and concentrate on large and very marketable issues with non-volatile investment returns. All deposits are insured or collateralized by U.S. Government or agency obligations, and other permitted investments.

Funds that will be used for bond requirements are invested in time or demand deposits, direct obligations of the U.S. and other financial instruments maturing prior to the respective interest payment and maturity dates. An annual cash flow projection for capital projects is developed for all bond proceeds and investments are matched to maximize investment income while ensuring cash is available for capital project expenses. All investments must be made following the investment policy that is in compliance with the applicable bond resolutions and Alaska Statutes.

Capital Construction

ANC has developed and continues to refine a federally-funded Residential Sound Insulation Program, aimed at reducing noise impacts on Anchorage residents living in areas with significant airport noise levels. The Program improves the quality of life for residents living near the airport and often increases energy efficiency as well. At fiscal year-end 2005, a total of 158 homes surrounding ANC have been sound insulated, 87 are underway and another 77 are in design phase. The program will allow the System to capture over \$19,850,000 in federal dollars dedicated for noise compatibility purposes around the nation.

**STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM**

Management's Discussion and Analysis

(Unaudited)

Capital Financing and Debt Management

The Airport System is financing its construction program through a combination of the Airport System revenues, entitlement, discretionary grants received from the FAA, state grants, PFCs, and revenue bonds. Long-term debt is the principal source of funding for the CIP. The Airport System, through its Bond Resolutions, has covenanted to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula included in the Bond Resolutions and the Airport System Operating Agreement with the Airlines. Historically, the Airport System has maintained a coverage ratio higher than its requirement. During fiscal years 2005 and 2004, respectively, the Airport System's debt service coverage was 1.57 and 1.49.

Airport System revenue bonds are assigned the following ratings: A+ with Stable outlook by Fitch Ratings, A1 with Stable outlook by Moody's and A with Stable outlook by Standard & Poor's. As of June 30, 2005, the Airport System debt service issued and outstanding (bond principal and interest) is \$685.4 million (See Note 8).

Contacting the Airport System's Financial Management

The financial report is designed to provide the Airport System's management, investors, creditors, and customers with a general view of the Airport System's finances and to demonstrate the Airport System's accountability for the funds it receives and expends. For additional information about this report, or if you need additional financial information, please contact: Michael Marting, AIAS Controller, P.O. Box 196960, Anchorage AK, 99519, E-mail: Michael_Marting@dot.state.ak.us.

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Independent Auditors' Report

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

We have audited the accompanying statements of net assets of the State of Alaska International Airport System (An Enterprise Fund of the State of Alaska) (Airport System) as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of Airport System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the basic financial statements present only the Airport System and do not purport to, and do not, present fairly the financial position of the State of Alaska as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the State of Alaska International Airport System as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 on our consideration of the Airport System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 discussion and analysis on pages 1 through 6 is not a required part of the basic financial statements but is 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the schedule on page 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 17, subsequent to the issuance of the State of Alaska International Airport System's June 30, 2005 financial statements and our report thereon, dated September 30, 2005, we became aware that those financial statements included incorrect information regarding a bond issuance series number (Note 8) and information regarding the contribution rates and actuarial assumptions related to the retirement plan (Note 11). In our original report, we expressed an unqualified opinion on the financial statements, and our opinion on the revised statements, as expressed herein, remains unqualified.

Mikunda, Cottrell & Co.

September 30, 2005,
except as to the last paragraph above and
Note 17, which are as of January 13, 2006

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Statements of Net Assets

June 30, 2005 and 2004

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash with State Treasury (note 4)	\$ 16,073,591	18,704,810
Investments (note 4)	104,672,519	95,177,328
Invested securities lending collateral	2,416,700	-
Federal grants receivable	8,450,623	12,294,852
Accounts receivable, net of allowance for doubtful accounts of \$95,720 and \$602,279 in 2005 and 2004, respectively	12,363,873	10,448,552
Accrued interest receivable	-	136,997
Insurance proceeds receivable	13,000,000	-
Total current assets	<u>156,977,306</u>	<u>136,762,539</u>
Restricted assets and investments (note 5):		
Repair and replacement account	500,635	499,778
Capital project fund	126,429,106	177,858,667
Passenger facility charges:		
Cash with State Treasury	8,261,087	5,743,478
Due from State of Alaska General Fund	1,226,654	-
Accounts receivable	773,579	1,006,700
Revenue bond redemption fund:		
Bond interest	5,067,940	4,466,619
Bond principal	9,476,529	7,682,625
Total restricted assets and investments	<u>151,735,530</u>	<u>197,257,867</u>
Capital assets, net of accumulated depreciation (note 7)	<u>765,159,632</u>	<u>699,788,338</u>
Total noncurrent assets	<u>916,895,162</u>	<u>897,046,205</u>
Total assets	<u>\$ 1,073,872,468</u>	<u>1,033,808,744</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable	1,900,157	1,802,180
Invested securities lending collateral payable	2,416,700	-
Unearned revenue	4,423,550	4,411,548
Due to State of Alaska General Fund:		
Passenger facility charges (note 5)	869,159	736,217
Other	31,166,535	44,417,053
Liabilities payable from restricted assets:		
Accrued interest	5,067,940	6,104,479
Revenue bonds (note 8)	12,528,753	12,137,500
Total current liabilities	<u>58,372,794</u>	<u>69,608,977</u>
Revenue bonds payable, less current portion (note 8)	399,527,839	410,003,265
Interest arbitrage rebate	205,831	314,185
Total liabilities	<u>458,106,464</u>	<u>479,926,427</u>
Net assets:		
Invested in capital assets, net of related debt	474,258,375	449,087,575
Restricted:		
Debt service	14,544,469	12,149,244
Repair and replacement	500,635	499,778
Passenger facility charges	9,392,161	6,013,960
Unrestricted	<u>117,070,364</u>	<u>86,131,760</u>
Total net assets	<u>615,766,004</u>	<u>553,882,317</u>
Total liabilities and net assets	<u>\$ 1,073,872,468</u>	<u>1,033,808,744</u>

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

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

Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Airfield operations	\$ 69,543,911	51,132,121
Concession fees	9,236,737	8,029,543
Terminal rents (note 12)	12,321,949	10,408,865
Vehicle parking fees	3,333,895	2,853,106
Land rental fees	3,738,534	3,657,924
Other	1,199,666	385,546
Total operating revenues	<u>99,374,692</u>	<u>76,467,105</u>
Operating expenses:		
Facilities	22,272,369	14,089,639
Field and equipment maintenance	13,690,208	12,018,853
Safety	9,167,847	8,271,064
Administration	9,007,145	7,864,304
Operations	3,671,117	3,369,522
Environmental expenses	1,493,820	1,907,437
Vehicle parking and curbside services	1,121,240	1,008,680
Risk management	706,276	708,344
Depreciation and amortization	30,273,373	27,259,159
Total operating expenses	<u>91,403,395</u>	<u>76,497,002</u>
Operating income (loss)	<u>7,971,297</u>	<u>(29,897)</u>
Nonoperating revenues (expenses):		
Investment income	5,162,884	1,057,074
Interest expense	(17,810,930)	(645,481)
Arbitrage rebate	108,355	1,203,962
Sound insulation program	(3,136,057)	(4,332,812)
Insurance Recovery	13,000,000	-
Grants	769,960	612,960
Reimbursable services income	251,158	875,941
Reimbursable services expenses	(251,158)	(875,941)
Total nonoperating expenses	<u>(1,905,788)</u>	<u>(2,104,297)</u>
Income (loss) before capital contributions	<u>6,065,509</u>	<u>(2,134,194)</u>
Capital contributions:		
Federal Aviation Administration (note 14)	50,529,888	43,874,121
Passenger facility charge (note 15)	5,288,290	4,736,195
Total capital contributions	<u>55,818,178</u>	<u>48,610,316</u>
Change in net assets	61,883,687	46,476,122
Net assets, beginning of year	<u>553,882,317</u>	<u>507,406,195</u>
Net assets, ending of year	<u>\$ 615,766,004</u>	<u>553,882,317</u>

See accompanying notes to financial statements.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Statements of Cash Flows

Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating activities:		
Receipts from customers and users	\$ 97,471,373	75,717,294
Payments to employees and suppliers	(58,797,044)	(46,871,227)
Payments to State of Alaska for services	(2,235,000)	(2,087,700)
Operating advances from State of Alaska	<u>(13,117,576)</u>	<u>5,722,873</u>
Net cash provided by operating activities	<u>23,321,753</u>	<u>32,481,240</u>
Capital and related financing activities:		
Payments of revenue bonds	(10,436,504)	(30,145,563)
Acquisition of capital assets	(94,712,468)	(131,998,471)
Federal grants received	54,374,117	34,119,627
Interest paid on bonds	(22,909,018)	(23,976,503)
Bond discount/issuance costs	352,331	425,563
Proceeds from sale of bonds	-	95,350,563
Sound insulation	(3,136,057)	(4,332,812)
Grants	769,960	612,960
Passenger facility charges	<u>5,288,290</u>	<u>4,736,195</u>
Net cash used by capital and related financing activities	<u>(70,409,349)</u>	<u>(55,208,441)</u>
Investing activities:		
Proceeds from sales and maturities of investment securities	31,744,810	39,390,649
Investment income received	7,408,972	2,883,537
Purchase of investment securities	(41,240,000)	(43,370,000)
Income from securities lending activities	1,229,144	-
Expenses from securities lending activities	(208,887)	-
Change in restricted assets and investments	<u>45,522,338</u>	<u>21,341,382</u>
Net cash provided by investing activities	<u>44,456,377</u>	<u>20,245,568</u>
Net decrease in cash and equivalents	(2,631,219)	(2,481,633)
Cash and equivalents, beginning of year	<u>18,704,810</u>	<u>21,186,443</u>
Cash and equivalents, end of year	\$ <u>16,073,591</u>	<u>18,704,810</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	7,971,297	(29,897)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	30,273,373	27,259,159
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(1,915,321)	(1,274,175)
Accounts payable	97,978	278,916
Unearned revenue	12,002	524,364
Due to State of Alaska General Fund	<u>(13,117,576)</u>	<u>5,722,873</u>
	\$ <u>23,321,753</u>	<u>32,481,240</u>

See accompanying notes to financial statements.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2005 and 2004

(1) **Organization**

The accompanying financial statements include only the accounts of the State of Alaska International Airport System (Airport System), an enterprise fund of the State of Alaska (State) created by Chapter 88 of the Session Laws of Alaska of 1961 to equip, finance, maintain, and operate the two international airports located in Anchorage and Fairbanks, Alaska. The airports are under the administration of the State of Alaska Department of Transportation and Public Facilities (DOT&PF). These financial statements are not intended to present complete financial activity of the State as a whole. The State's Comprehensive Annual Financial Report is available from the State's Division of Finance in the Department of Administration.

(2) **Summary of Significant Accounting Policies**

The Airport System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus*. These standards and GASB Statement No. 38, *Certain Financial Statement Disclosures* were applied effective July 1, 2001. These statements establish standards for external financial reporting for all State and local governmental entities which includes a management's discussion and analysis section, a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets net of related debt; restricted; and unrestricted.

The adoption of Statement 34 had little effect on the basic financial statements except for the classification of net assets, the reflection of capital contributions as a change in net assets, presentation of the Statement of Cash Flows using the direct method, and the inclusion of a Management's Discussion and Analysis (MD&A) section providing an analysis of the Airport System's overall financial position and results of operations.

(a) ***Governmental Accounting***

The accounting policies used in preparation of the financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governmental entities.

(b) ***Basis of Accounting and Measurement Focus***

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounts of the Airport System are reported using the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements, continued

Summary of Significant Accounting Policies, continued

The Airport System uses the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when incurred. Enterprise funds may elect to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, provided that such standards are not in conflict with standards issued by the GASB. The Airport System has elected not to apply FASB pronouncements issued after November 30, 1989.

(c) *Management's Use of Estimates*

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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 the estimates.

(d) *Cash Equivalents*

For purposes of the statement of cash flows, the Airport System considers all highly liquid investments (excluding restricted assets) with a maturity of three months or less, when purchased, to be cash equivalents.

(e) *Investments*

The Airport System accounts for marketable securities following guidance established by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this method, investments in debt securities and certain equity securities are carried at fair value and unrealized gains and losses are recorded in the statement of operations.

(f) *Accounts Receivable Allowance*

Management has provided an allowance for accounts recorded at year-end which it estimates may be uncollectible.

(g) *Capital Assets*

Property and equipment is carried at cost, except property originally received from the federal government which is recorded at fair market value at the date contributed. Major additions and improvements to property and equipment are capitalized. Depreciation is provided over estimated useful lives using the straight-line method. Repair and maintenance costs are expensed as incurred.

The cost and accumulated depreciation of assets retired or sold are removed from the accounts and any gain or loss is reflected in operations in the year of disposition.

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Notes to Financial Statements, continued

Summary of Significant Accounting Policies, continued

(h) Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the Airport System's principal ongoing operations. The principal operating revenues of the Airport System are charges to customers for airfield operations, concession fees, rent and user fees. Operating expenses include the facilities, field and equipment maintenance, safety, homeland security, operations, environmental, vehicle parking, risk management, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(i) Capital Contributions

The Airport System incurs costs on projects that have not been approved for reimbursement by the Federal Aviation Administration (FAA) and amounts in excess of grant awards on certain approved projects. In addition to the \$50.5 million and \$43.9 million received from the FAA during 2005 and 2004, respectively, approximately \$11.6 million and \$23.1 million was expended during the years ending June 30, 2005 and 2004, respectively, in excess of approved grant awards. Management believes these amounts will be reimbursed by the FAA upon their approval of the grant award or modification but are treated as claims until FAA approval is received.

The Airport System also collects passenger facility charges from airlines that are restricted for use for the acquisition of capital assets or the repayment of capital related debt (note 15).

(j) Compensated Absences

Routine annual leave is paid by the Airport System as used. Upon an employee's termination, the accumulated leave is paid by the State's General Fund. Each pay period, an amount equal to a percentage of payroll based on an estimate of accumulated leave that will be paid during the current fiscal year for all Airport System employees is budgeted and transferred to the General Fund to cover the estimated accumulated leave that will be paid during the current year. The amount transferred to the General Fund amounted to \$3,786,076 and \$3,969,019 during 2005 and 2004, respectively.

(k) Bond Issuance Costs, Bond Discounts, and Refunding Transactions

Bond issuance costs and bond discounts are deferred and amortized over the life of the related debt, except in the case of refunding debt transactions where the amortization period is over the term of the refunding or refunded debt, whichever is shorter.

STATE OF ALASKA
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Notes to Financial Statements, continued

Summary of Significant Accounting Policies, continued

(l) Capitalized Interest

Interest expense, net of income earned on construction bond proceeds, is capitalized during construction on those capital projects paid for from the bond proceeds and is amortized over the depreciable life of the related assets on a straight-line basis. Capitalized interest net of related investment income totaled approximately \$0.9 million and \$19.2 million during the years ended June 30, 2005 and 2004, respectively.

(m) Due to/from State of Alaska General Fund

The Airport System uses the State's central treasury for payments of current obligations. The obligations are settled daily from the Airport System's cash or investment accounts with the central treasury.

(n) Leases

The Airport System leases substantially all terminal building space to airlines and concessionaires. All such leases have been treated as operating leases since ownership risks are retained by the Airport System.

(o) Environmental Costs

The Airport System expenses environmental assessment and clean-up costs as incurred. The costs are recoverable under the terms of the operating agreement (note 3) over 25 years.

(p) Income Taxes

The Airport System qualifies for exemption from federal income taxes under current provisions of the Internal Revenue Code.

(q) Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation. These reclassifications did not change the increase in net assets.

(3) Airline Operating Agreement and Terminal Building Leases

The DOT&PF, in connection with operating the Anchorage International Airport and the Fairbanks International Airport (Airports), has executed airline operating agreements and terminal building leases (Agreements) with substantially all regularly scheduled airlines that utilize its facilities. The original Agreements were effective July 1, 2001 for a five-year period, expiring on June 30, 2006. During 2005, the Agreements were extended by one year and now expire on June 30, 2007.

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Notes to Financial Statements, continued

Airline Operating Agreement and Terminal Building Leases, continued

Negotiations for a subsequent operating use and lease agreement will commence in early 2006. The DOT&PF and the airlines mutually negotiate the Agreements to establish procedures for periodic setting of rents and fees. The Agreements were consummated in order to set forth rights, privileges, and obligations of the parties and to facilitate the development, promotion, and improvements of air transportation. The rents and fees calculated, according to the Agreements, are airline terminal building rental rates, landing fees, international terminal docking fees, passenger loading bridge fees, passenger facility charges, and charges relating to federal inspection services. The Agreements also establish procedures for review and adjustment of airline rents and fees each fiscal year to ensure that revenues are sufficient to meet operations and maintenance expense, debt service requirements of the revenue bonds and other funding requirements established by the resolution authorizing issuance of the revenue bonds. Additionally, the agreements provide for the DOT&PF to adjust the aforementioned rents, fees, and charges during the year if the projection of annual revenues made at that time is greater than 5% more or less than the anticipated Airport System requirements for the year. The agreements also provide for the DOT&PF to immediately adjust landing fees if, at any time during the year, the Airport System projects that annual revenues will not be sufficient to cover the total Airport System revenue requirement.

The Agreements further provide for the payment of a fuel flowage fee of \$0.027 per gallon for fuel purchased at the Airports. For users of the Airports who have not signed the Agreements, the fuel flowage fee is \$0.033 per gallon.

The Agreements provide that revenues may be retained up to the following amounts:

- An amount necessary to satisfy debt service requirements due during the fiscal year on all outstanding bonds.
- Within the Supplemental Repair and Replacement Fund, an amount to maintain a repair and replacement allowance of \$1.5 million (which is subordinate to the bond resolution requirement of \$500,000) beginning in fiscal year 2002. Each year subsequent to 2003, this amount will be adjusted to correspond with changes in the local consumer price index.
- Within the Maintenance and Operating Reserve Fund, an amount equal to one quarter of the projected annual operation and maintenance expense of the Airports resulting in a fund deposit increase of approximately \$0.8 million during fiscal year 2005 and a decrease of \$0.1 million during fiscal year 2004. This results in year-end balances of approximately \$14.4 million and \$13.6 million at June 30, 2005 and 2004, respectively.

STATE OF ALASKA
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Notes to Financial Statements, continued

Airline Operating Agreement and Terminal Building Leases, continued

- Within the Airport System Capital Project Fund, an amount equal to the amount authorized from rates and charges in the annual budget for each fiscal year for Capital Projects approved by Signatory Airlines, plus the amount authorized from rates and charges in the annual budget for that fiscal year for Capital Projects not requiring Signatory Airline approval.
- Within the Airport System Development Fund, an amount equal to \$6 million per year in fiscal years 2002 and 2003 and \$5 million per year thereafter, to be adjusted each year subsequent to 2003 by changes noted in the local consumer price index.
- Within the Excess Revenue Fund, any funds in excess of these amounts at year end are to be deferred and recognized as revenue in the following year. If the Airport System does not receive enough funds during the year to meet the minimum revenue requirements stipulated in the bond covenants, the Airport System will recognize the minimum amount of revenue necessary to meet those requirements, as well as a receivable for the amount of the shortfall.

(4) **Deposits and Investments**

The Commissioner of Revenue is responsible for all deposits and investments of the State of Alaska (State) except where the Legislature or bond documents have assigned that responsibility to others. As the fiduciary, the Commissioner of Revenue has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statutes AS 37.10.070-37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion, and intelligence exercises in managing large investment portfolios.

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner of Revenue has fiduciary responsibility for. Actual investing, for pools in which the Airport System participates, is performed by investment officers in Treasury. Information related to the various pools and investments is disclosed in the financial schedules issued by Treasury. Investments are recorded at fair value as defined by GASB Statement No. 31.

In Fiscal Year 2004, Treasury implemented Governmental Accounting Standards Board (GASB) Statement No. 40, Deposits and Investment Risk Disclosures. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk and concentration of credit risk.

STATE OF ALASKA
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Notes to Financial Statements, continued

Deposits and Investments, continued

At June 30, 2005, the pool's in which the Airport System participates had the following investments (stated in thousands):

<u>Investment Type</u>	<u>Fair Value</u>				<u>Total</u>
	<u>Short-term Fixed Income Pool</u>	<u>Intermediate term Fixed Income Pool</u>	<u>Broad Market Fixed Income Pool</u>	<u>Securities Lending Collateral</u>	
Overnight Sweep Account	\$ 167,656	-	-	-	167,656
Money Market	-	-	-	2,416,700	2,416,700
Commercial Paper	9,884,063	-	-	-	9,884,063
U.S. Treasury Bills	7,295,091	-	-	-	7,295,091
U.S. Treasury Notes	6,335,809	60,982,032	214,532	-	67,532,373
U.S. Treasury Bonds	-	-	234,716	-	234,716
U.S. Treasury Strips	-	1,276,388	47,866	-	1,324,254
U.S. Government Agency Discount Notes	1,611,409	8,621,883	8,076	-	10,241,368
U.S. Government Agency Mortgage-backed	-	16,566,854	170,712	-	16,737,566
Other Asset-backed	18,412,649	25,975,026	1,645,512	-	46,033,187
Corporate bonds	51,637,394	6,526,858	115,727	-	58,279,979
Yankee:	23,419,196	19,693,119	772,560	-	43,884,875
Government	863,127	-	-	-	863,127
Corporate	-	-	13,783	-	13,783
Total invested assets	<u>33,418</u>	<u>51,061</u>	<u>16,647</u>	<u>-</u>	<u>101,126</u>
Pool related net assets (liabilities)	119,659,812	139,693,221	3,240,131	2,416,700	265,009,864
Net invested net assets	<u>1,204,256</u>	<u>(7,809,458)</u>	<u>(51,021)</u>	<u>-</u>	<u>(6,656,223)</u>
	<u>\$ 120,864,068</u>	<u>131,883,763</u>	<u>3,189,110</u>	<u>2,416,700</u>	<u>258,353,641</u>
Current assets	\$ 16,073,591	104,672,519	-	2,416,700	123,162,810
Restricted assets	<u>104,790,477</u>	<u>27,211,244</u>	<u>3,189,110</u>	<u>-</u>	<u>135,190,831</u>
Total current and restricted	120,864,068	131,883,763	3,189,110	2,416,700	258,353,641
Other (restricted) assets*	<u>14,544,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,544,469</u>
Total Airport System	<u>\$ 135,408,537</u>	<u>131,883,763</u>	<u>3,189,110</u>	<u>2,416,700</u>	<u>272,898,110</u>

* As dictated by the bond resolution, these funds are not managed by the Commissioner of Revenue, but held by a Trustee in an escrow trust account and invested in risk adverse securities.

STATE OF ALASKA
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Notes to Financial Statements, continued

Deposits and Investments, continued

Interest Rate Risk

Short-term Fixed Income Pool

The Airport System does not have a formal policy which limits its exposure to fair value losses arising from increasing interest rates for fixed income securities held in the Revenue bond redemption fund. At June 30, 2005, the Revenue bond redemption fund assets included AAA-rate money market funds or other liquid investments permitted by governing bond documents.

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2005, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from less than one year to three years.

Intermediate and Broad Market Fixed Income Pools

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its other fixed income pool portfolios to the following:

Intermediate-term Fixed Income Pool - \pm 20% of the Merrill Lynch 1-5 year Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2005 was 2.31 years.

Broad Market Fixed Income Pool - \pm 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2005 was 4.16 years.

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Notes to Financial Statements, continued

Deposits and Investments, continued

At June 30, 2005, the effective duration by investment type was as follows:

	Effective Duration (in years)	
	Intermediate-term Fixed	Broad Market Fixed
	Income Pool	Income Pool
U.S. Treasury Notes	2.26	3.91
U.S. Treasury Bonds	-	10.39
U.S. Treasury Strips	0.86	15.97
U.S. Government Agency	3.01	7.00
Mortgage-backed	2.01	2.41
Other Asset-backed	0.84	1.31
Corporate bonds	2.60	5.39
Yankees:		
Government	-	6.50
Corporate	3.09	9.86
Portfolio Effective Duration	2.10	4.10

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are

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Notes to Financial Statements, continued

Deposits and Investments, continued

Credit Risk, continued

invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account. Intermediate-term and Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least BBB3 or equivalent and securities with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is BBB3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. In addition, Treasury's investment policy limits investments with regard to credit risk for the following investment types:

Corporate debt must be investment grade and comprise those issued in the U.S. capital market by U.S. companies, Euro-dollar debt, or Yankee debt;

Asset-backed securities must be investment grade; and Mortgage-related securities must be those issued or secured by one of the following U.S Government Agencies for the Short-term and Intermediate-term Fixed Income Pools: Government National Mortgage Association; Federal National Mortgage Association; or the Federal Home Loan Mortgage Corporation.

At June 30, 2005, the Pools in which the Airport System participated consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

<u>Investment Type</u>	<u>Rating*</u>	Short-term Fixed Income <u>Pool</u>	Intermediate- term Fixed <u>Income Pool</u>	Broad Market Fixed <u>Income Pool</u>
Commercial Paper	A	8%	-	-
U.S. Government Agency Discount Notes	Not Rated	1%	7%	-
U.S. Government Agency Mortgage-backed	Not Rated	-	13%	6%
Mortgage-backed (Agency)	AAA	15%	6%	11%
Other Asset-backed	Not Rated	-	11%	41%
Other Asset-backed	AAA	39%	4%	3%
Corporate bonds	A	3%	1%	-
Corporate bonds	AAA	1%	1%	2%
Corporate bonds	AA	11%	2%	2%
Corporate bonds	A	9%	6%	7%
Corporate bonds	BBB	-	6%	12%
Yankees - Corporate	A	1%	-	-
Investment with no credit exposure		<u>12%</u>	<u>43%</u>	<u>16%</u>
		<u>100%</u>	<u>100%</u>	<u>100%</u>

* Rating modifiers are not disclosed.

STATE OF ALASKA
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Notes to Financial Statements, continued

Deposits and Investments, continued

Credit Risk, continued

Funds held by the bond trustee are not rated, and assets include AAA-rate money market funds or other liquid investments permitted by governing bond documents. At June 30, 2005, the securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds of any one company or affiliated group. At June 30, 2005, the Airport System had more than five percent of their investments in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association as follows:

	<u>Fair Value</u>	<u>Percent of Total Investments</u>
Federal Home Loan Mortgage Corporation	\$ 18,310,324	7%
Federal National Mortgage Association	\$ 25,037,078	10%

(5) **Restricted Assets and Investments**

The Airport System is required to maintain various restricted funds in compliance with the resolution authorizing issuance of its revenue bonds. The purpose of these funds is as follows:

- The repair and replacement account may be used (1) to eliminate deficiencies in the bond reserve accounts; or (2) for extraordinary repairs, renewals, and betterments in the event surplus revenues are not available.
- The Capital Project Fund accounts for all bond proceeds, interest earned on bond proceeds and construction activity related to the Airport System's terminal redevelopment and other ongoing capital projects.
- The Airport System is required by the FAA to keep all unliquidated passenger facility charge revenues remitted to it on deposit in an interest bearing account. Passenger facility charges and interest earned on those charges collected by the Airport System may only be used to pay allowable costs of approved projects.

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Notes to Financial Statements, continued

Restricted Assets and Investments, continued

- The revenue bond redemption fund is composed of bond interest and principal retirement accounts held by the bond trustee (Trustee) and may be used only for debt service. These reserve accounts were initially established from proceeds of revenue bonds and are to be subsequently maintained by transfers from the revenue fund in amounts sufficient to provide for annual debt service requirements. As dictated by the bond resolution, these funds are not managed by the Commissioner of Revenue, but by an external entity.

Under the terms of the revenue bonds, all funds held by the Trustee in the revenue bond redemption fund must be held in time or demand deposits in any bank or trust company authorized to accept deposits of public funds (including the Trustee), direct obligations of the United States of America, bonds, notes or other indebtedness, deposit accounts, commercial paper, money market funds, or obligations the principal of and interest on which are guaranteed by the United States of America, maturing prior to the respective interest payment dates, maturity dates or minimum sinking fund payment dates on which such moneys are required to be paid out thereunder.

Restricted assets and investments at June 30, 2005 and 2004 consist of (stated in thousands):

	<u>2005</u>	<u>2004</u>
Repair and replacement account:		
Short-term fixed income pool	\$ <u>501</u>	<u>500</u>
Terminal redevelopment funds:		
Short-term fixed income pool	\$ 91,801	122,633
Intermediate-term fixed income pool	31,439	42,701
Broad market fixed income pool	<u>3,189</u>	<u>12,525</u>
	\$ <u>126,429</u>	<u>177,859</u>
Passenger facility charge revenue fund:		
Cash in banks and State treasury	\$ 8,261	5,743
Accounts receivable	<u>774</u>	<u>1,007</u>
	\$ <u>9,035</u>	<u>6,750</u>
Revenue bond redemption fund:		
Bond interest:		
Daily money fund	\$ 5,068	4,467
Bond principal:		
Daily money fund	<u>9,476</u>	<u>7,682</u>
	\$ <u>14,544</u>	<u>12,149</u>

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Notes to Financial Statements, continued

(6) **Securities Lending**

Alaska Statute 37.10.071 authorizes the Commissioner of Revenue to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The Commissioner entered into an agreement with State Street Corporation (the Bank) to lend fixed income securities. The Bank, acting as the Commissioner's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future. At June 30, 2005 and 2004, the fair value of securities on loan allocable to the Airport System totaled \$2,350,201 and \$59,151,544, respectively.

There is no limit to the amount that can be loaned and the Commissioner is able to sell securities on loan. Loans are collateralized at not less than 102 percent of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral is invested in a registered 2(a)-7 money market fund which is valued at amortized cost. Maturities of investments in the money market fund generally do not match the maturities of the loaned securities because the lending agreements are terminable at will. Securities collateral may be pledged or sold upon borrower default.

Since the Commissioner does not have the ability to pledge or sell the securities collateral unless the borrower defaults, they are not recorded in the financial statements. Securities on loan, cash collateral and cash collateral payable are recorded in the financial statements. The Bank, the Airport System and the borrower receive a fee from earnings on invested collateral. The Bank and the Airport System share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the Commissioner is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the Board against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the year ended June 30, 2005, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

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Notes to Financial Statements, continued

(7) **Capital Assets**

Airport property was owned by the federal government prior to statehood and contributed to the State after that date. Subsequent additions to property and equipment have been funded by governmental contributions, bond proceeds, and operating revenues.

The following is a summary of property and equipment at June 30, 2005 and 2004:

	<u>Life</u>	<u>2005</u> <u>Carrying</u> <u>Value</u>	<u>2004</u> <u>Carrying</u> <u>Value</u>
Land		\$ 29,738,205	29,779,311
Infrastructure	5 to 40 years	442,590,925	421,945,296
Buildings	10 to 40 years	563,949,530	304,612,306
Equipment	5 to 10 years	<u>48,615,581</u>	<u>47,212,667</u>
		1,084,894,241	803,549,580
Accumulated depreciation and amortization		(381,927,123)	(352,616,075)
Construction in progress		<u>62,192,514</u>	<u>248,854,833</u>
		<u>\$ 765,159,632</u>	<u>699,788,338</u>

Capital assets activity for the year ended June 30, 2005 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions *</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>
Capital assets	\$ 1,052,404,413	95,644,667	(962,325)	1,147,086,755
Accumulated depreciation	<u>352,616,075</u>	<u>30,273,373</u>	<u>(962,325)</u>	<u>381,927,123</u>
	<u>\$ 699,788,338</u>	<u>65,371,294</u>	<u>-</u>	<u>765,159,632</u>

* Additions include \$919,588 of capitalized interest.

The Airport System's investment in capital assets, net of related debt includes the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Capital assets, net of accumulated depreciation	\$ 765,159,632	699,788,338
Less:		
Current bonds payable	(12,528,753)	(12,137,500)
Non-current bonds payable	(399,527,839)	(410,003,265)
Accrued interest payable	(5,067,940)	(6,104,479)
Interest arbitrage rebate	(205,831)	(314,186)
Plus:		
Terminal redevelopment fund restricted cash and investments	<u>126,429,106</u>	<u>177,858,667</u>
	<u>\$ 474,258,375</u>	<u>449,087,575</u>

STATE OF ALASKA
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Notes to Financial Statements, continued

(8) **Revenue Bonds Payable**

The following is a summary of the Airport System's revenue bonds payable at June 30, 2005:

	<u>2005</u>	<u>2004</u>
Series A, maturing in annual installments of increasing amounts through February 10, 2025; interest payable semi-annually at 4.0% to 5.125%	\$ 147,630,725	152,030,000
Series B, maturing in annual installments of increasing amounts through February 10, 2025; interest payable semi-annually at 4.0% to 5.125%	15,080,000	15,550,000
Series C, maturing in annual installments of increasing amounts through October 1, 2024; interest payable semi-annually at 4.85% to 6.22%	23,190,000	23,820,000
Series 2002A, maturing in annual installments of increasing amounts through October 1, 2007; interest payable semi-annually at 3.25% to 4.4%	9,885,000	13,060,000
Series 2002B, maturing in annual installments of increasing amounts through October 1, 2027; interest payable semi-annually at 4.15% to 5.75%	127,720,000	127,720,000
Series 2003A, maturing in annual installments of increasing amounts through October 1, 2022; interest payable semi-annually at 2.00% to 5.5%	71,255,000	73,025,000
Series 2003B, maturing in annual installments of increasing amounts through October 1, 2028; interest payable semi-annually at 4.87% to 5.0%	<u>21,900,000</u>	<u>21,900,000</u>
Total	416,660,725	427,105,000
Less unamortized bond issuance costs and discounts	<u>(4,604,133)</u>	<u>(4,964,235)</u>
	412,056,592	422,140,765
Less amount currently payable with restricted assets	<u>(12,528,753)</u>	<u>(12,137,500)</u>
Long-term portion	<u>\$ 399,527,839</u>	<u>410,003,265</u>

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Notes to Financial Statements, continued

Revenue Bonds Payable, continued

The following is a summary of debt payment requirements for each of the next five years and thereafter:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending June 30:			
2006	\$ 12,528,753	21,011,502	33,540,255
2007	12,770,000	20,156,113	32,926,113
2008	13,710,000	19,648,410	33,358,410
2009	13,865,000	19,080,269	32,945,269
2010	14,465,000	18,469,286	32,934,286
2011-2015	83,595,000	80,661,032	164,256,032
2016-2020	96,705,000	57,106,558	153,811,558
2021-2025	122,195,000	28,511,033	150,706,033
2026-2028	<u>46,826,972</u>	<u>4,064,874</u>	<u>50,891,846</u>
	<u>\$ 416,660,725</u>	<u>268,709,077</u>	<u>685,369,802</u>

Revenue bond activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Revenue bonds payable, net of unamortized costs and discounts	\$ <u>422,140,765</u>	<u>-</u>	<u>10,084,173</u>	<u>412,056,592</u>

Revenue bond activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Revenue bonds payable, net of unamortized costs and discounts	\$ <u>356,510,202</u>	<u>95,350,563</u>	<u>29,720,000</u>	<u>422,140,765</u>

Revenue bonds have been issued pursuant to bond resolutions that prescribe the use of accounts described in note 2 as well as the use of certain other practices. Among these is a requirement that net revenues available for debt service, as defined by the bond resolution, must at least equal 1.25 times the sum of: (1) annual debt services; and (2) required deposits to the bond redemption fund. The revenue requirement was met for the years ended June 30, 2005 and 2004.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements, continued

(9) **Interest Arbitrage Rebate**

Bonds issued after August 15, 1986 are subject to Internal Revenue Service income tax regulations which require rebates to the U.S Government of interest income earned on investments purchased with the proceeds from the bonds or any applicable reserves in excess of the allowable yield of the issue. At June 30, 2005 and 2004, series 1999 bond interest arbitrage rebate liability of \$205,831 and \$314,185, respectively is due within 60 days after the bonds are discharged.

(10) **Cost Allocated from the Department of Transportation and Public Facilities**

The DOT&PF provides administrative and technical services benefiting all of Alaska's airports and aircraft bases. Related costs are allocated based upon budgetary estimates of the pro rata portion which should be borne by the various facilities as set forth in the annual appropriation and budget document of the State. Costs allocated to the Airport System and included in operating expenses for the years ended June 30, 2005 and 2004 amounted to \$2,235,000 and \$2,087,700, respectively. Capital project management services are performed by the DOT&PF personnel and are capitalized to property and equipment. The indirect costs allocated to the Airport System and capitalized in construction in progress amounted to \$3,337,953 and \$3,919,949, respectively, during the years ended June 30, 2005 and 2004.

(11) **Retirement Plan**

The Airport System follows the provisions of the GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The State of Alaska Public Employees Retirement System (PERS) commingles specific information related to the Airport System, its employees and contributions with other State information, which treats the State as one employer.

(a) ***Plan Description***

The Airport System contributes to PERS, a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State to provide pension, postemployment healthcare, death, and disability benefits to eligible employees. All full-time Airport System employees are eligible to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements, continued

Retirement Plan, continued

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

(b) Funding Policy and Annual Pension Cost

Employee contribution rates are 6.75% for employees, as required by State statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The Airport System's rate was 12.75% of covered salary expenses in the year ended June 30, 2005.

The Airport System's annual pension cost for the current year and the related information is as follows:

	<u>Pension</u>	<u>Postemployment healthcare</u>
Contribution rates:		
Employee	4.74%	2.01%
Employer	8.95%	3.80%
Airport System annual covered payroll	\$ 22,025,101	\$ 22,025,101
Annual pension cost	\$ 1,971,918	\$ 836,282
Contributions made:		
Employee	\$ 1,043,990	\$ 442,705
Employer	\$ 1,971,918	\$ 836,282
Actuarial valuation date	June 30, 2002	Same
Actuarial cost method	Projected Unit Credit	Same
Amortization method	Level percentage of pay	Same
Amortization period	25-year rolling period	Same
Asset valuation method	5 years smoothed market	Same
Actuarial assumptions:		
Inflation rate	3.5%	Same
Investment return	8.25%	Same
Projected salary increase:		
Inflation	3.5%	N/A
Productivity and merit	1.5%/0.5%	N/A
Health cost trend	N/A	12.0%

In the current year, the Airport System determined, in accordance with provisions of GASB Statement No. 27, that no pension liability (asset) existed to PERS and there was no previously reported liability (asset) to PERS.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements, continued

Retirement Plan, continued

Required supplementary information – Schedule of Funding Progress for PERS (in thousands) for the State:

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Excess of assets over AAL (a) – (b)</u>	<u>Funded ratio (a) / (b)</u>	<u>Covered payroll (c)</u>	<u>Excess as a percentage of covered payroll ((a) – (b)) / (c)</u>
Pension:						
June 30, 2003	\$ 2,486,426	\$ 3,508,310	\$ (1,021,884)	71%	\$ 732,430	(140%)
June 30, 2002	2,531,772	3,410,581	(878,809)	74%	701,532	(125%)
June 30, 2001	3,090,181	3,104,978	(14,797)	100%	674,440	(2%)
Postemployment health care:						
June 30, 2003	1,661,840	2,344,832	(682,992)	71%	732,430	(93%)
June 30, 2002	1,538,258	2,072,207	(533,949)	74%	701,532	(76%)
June 30, 2001	1,308,371	1,314,639	(6,268)	100%	674,440	(1%)

Ten-year historical trend information showing PERS progress in accumulating sufficient assets to pay benefits when due is presented in PERS' comprehensive annual financial reports.

(12) **Rental Income under Operating Leases**

The Airport System's leasing operations consist of leasing land, buildings, and terminal space to airlines and other tenants.

The following is a schedule of minimum future rental income payments under noncancelable operating leases for each year for the next five years as of June 30, 2005:

Year ending June 30:	
2006	\$ 4,868,718
2007	5,616,907
2008	4,723,742
2009	4,063,231
2010	3,542,533

These amounts do not include contingent fees, which may be received under certain leases that involve a concession fee based upon gross receipts. Contingent fees amounted to \$4,053,398 in 2005 and \$2,465,744 in 2004, and are included in concession fees. The above schedule includes minimum guaranteed rentals only to the extent of the remaining term of noncancelable leases.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements, continued

(13) **Terminal Redevelopment Project**

Anchorage's Domestic Terminal Concourse "C" opened to the public in June 2004. This \$320,000,000 project was financed with 1999 and 2003 series bonds and Federal Highway Administration funds. Cost escalations stemming from scope expansions, permit delays and enhanced security requirements resulted in budget overruns on this initial phase of the Anchorage International Airport Terminal Redevelopment Project (TRP). System claims for disputed project design activity resulted in a net \$13,000,000 insurance settlement subsequent to the end of fiscal year 2005. Management believes all claims pertaining to the construction of Concourse C are now resolved.

The second phase of the TRP will commence in FY 06. It includes cosmetic and structural enhancements to Domestic Terminal Concourses "A" and "B". This project, budgeted at \$143,000,000 will be funded with federal Airport Improvement Program (AIP) funds, Passenger Facility Charges (PFC's), revenue bonds and AIAS development funds.

(14) **AIAS Capital Improvement Program**

In May 2001, the Alaska Legislature approved \$144,900,000 in bond authorization for the Airport System's 2002 – 2006 Capital Improvement Program (CIP). The total estimated budget for these projects is \$333 million. Additional funding sources include AIP, Passenger Facility Charges (PFC's) and International Airport Revenue Funds (IARF). During fiscal year 2005, AIAS signatory airlines approved a one-year extension of the Operating Agreement, which now terminates on June 30, 2007. Certain projects in the original agreement were deferred beyond 2007 as part of the amended agreement.

During fiscal year 2005, the Airport System expended approximately \$100.9 million in its on-going CIP. In addition to residual construction on the new "C" concourse, major projects completed in that fiscal period at ANC were Lake Shore Taxiway Separation, Taxiway "R" Rehabilitation Phase One, Field Maintenance Facility and Lake Hood Strip Reconstruction.

FAI has also begun design on a Terminal Area Development project, scheduled for completion in fiscal year 2009. It includes razing and rebuilding older sections of the existing terminal and retrofitting the newer adjacent section. The project is budgeted at \$99,200,000 and, like the ANC terminal project, will be funded with PFC's, revenue bonds and AIAS development funds. Other significant FY 2005 FAI capital projects included Phase I construction on Taxiway "A", Terminal Reroofing and electrification of General Aviation parking areas.

(15) **Passenger Facility Charges**

Under Part 158 of the Code of Federal Regulations, the FAA granted public agencies controlling commercial service airports the authority to impose PFC's, ranging from \$1.00 to \$4.50 per enplaned passenger, to be used towards eligible state of Alaska facility improvements or debt service on facility-related infrastructure. Airlines retain approximately \$0.12 of each PFC collected, to cover administrative costs. Expenditures of PFC revenues are limited to eligible costs of projects approved in advance by the FAA.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements, continued

(15) **Passenger Facility Charges, continued**

PFC's imposed are \$3.00 in ANC, and \$4.50 at FAI. During the years ended June 30, 2005 and 2004, respectively, the Airport System earned approximately \$5.3 million and 4.7 million in PFC revenues.

The current PFC agreement in place at ANC is effective from October 1, 2000 to December 31, 2005. The application for a second agreement is pending approval by the FAA, and has a planned effective date of January 1, 2006. FAI's current application expires on September 30, 2006 and a subsequent application is currently being drafted.

(16) **Contingencies**

Subsequent to year end, various claims arising from the termination of a former employee of the Airport System have been filed against the Airport System. Although several current employees of the Airport System named as co-defendants have been served, any effective service on the Airport System is currently unknown. The plaintiff previously filed a complaint before the Alaska State Commission on Human Rights relating to the individual's employment at the Airport System. The Commission dismissed that complaint and the complainant has appealed the dismissal. Any risk of loss to the Airport System related to the above is undeterminable at this time.

The Airport System's leases with its tenants include provisions requiring the tenant to indemnify the Airport System for any damage to property or losses to the Airport System as a result of the tenant's operations. Accordingly, in the opinion of management, any tenant environmental remediation plans and final disposition are not expected to have a material adverse effect on the financial position, results of operations or liquidity of the Airport System.

The Airport System participates in the State's risk management and self-insurance program for property, casualty and workers' compensation, and specialty coverages. The Division of Risk Management (Risk Management) acts as the insurance carrier for each State agency, funding all sudden and accidental property and casualty claims. Risk Management allocates annual premiums to each State agency through a cost of the risk premium allocation system. Risk Management has purchased excess insurance coverage to maintain the self-insurance risk at an acceptable level for the State.

(17) **Report Reissuance**

Subsequent to the issuance of the Airport System's June 30, 2005 financial statements, two errors were noted in the financial statement footnotes:

- Note 8 incorrectly reported the 2003 Series A and Series B Revenue Bonds as 2004 Series A and Series B.
- Note 11 (b) incorrectly reported the Airport System's contribution rates and other actuarial information related to the retirement plan.

These errors were limited to disclosure items only. Both footnotes have been corrected in these reissued financial statements with no change to the originally issued Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Fund Net Assets, and Statements of Cash Flows.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets

Years Ended June 30, 2005 and 2004

	2005			2004		
	Anchorage	Fairbanks	Total	Anchorage	Fairbanks	Total
Operating revenues:						
Airfield operations:						
Landing fees	\$ 34,109,777	2,089,016	36,198,793	19,493,527	1,277,375	20,770,902
Fuel flowage fees	25,153,103	1,008,761	26,161,864	22,601,201	1,023,183	23,624,384
Aircraft docking fees	670,428	103,696	774,124	602,948	16,681	619,629
Aircraft parking fees	4,226,191	413,308	4,639,499	4,255,674	352,167	4,607,841
Federal inspection fees	756,158	41,923	798,081	670,256	40,850	711,106
Aircraft ramp rent	915,260	56,290	971,550	738,326	59,933	798,259
Concession fees	7,849,483	1,387,254	9,236,737	6,874,582	1,154,961	8,029,543
Terminal rents	10,422,124	1,899,825	12,321,949	8,361,124	2,047,741	10,408,865
Vehicle parking fees	2,613,600	720,295	3,333,895	2,201,820	651,286	2,853,106
Land rental fees	3,214,977	523,557	3,738,534	3,169,772	488,152	3,657,924
Other	1,164,796	34,870	1,199,666	335,115	50,431	385,546
Total operating revenues	<u>91,095,897</u>	<u>8,278,795</u>	<u>99,374,692</u>	<u>69,304,345</u>	<u>7,162,760</u>	<u>76,467,105</u>
Operating expenses:						
Facilities	19,341,286	2,931,083	22,272,369	11,547,149	2,542,490	14,089,639
Field and equipment maintenance	10,388,219	3,301,989	13,690,208	9,000,888	3,017,965	12,018,853
Safety	6,360,253	2,807,594	9,167,847	5,685,568	2,585,496	8,271,064
Administration	7,051,170	1,955,975	9,007,145	6,217,365	1,646,939	7,864,304
Operations	2,350,240	1,320,877	3,671,117	2,156,626	1,212,896	3,369,522
Environmental expenses	1,253,850	239,970	1,493,820	1,581,051	326,386	1,907,437
Vehicle parking and curbside services	1,121,240	-	1,121,240	1,008,680	-	1,008,680
Risk management	541,214	165,062	706,276	541,214	167,130	708,344
Depreciation and amortization	24,885,895	5,387,478	30,273,373	21,623,272	5,635,887	27,259,159
Total operating expenses	<u>73,293,367</u>	<u>18,110,028</u>	<u>91,403,395</u>	<u>59,361,813</u>	<u>17,135,189</u>	<u>76,497,002</u>
Operating income (loss)	<u>17,802,530</u>	<u>(9,831,233)</u>	<u>7,971,297</u>	<u>9,942,532</u>	<u>(9,972,429)</u>	<u>(29,897)</u>
Nonoperating revenues (expenses):						
Investment income	5,162,884	-	5,162,884	1,042,680	14,394	1,057,074
Interest expense	(17,810,930)	-	(17,810,930)	(645,481)	-	(645,481)
Arbitrage rebate	108,355	-	108,355	1,203,962	-	1,203,962
Sound insulation program	(3,136,057)	-	(3,136,057)	(4,332,812)	-	(4,332,812)
Grants	769,960	-	769,960	612,960	-	612,960
Insurance Recovery	13,000,000	-	13,000,000	-	-	-
Reimbursable services income	251,158	-	251,158	875,941	-	875,941
Reimbursable services expense	(251,158)	-	(251,158)	(875,941)	-	(875,941)
Total nonoperating revenues (expenses)	<u>(1,905,788)</u>	<u>-</u>	<u>(1,905,788)</u>	<u>(2,118,691)</u>	<u>14,394</u>	<u>(2,104,297)</u>
Income (loss) before capital contributions	15,896,742	(9,831,233)	6,065,509	7,823,841	(9,958,035)	(2,134,194)
Capital contributions:						
Federal Aviation Administration	28,735,916	21,793,972	50,529,888	37,711,779	6,162,342	43,874,121
Passenger facility charges	4,191,312	1,096,978	5,288,290	3,826,709	909,486	4,736,195
Total capital contributions	<u>32,927,228</u>	<u>22,890,950</u>	<u>55,818,178</u>	<u>41,538,488</u>	<u>7,071,828</u>	<u>48,610,316</u>
Change in net assets	\$ <u>48,823,970</u>	<u>13,059,717</u>	<u>61,883,687</u>	<u>49,362,329</u>	<u>(2,886,207)</u>	<u>46,476,122</u>

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Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

We have audited the financial statements of the State of Alaska International Airport System (an Enterprise Fund of the State of Alaska) (Airport System) for the years ended June 30, 2005 and 2004 and have issued our reports thereon dated September 30, 2005 and September 29, 2004, respectively. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Airport System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Airport System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Airport System, the State of Alaska Department of Transportation and Public Facilities and the Federal Aviation Administration, and is not intended to be and should not be used by anyone other than these specified parties.

Mikunda, Cottrell & Co.

September 30, 2005

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Independent Auditors' Report on the Schedule of Net Revenues in Excess of Net Revenues Required

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the State of Alaska International Airport System (an Enterprise Fund of the State of Alaska) for the years ended June 30, 2005 and 2004, and have issued our reports thereon dated September 30, 2005 and September 29, 2004, respectively. We have also audited the accompanying Schedules of Net Revenues in Excess of Net Revenues Required of the State of Alaska International Airport System for the years ended June 30, 2005 and 2004. This schedule is the responsibility of the State of Alaska International Airport System's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule referred to above is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying schedules present fairly, in all material respects, the excess of net revenues as defined in Section 1.01 of Resolution 99-01 of the State Bond Committee of the State of Alaska over net revenues required as defined in Section 4.10 of Resolution 99-01 of the State Bond Committee of the State of Alaska for the years ended June 30, 2005 and 2004, in accordance with the provisions of the Resolution 99-01 of the State Bond Committee of the State of Alaska.

This report is intended solely for the information and use of the State of Alaska Department of Transportation and Public Facilities, the State of Alaska International Airport System and the Trustees for the State of Alaska International Airport System Revenue Bond Series I, A, B, C, 2002A, 2002B, 2003A, and 2003B and is not intended to be and should not be used by anyone other than these specified parties.

Subsequent to the issuance of this report dated September 30, 2005, we became aware that the 2003A and 2003B revenue bonds were incorrectly identified as 2004A and 2004B. In our original report, we expressed an unqualified opinion on the Schedule of Net Revenues in Excess of Net Revenues Required and our opinion on the corrected bond series numbers, as expressed herein, remains unqualified.

Mikunda, Cottrell & Co.

September 30, 2005,
except as to the last paragraph above
which is as of January 13, 2006

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Schedules of Net Revenues in Excess of Net Revenues Required

Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Net revenues, as defined in Section 1.01 of Resolution 99-01 of the State Bond Committee of the State of Alaska:		
Revenues:		
Operating revenues	\$ 99,374,692	76,467,105
Passenger facility charges	5,288,290	4,736,195
Investment income	5,162,884	1,057,074
Total revenues	<u>109,825,866</u>	<u>82,260,374</u>
Maintenance and operation costs	<u>61,130,022</u>	<u>49,237,843</u>
Net revenues	<u>48,695,844</u>	<u>33,022,531</u>
Net revenues required, as defined in Section 4.10 of Resolution 99-01 and Resolution 99-07 of the State Bond Committee of the State of Alaska:		
Debt service on series I bonds during fiscal year	-	1,195,982
Debt service on series A, B, and C bonds during fiscal year	<u>31,082,276</u>	<u>20,953,752</u>
	31,082,276	22,149,734
Minimum revenue requirement factor	<u>1.25</u>	<u>1.25</u>
Net revenues required	<u>38,852,845</u>	<u>27,687,168</u>
Net revenues in excess of net revenues required	<u>\$ 9,842,999</u>	<u>5,335,363</u>

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Independent Auditors' Report on Compliance with Bond Covenants Based on the Audit of the Financial Statements

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of net assets of the State of Alaska International Airport System (an Enterprise Fund of the State of Alaska) as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended, and have issued our reports thereon dated September 30, 2005 and September 29, 2004, respectively.

In connection with our audits, nothing came to our attention that caused us to believe that the State of Alaska International Airport System failed to comply with the terms, covenants, provisions, or conditions of the following sections of Resolution 99.01 as amended by Resolution 99.07 of the State Bond Committee of the State of Alaska, relating to the State of Alaska International Airport System Revenue Bond Series I, A, B, C, 2002A, 2002B, 2003A and 2003B:

Section Subject Matter

4.01	Punctual Payment
4.02	Against Sale or Other Disposition of Airports
4.03	Maintenance and Operation of Airports
4.04	Payment of Claims
4.05	Insurance
4.06	Books and Accounts; Financial Statements
4.07	Protection of Security and Rights of Parity Bond Owners
4.08	Maintenance of Registrar
4.09	Eminent Domain Proceeds
4.10	Rate Covenant
4.11	Further Assistance

However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the State of Alaska, Department of Transportation and Public Facilities, the State of Alaska International Airport System, and the trustees for the State of Alaska International Airport System Revenue Bond Series I, A, B, C, 2002A, 2002B, 2003A and 2003B and is not intended to be and should not be used by anyone other than these specified parties.

Subsequent to the issuance of this report dated September 30, 2005, we became aware that the 2003A and 2003B revenue bonds were incorrectly identified as 2004A and 2004B. In our original report, nothing came to our attention that caused us to believe that the Airport did not comply with the bond covenants noted above, and our revised report, as expressed herein, remains unchanged.

Mikunda, Cottrell & Co.

September 30, 2005,
except as to the last paragraph above
which is as of January 13, 2006

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APPENDIX C

STATE BOND COMMITTEE OF THE STATE OF ALASKA, RESOLUTION NO. 99-01

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STATE BOND COMMITTEE
OF THE STATE OF ALASKA

RESOLUTION NO. 99-01

Providing for the Issuance of

State of Alaska International Airports System Revenue Bonds
and of
\$162,500,000 Principal Amount of Series 1999A Bonds
and of
\$16,675,000 Principal Amount of Series 1999B Bonds

Adopted January 28, 1999

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STATE BOND COMMITTEE

RESOLUTION NO. 99-01

A Resolution of the State Bond Committee of the State of Alaska amending and re-stating Resolution No. 68-4; authorizing the issuance and sale of revenue bonds of the Alaska International Airports System in Series from time to time; approving certain protective covenants; authorizing the issuance of two Series of revenue bonds for the purpose of financing improvements; approving an agreement for ongoing disclosure and approving a bond purchase contract.

WHEREAS, Chapter 88, SLA 1961, as amended (herein called the "1961 Act"), authorized the issuance and sale of revenue bonds of the State of Alaska (the "State") in an aggregate principal amount not exceeding Nine Million Two Hundred Twenty-Five Thousand Dollars (\$9,225,000) to acquire, equip, construct and install additions, improvements, extensions and facilities, all as more fully described in the Act and in this resolution, at the international airports owned and operated by the State and located at or near the cities of Anchorage and Fairbanks (defined with more particularity hereinafter as the "AIAS"); and

WHEREAS, the State Bond Committee adopted Resolution No. 68-4, authorizing the issuance of Series of airport revenue bonds in Series from time to time; adopting protective covenants for the benefit of the owner and owners of said bonds from time to time; and

WHEREAS, the State has issued and outstanding two Series of airport revenue bonds, issued in the initial principal amount of \$15,690,000 and \$34,755,000, respectively, pursuant to Supplemental Resolution No. 93-5 (together with Resolution No. 68-4, the "Outstanding Bond Resolution"), designated as the State of Alaska International Airports Refunding Revenue Bonds, Series H and the State of Alaska International Airports Refunding Revenue Bonds, Series I (collectively, the "Outstanding Parity Bonds"), under date of August 1, 1993, and currently outstanding in the aggregate principal amount of \$2,130,000 and \$29,120,000, respectively, and

WHEREAS, the payment of the principal of and interest on the Outstanding Parity Bonds was insured by a policy of municipal bond insurance issued by MBIA Insurance Corporation ("MBIA"); and

WHEREAS, the Outstanding Bond Resolution provides that MBIA shall be considered to be the owner of the Outstanding Parity Bonds for purposes of granting all consents required under the Outstanding Bond Resolution; and

WHEREAS, the 1961 Act has been amended from time to time, most recently by Chapter 41, SLA 1998 (the "1998 Authorization") and is codified as AS 37.15.410 to 37.15.550 (collectively, the "Act"); and

WHEREAS, the 1998 Authorization increased the aggregate principal amount of airport revenue bonds authorized to be issued under the Act to \$280,000,000, and

WHEREAS, the State Bond Committee, pursuant to Resolution No. 98-3, issued and sold two Series of Revenue Bond Anticipation Notes in the aggregate principal amount of \$14,300,000 and \$4,965,000, respectively, maturing on April 1, 1999 (the "1998 Notes") for the purpose of financing certain capital improvements (the "Anchorage Airport Project") to the Anchorage International Airport ("Anchorage Airport"); and

WHEREAS, Resolution No. 98-6 of the State Bond Committee appointed an underwriting team for the underwriting of the additional bonds authorized pursuant to the 1998 Authorization (the "Underwriters"); and

WHEREAS, MBIA, on behalf of the owners of the Outstanding Parity Bonds, has consented to the terms of this resolution; and

WHEREAS, the signatory airlines under the AIAS operating agreements have been given the opportunity to review and comment on drafts of this resolution and drafts of the official statement for the sale of the bonds authorized herein ("Series 1999 Bonds"); and

WHEREAS, the Underwriters have presented an offer to purchase the Series 1999 Bonds deemed to be in the best interests of the State and the AIAS;

NOW THEREFORE, BE IT RESOLVED by the State Bond Committee of the State of Alaska, as follows:

ARTICLE I DEFINITIONS; EQUAL SECURITY

SECTION 1.01. **Definitions.** Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of this resolution and of any certificate, opinion or other document herein mentioned, have the meanings herein specified. Unless otherwise defined in this resolution, all terms used herein shall have the meanings assigned to such terms in the Act hereinafter mentioned.

Accreted Value means (1) with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in the resolution authorizing a Series of Parity Bonds as the amount representing the initial principal amount of such Parity Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (2) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such Parity Bonds plus the amount of discounted principal which has accreted since the date of issue. In each case the Accreted Value shall be determined in accordance with the provisions of the resolution authorizing the issuance of such Parity Bonds.

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Base Period means any consecutive 12-month period selected by the State out of the 24-month period next preceding the date of issuance of Future Parity Bonds.

Beneficial Owner means any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 1999 Bonds (including persons holding Series 1999 Bonds through nominees, depositories or other intermediaries).

Bond Fund means the "International Airports Revenue Bond Redemption Fund" established and maintained pursuant to the Act.

Bond Purchase Contract means the Bond Purchase Contract for the Series 1999 Bonds, among the Underwriters and the Committee.

Bond Register means the registration books maintained by the Registrar setting forth the names and addresses of owners of the Bonds in compliance with Section 149 of the Code.

Bond Resolution means this resolution, as adopted this 28th day of January, 1999 by the Committee pursuant to the Act, or as it may from time to time be supplemented, modified or amended by any supplemental resolution entered into pursuant to the provisions hereof.

Bond Year means each one-year period that ends on the date selected by the State. The first and last Bond Years may be short periods. If no day is selected by the State before the earlier of the final maturity date of the Series 1999 Bonds or the date that is five years after the date of issuance of the Series 1999 Bonds, Bond Years end on each anniversary of the date of issue and on the final maturity date of the Series 1999 Bonds.

Capital Appreciation Bonds means Parity Bonds all or a portion of the interest on which is compounded, accumulated and payable only upon redemption or on the maturity date of such Bonds. If so provided in the resolution authorizing their issuance, Parity Bonds may be deemed to be Capital Appreciation Bonds for only a portion of their term. On the date on which Parity Bonds no longer are Capital Appreciation Bonds, they shall be deemed Outstanding in a principal amount equal to their Accreted Value.

Capitalized Interest Account means the Account of that name maintained within the Construction Fund pursuant to Section 8.07 of this resolution.

Certificate of the Committee and written request of the Committee mean, respectively, a certificate or request in writing signed by the chairman and the Secretary of the Committee, or by any two members of the Committee or officers or representatives of the State duly authorized by the Committee for that purpose. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

Any certificate of the Committee may be based, in so far as it relates to legal, accounting or engineering matters, upon the opinion or representation of counsel, accountants or engineers,

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Act means Chapter 88, SLA 1961, as amended, most recently Chapter 41, SLA 1998 and codified as AS 37.15.410 to 37.15.550, inclusive, as the same may hereafter be amended or supplemented by any other statute of the State.

Aggregate Annual Debt Service means Annual Debt Service for all Outstanding Parity Bonds.

AIAS means the Alaska International Airports System, which includes the international airports owned and operated by the State and located within or near the Municipality of Anchorage and the City of Fairbanks, as the same may be amended by the Act.

Anchorage Airport means the Anchorage International Airport.

Anchorage Airport Project means the capital improvements to the Anchorage Airport, including, but not limited to, primarily renovation and construction of a new Concourse C terminal, West and Core Terminal renovation, East Terminal renovation, aircraft parking aprons, parking lots and landscaping, plus utilities, roads, construction and project management and related engineering, identified on Exhibits A and B attached hereto, which shall include the Series 1999A Components and the Series 1999B Components as therein identified.

Annual Debt Service means the total amount of Debt Service for any Parity Bond or Series of Parity Bonds in any Fiscal Year (for purposes of the Rate Covenant) or Base Period (for purposes of the Coverage Requirement).

Annual Disclosure Report has the meaning given such term in Section 8.14 of this resolution.

Arbitrage Certificate means the certificate of that name executed and delivered by the State at the time of issuance and delivery of the Series 1999 Bonds.

Authorized AIAS Representative means the person or persons designated in writing by the Commissioner of Transportation and Public Facilities.

Average Annual Debt Service means the aggregate dollar amount of Debt Service with respect to Parity Bonds through the scheduled maturities thereof (stated maturity dates or mandatory redemption dates with respect to term debt), divided by the number of years remaining during which Parity Bonds are scheduled to mature or be subject to mandatory redemption (commencing with the year following the year of calculation).

Balloon Maturity Bonds means any Parity Bonds which are so designated in the supplemental resolution pursuant to which such Parity Bonds are issued. Commercial paper (obligations with a maturity of not more than 270 days from the date of issuance) shall be deemed to be Balloon Maturity Bonds.

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unless the officer signing such certificate knows, or in the exercise of reasonable care should have known, that the opinion or representation with respect to the matters upon which such certificate may be based, as aforesaid, is erroneous. The same officer, counsel, accountant or other persons, as the case may be, need not certify to all of the matters required to be certified under any provision of the Bond Resolution, but different officers, counsel, accountants or other persons may certify to different facts, respectively.

Every certificate of the Committee and every opinion of counsel, accountants, engineer or other persons provided for herein shall include—

(1) a statement that the person making or giving such certificate or opinion has read the pertinent provisions of the Bond Resolution to which such certificate or opinion relates;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based;

(3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; and

(4) with respect to any statement relating to the compliance with any provision hereof, a statement as to whether, in the opinion of such person, such provision has been complied with.

Code means the federal Internal Revenue Code of 1986, as amended from time to time, and the applicable regulations thereunder.

Commissioner of Revenue means the Commissioner of the Department of Revenue of the State.

Commissioner of Transportation and Public Facilities means the Commissioner of the Department of Transportation and Public Facilities of the State.

Committee means the State Bond Committee of the State of Alaska, an agency of the State created by AS § 37.15.110, or any other committee, body, department or officer of the State which or who shall succeed to the rights, powers, duties and obligations of the State Bond Committee by act of the Legislature. As of this date, the Committee consists of the commissioner of commerce and economic development, the commissioner of administration and the commissioner of revenue.

Computation Date means each date selected by the State to make arbitrage rebate computations.

Computation Period means the period between Computation Dates.

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Construction Fund means the International Airports Construction Fund, established by AS 37.15.420, for the purpose of receiving proceeds of bonds and notes, including Parity Bonds.

Consultant means at any time an independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of development, operation and financing of airport facilities of approximately the same size as the properties constituting the AIAS appointed by the Committee to perform the duties of the Consultant as required by this resolution. For the purposes of delivering any certificate required by Section 2.03 hereof and making the calculation required by Section 2.03 hereof, the term Consultant shall also include any independent national public accounting firm appointed by the State to make such calculation or to provide such certificate.

Coverage Requirement means Net Revenues equal to or greater than 125% of Aggregate Annual Debt Service for all outstanding Parity Bonds, including Future Parity Bonds then being issued, for each of the three Fiscal Years following the earlier of (i) completion of the projects being financed with the proceeds of the Future Parity Bonds then being issued and (ii) the date on which all capitalized interest with respect to such Future Parity Bonds is expended.

Credit Facility means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement or other financial instrument which obligates a third party to make payment or provide funds for the payment of financial obligations of the State, including but not limited to payment of the principal of, interest on or purchase price of a Series of Parity Bonds or meeting reserve requirements therefor.

Credit Facility Issuer means the issuer of any Credit Facility then in effect with respect to one or more Series of Parity Bonds.

Debt Manager means the person designated and acting as the Debt Manager of the Alaska Department of Revenue or his or its successor acting in that capacity.

Debt Service means, for any period of time,

(a) with respect to any Outstanding Original Issue Discount Bonds or Capital Appreciation Bonds which are not designated as Balloon Maturity Bonds in the resolution authorizing their issuance, the principal amount of such Original Issue Discount Bonds equal to the Accreted Value thereof maturing or scheduled for redemption in such period, and the interest payable during such period;

(b) with respect to any Outstanding Fixed Rate Bonds, an amount equal to (1) the principal amount of such Parity Bonds due or subject to mandatory redemption during such period and for which no sinking fund installments have been established, (2) the amount of any payments required to be made during such period into any sinking fund established for the payment of any such Parity Bonds, plus (3) all interest payable during such period on any such Parity Bonds Outstanding and with respect to Parity Bonds with mandatory sinking fund requirements, calculated on the assumption that mandatory sinking fund installments will be

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Derivative Product means a written contract or agreement between the State and a Reciprocal Payor, which provides that the State's obligations thereunder will be conditioned on the absence of: (i) a failure by the Reciprocal Payor to make any payment required thereunder when due and payable, and (ii) a default thereunder with respect to the financial status of the Reciprocal Payor; and

(a) under which the State is obligated to pay, on one or more scheduled and specified Derivative Payment Dates, the State Payments in exchange for the Reciprocal Payor's obligation to pay or to cause to be paid to the State, on the same scheduled and specified Derivative Payment Dates, the Reciprocal Payments; i.e., the contract must provide for net payments;

(b) for which the State's obligations to make all or any portion of State Payments may be secured by a pledge of and lien on Revenues on a lien subordinate to the lien thereon of Parity Bonds;

(c) under which Reciprocal Payments are to be made directly into a bond fund for Parity Bonds;

(d) for which the State Payments are either specified to be one or more fixed amounts or are determined according to a methodology set forth in the Derivative Product; and

(e) for which the Reciprocal Payments are either specified to be one or more fixed amounts or are determined according to a methodology set forth in the Derivative Product.

Derivative Product Account means the Derivative Product Account, if any, created and established under Section 3.02(d) hereof.

Designated Representative means, with respect to the State, the Chairman or the Secretary of the Committee, or Debt Manager of the State.

Discharge occurs on the date that all amounts due under the terms of a Series 1999 Bond is actually and unconditionally due if cash is available at the place of payment, and no interest accrues with respect to such Series 1999 Bond after such date.

DTC means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Series 1999 Bonds pursuant to Section 6 hereof, or any corporate successor thereto.

Estimated Average Derivative Rate means:

(a) as to the variable rate payments to be made by a party under any Derivative Product,

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applied to the redemption or retirement of such Parity Bonds on the date specified in the resolution authorizing such Parity Bonds;

(c) with respect to all other Series of Parity Bonds Outstanding, other than Fixed Rate Bonds, Original Issue Discount Bonds or Capital Appreciation Bonds, specifically including but not limited to Balloon Maturity Bonds and Parity Bonds bearing variable rates of interest, an amount for any period equal to the amount which would have been payable for principal and interest on such Parity Bonds during such period computed on the assumption that the amount of Parity Bonds Outstanding as of the date of such computation would be amortized (i) in accordance with the mandatory redemption provisions, if any, set forth in the resolution authorizing the issuance of such Parity Bonds, or if mandatory redemption provisions are not provided, during a period commencing on the date of computation and ending on the date 25 years after the date of issuance to provide for essentially level annual debt service of principal and interest over such period and (ii) at an interest rate equal to the yield to maturity set forth in the 25-Revenue Bond Index published in the edition of *The Bond Buyer* (or comparable publication or such other similar index selected by the State with the approval of the Consultant, if applicable) selected by the State and published within ten days prior to the date of calculation or, if such calculation is being made in connection with the certificate required by Section 2.03 hereof, then within ten days of the date of such certificate; and

(d) with respect to Derivative Products, the State Payments required by contract to be paid to a Reciprocal Payor under any existing Derivative Product, offset by the Reciprocal Payments during the same period during the relevant period, on the assumption that if any such payment is not fixed at the time of execution of the Derivative Product, the amount of such payment will be calculated at the Estimated Average Derivative Rate prevailing during the remaining term of the Derivative Product.

With respect to any Parity Bonds payable in other than U. S. Dollars, Debt Service shall be calculated as provided in the resolution authorizing the issuance of such Parity Bonds.

Debt Service shall be net of any interest and/or principal funded out of Parity Bond proceeds or the proceeds of other funds or indebtedness.

Debt Service shall include reimbursement obligations to providers of Credit Facilities to the extent such reimbursement obligations are outstanding or as otherwise authorized in a resolution.

Default has the meaning given such term in Section 7.01 of this resolution

Derivative Facility means a letter of credit, an insurance policy, a surety bond or other credit enhancement device, given, issued or posted as security for obligations under one or more Derivative Products.

Derivative Payment Date means any date specified in the Derivative Product on which a State Payment is due and payable under the Derivative Product.

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(i) to the extent such variable rate payments have been made for a period of 12 months or more, the higher (in the case of variable rate State Payments), or the lower (in the case of variable rate Reciprocal Payments) of:

(A) the weighted average rate of interest applicable to such payments during the immediately preceding 12-month period; or

(B) the rate applicable under the related Derivative Product as of the date of determination; or

(ii) to the extent such variable rate payments have not been made for a period of 12 months or more, the most current actual rate used in calculating such variable rate payments; and

(b) as to any Derivative Products which have been authorized to be entered into by the State but have not yet been executed or become effective, the variable rate will be estimated by applying the variable rate formula specified in the contract to the most recently published rate for the floating rate index or other equivalent specified in the Derivative Product as the basis upon which the variable rate will be determined,

provided that, when the variable rate to be used in a Derivative Product is specified as the rate or rates applicable to one or more specified maturities of Parity Bonds, the variable rate or rates under the Derivative Product will be deemed to be the same rate or rates estimated for the specified maturity or maturities of the specified Parity Bonds, and provided further that, if two or more Derivative Products each specify the same index and formula for determining and setting their respective variable rates, on the same dates, and for the same periods of time, and with respect to identical derivative principal amounts, all such Derivative Products shall be deemed to have the same Estimated Average Derivative Rate, calculated in accordance with paragraphs (a)(i) and (a)(ii) of this definition and, where applicable, with respect to the first of such Derivative Products to become effective.

Fairbanks Airport means the Fairbanks International Airport.

Final Computation Date means the date that the last Series 1999 Bond is discharged. A Series 1999 Bond is discharged on the date that all amounts due under the terms of the Series 1999 Bond are actually and unconditionally due if cash is available at the place of payment, and no interest accrues with respect to the Series 1999 Bond after such date.

Fiscal Year means any 12-month period ending on June 30 or such other date as is authorized by statute and/or selected by AIAS.

Fitch means Fitch IBCA, Inc., organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Moody's) designated by the Designated Representative.

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Fixed Rate Bonds means those Parity Bonds other than Capital Appreciation Bonds. Original Issue Discount Bonds or Balloon Maturity Bonds issued under a resolution in which the rate of interest on such Parity Bonds is fixed and determinable through their final maturity or for a specified period of time. If so provided in the resolution authorizing their issuance, Parity Bonds may be deemed to be Fixed Rate Bonds for only a portion of their term.

Future Parity Bonds means any Series of Parity Bonds issued following the date of adoption of this resolution having a lien on Net Revenue equal in priority to the lien thereon of the Outstanding Parity Bonds and the Series 1999 Bonds.

Government Obligations means Permitted Investments described in (2) and (7) of the definition thereof.

Governor means the Governor of the State.

Independent Certified Public Accountant means any certified public accountant or firm of such accountants appointed and paid by the State, and who, or each of whom—

- (1) is in fact independent, and not under domination of the State;
- (2) does not have any substantial interest, direct or indirect, with the State; and
- (3) is not connected with the State as an officer or employee of the State, but who may be regularly retained to make annual or similar audits of any of the books of the State.

Installment Computation Date means the last day of the fifth Bond Year and of each succeeding fifth Bond Year.

Interest Account means the account of that name maintained in the Bond Fund pursuant to Section 3.02(a)(1) of this resolution.

Letter of Representations means the blanket issuer letter of representations from the State to DTC, dated August 12, 1997 or any similar written arrangement between the State and a successor depository.

Lieutenant Governor means the Lieutenant Governor of the State.

Maintenance and Operation Costs of the AIAS means the actual and necessary costs of maintaining and operating the AIAS, calculated on sound accounting principles, including (among other things) the reasonable expenses of management, repair and other expenses necessary to maintain the AIAS in good repair and working order, and reasonable amounts for administration, overhead, insurance and other similar costs, but excluding in all cases depreciation and obsolescence charges or reserves therefor, amortization of intangibles or other

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Net Revenues means all of the Revenues less the Maintenance and Operation Costs of the AIAS.

NRMSIR means a nationally recognized municipal securities information repository for purposes of the Rule.

Original Issue Discount Bonds means Parity Bonds which are sold at an initial public offering price of less than 95% of their face value and which are specifically designated as Original Issue Discount Bonds in the resolution authorizing their issuance.

Outstanding, when used as of any particular time with reference to Parity Bonds, means (subject to the provisions of Section 8.03) all Parity Bonds theretofore executed by the State and authenticated and delivered by the Registrar under the Bond Resolution except:

- (1) Parity Bonds theretofore cancelled by the Registrar or surrendered to the Registrar for cancellation;
- (2) Parity Bonds for the payment or redemption of which funds in the necessary amount shall have theretofore been deposited with the Registrar (whether upon or prior to the maturity or redemption date of such Parity Bonds), provided that, if such Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Registrar shall have been made for the giving of such notice;
- (3) Parity Bonds in lieu of or in substitution for which other Parity Bonds shall have been authenticated and delivered by the Registrar pursuant to Section 2.10; and
- (4) Parity Bonds that have been refunded, provided that the conditions set forth in Section 2.04 shall have been satisfied with respect to such Parity Bonds.

Outstanding Bond Resolution means Resolution No. 68-4 of the Committee and Supplemental Resolution No. 93-5 of the Committee.

Outstanding Parity Bonds means the (i) State of Alaska International Airports Refunding Revenue Bonds, Series H, issued in the initial principal amount of \$15,690,000 pursuant to Supplemental Resolution No. 93-5, under date of August 1, 1993, and currently outstanding in the aggregate principal amount of \$2,130,000; and (ii) State of Alaska International Airports Refunding Revenue Bonds, Series I, issued in the initial principal amount of \$34,755,000 pursuant to Supplemental Resolution No. 93-5, under date of August 1, 1993, and currently outstanding in the aggregate principal amount of \$29,120,000.

Owner or Parity Bondowner means any person who shall be the bearer of any outstanding Parity Bond registered to bearer or not registered, or the registered owner of any outstanding Parity Bond which shall at the time be registered other than to bearer. **Owner**, when all Parity Bonds of a Series are held by a securities depository, means the beneficial owner of the

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bookkeeping entries of a similar nature, capital additions, replacements, betterments, extensions or improvements to the AIAS and Debt Service.

Maximum Annual Debt Service means, with respect to any Outstanding Series of Parity Bonds, the highest remaining Annual Debt Service for such Series of Parity Bonds.

Moody's means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch or S&P) selected by the Designated Representative.

MSRB means the Municipal Securities Rulemaking Board or any successor to its functions.

1998 Authorization means Chapter 41, SLA 1998 approved by the Alaska State Legislature and the Governor of the State.

1998 Authorized Bonds means the \$179,175,000 of airport revenue bonds authorized by the 1998 Authorization to be issued.

1998 Note Fund means the special fund of the State designated as the "1998 Alaska International Airport Revenue Bond Anticipation Note Redemption Fund" authorized to be created by Section 5 of the 1998 Note Resolution.

1998 Note Resolution means Resolution No. 98-8 of the Committee.

1998 Notes means, collectively, the 1998A Notes and the 1998B Notes.

1998A Components means those portions of the Anchorage Airport Project identified on Exhibit B, attached to the 1998 Note Resolution.

1998A Notes means the Alaska International Airports System Revenue Bond Anticipation Notes, Series 1998A, issued pursuant to the 1998 Note Resolution.

1998B Components means those portions of the Anchorage Airport Project identified on Exhibit B, attached to the 1998 Note Resolution.

1998B Notes means the Alaska International Airports System Revenue Bond Anticipation Notes, Series 1998B (AMT), issued pursuant to the 1998 Note Resolution.

Net Proceeds, when used with reference to Series 1999A Bonds, means the principal amount of such Series 1999A Bonds, plus accrued interest and original issue premium, if any, and less original issue discount, if any, and proceeds, if any, deposited in the Series 1999A Reserve Account.

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Series in question determined under the rules of that securities depository, otherwise "Owner" means "owner of record on the Bond Register maintained by the Registrar." To the extent that the full payment of the interest on and principal of Parity Bonds of a Series is secured by a policy of Qualified Insurance, the issuer of the policy of Qualified Insurance shall be considered to be the Owner of all the Parity Bonds of that Series for purposes of exercising any rights with respect to supplements and amendments to this resolution.

Parity Bonds means the State of Alaska International Airports System Revenue Bonds issued and at any time outstanding pursuant to this resolution and shall include the Outstanding Parity Bonds and any Future Parity Bonds.

Payments means:

- (a) Amounts actually or constructively paid to acquire an investment.
- (b) In the case of an investment that is first allocated to the Series 1999 Bonds or becomes subject to a rebate requirement on a date after it is actually acquired, the value of the investment at the beginning of the Computation Period.
- (c) In the case of an investment that was allocated to the Series 1999 Bonds at the end of the preceding Computation Period, the value of that investment at the beginning of the Computation Period.
- (d) On the last day of each Bond Year during which there are amounts allocated to the Series 1999 Bonds and subject to the rebate requirements, and on the final maturity date of the Series 1999 Bonds, a computation credit of \$1,000.
- (e) Any Yield Reduction Payments.

Permitted Investment means and includes any of the following obligations, including those offered by the Registrar where applicable, to the extent the same are at the time legal for investment of funds of the State under applicable law:

- (1) Cash;
- (2) Direct obligations of (including obligations issued or held in book-entry form on the books of the United States Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;
- (3) Bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself).

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- (a) U.S. Export-Import Bank (Eximbank). Direct obligations or fully guaranteed certificates of beneficial ownership.
- (b) Farmers Home Administration (FmHA) (now known as the United States Department of Agriculture, Rural Development). Certificates of beneficial ownership.
- (c) Federal Financing Bank.
- (d) Federal Housing Administration Debentures (FHA)
- (e) General Services Administration. Participation certificates.
- (f) Government National Mortgage Association (GNMA or "Ginnie Mae").
- (g) United States Maritime Administration. Guaranteed Title XI financing.
- (h) United States Department of Housing and Urban Development (HUD). Project Notes, Local Authority Bonds, New Communities Debentures - United States Government guaranteed debentures, United States Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds.

(4) U.S. dollar denominated deposit accounts, time deposits and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 30 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.) Certificates of deposit must be secured at all times by collateral described in (2) and/or (3) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral;

(5) Commercial paper which is rated at the time of purchase in the single highest classification: "A-1+" by S&P and "P-1" by Moody's, and which have original maturities of not more than 270 days;

(6) (a) Investments in a money market funds having a rating of "AAAm", "AAAm-G" or "AA-m" or better by S&P or "Aaa", "Aa1" or "Aa2" if rated by Moody's or (b) securities or interests in any mutual fund or any open-ended or closed-ended investment company or investment trust registered under the Federal Investment Company Act of 1940, including those mutual funds or investment companies or trusts for which the Registrar or an affiliate of the Registrar serves as investment advisor, custodian, shareholder, servicing agent, transfer agent, administrator or distributor, if such mutual funds or investment companies or trusts are rated by Standard and Poor's and Moody's in its highest rating category;

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(c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated "AA" or better by S&P and "Aa" or better by Moody's;

(12) Pre-funded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

(a) The municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(b) The municipal obligations are secured by cash or United States Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(c) The principal of and interest on the United States Obligations (plus any cash in the escrow) have been verified by the report of Independent Certified Public Accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

(d) The cash or United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(e) No substitution of a United States Obligation shall be permitted except with another United States Obligation and upon delivery of a new Verification; and

(f) The cash or United States Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent;

(13) Repurchase agreements with any domestic bank with debt rated "AA" or better by S&P, or any foreign bank rated at least "AA" by S&P and "Aa" by Moody's, or with any broker-dealer with "retail customers" which has, or the parent company of which has, long-term debt rated at least "AA" by S&P and "Aa" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC); provided that such repurchase agreements meet the following requirements:

(a) The market value of the collateral is maintained for United States Treasury Securities (and other United States Obligations acceptable to Credit Facility Issuer) at levels acceptable to the Credit Facility Issuer;

(b) Failure to maintain the requisite collateral percentage will require the Registrar to liquidate the collateral;

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(7) (a) Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (c) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively, "United States Obligations");

(8) Federal Housing Administration debentures;

(9) The following obligations of government-sponsored agencies which are not backed by the full faith and credit of the U.S. government (stripped securities are only permitted if they have been stripped by the agency itself):

- Federal Home Loan Banks (FHL Banks) Senior debt obligations
- Federal Home Loan (FMLM) Participation Certificates; Senior debt obligations
- Federal National Mortgage Association (FNMA) Senior debt obligations
- Mortgage-backed securities
- Student Loan Marketing Association (SLMA) Senior debt obligations
- Resolution Funding Corporation (REFCORP) debt obligations;
- Farm Credit System Consolidated system-wide bonds and notes

(10) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million;

(11) State obligations, which include:

(a) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt for which is rated in one of the two highest rating categories by Moody's and by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated;

(b) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (a) above and rated in one of the two highest rating categories by S&P and by Moody's; and

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(c) The Registrar or a third party acting solely as agent for the Registrar has possession of the collateral or the collateral has been transferred to the Registrar in accordance with applicable state and federal laws (other than by means of entries on the repurchase agreement entity's books) at or before the time of payment;

(d) The repurchase agreement shall state and an opinion of counsel shall be rendered that the Registrar has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof and to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds (in the case of bearer securities, this means the trustee is in possession);

(e) The collateral is free and clear of any third-party liens or claims;

(f) An opinion is rendered that the repurchase agreement is a "repurchase agreement" as defined in the United States Bankruptcy Code;

(g) There is or will be a written agreement governing every repurchase agreement transaction;

(h) The Registrar represents that it has no knowledge of any fraud involved in the repurchase agreement transaction;

(i) The Registrar receives the opinion of counsel (which opinion shall be addressed to the State and the Registrar) that such repurchase agreement as legal, valid and binding and enforceable upon the provider in accordance with its terms, and that the repurchase agreement is a lawful investment for funds of the State;

(14) Collateralized guaranteed investment contracts meeting the criteria then required by the issuer of any Credit Facility then in effect with respect to Parity Bonds Outstanding; and

(15) State investment pools described in Section 3.03.

Private Person means any natural person engaged in a trade or business or any trust, estate, partnership, association, company or corporation.

Private Person Use means the use of property in a trade or business by a Private Person if such use is other than as a member of the general public. Private Person Use includes ownership of the property by the Private Person as well as other arrangements that transfer to the Private Person the actual or beneficial use of the property (such as a lease, management or incentive payment contract or other special arrangement) in such a manner as to set the Private Person apart from the general public. Use of property as a member of the general public includes attendance by the Private Person at municipal meetings or business rental of property to the Private Person on a day-to-day basis if the rental paid by such Private Person is the same as the rental paid by any Private Person who desires to rent the property. Use of property by nonprofit community groups or community recreational groups is not treated as Private Person Use if such

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use is incidental to the governmental uses of property, the property is made available for such use by all such community groups on an equal basis and such community groups are charged only a *de minimis* fee to cover custodial expenses.

Qualified Insurance shall mean any non-cancelable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies) which insurance company or companies, as of the time of issuance of such policy or surety bond, is rated in the highest rating category by any Rating Agency.

Qualified Letter of Credit means any irrevocable letter of credit issued by a financial institution, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is rated in one of the two highest long term Rating Categories by one or more of the Rating Agencies.

Rate Covenant means Net Revenues in each Fiscal Year during which Parity Bonds remain outstanding at least equal to 1.25 times the sum of the Aggregate Annual Debt Service plus any deposits required to be made during such Fiscal Year to establish or maintain the Reserve Requirement and the minimum balance required to be maintained the Repair and Replacement Reserve Account.

Rating Agencies means Moody's, S&P and Fitch or their respective successors and assigns and/or such other securities rating agency selected by the State to provide a rating with respect to a Series of Parity Bonds, or any portion thereof, which Rating Agency, as of the applicable date, shall have assigned a rating to any Series of Parity Bonds or any portion thereof.

Rating Category means a generic rating category of the Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Rebatable Arbitrage means the payment obligations of the State, with respect to the Series 1999 Bonds, calculated as provided in the Arbitrage Certificate and Section 3.09 of this resolution.

Receipts mean:

(a) Amounts actually or constructively received with respect to an investment such as earnings and return of principal.

(b) In the case of an investment that ceases to be allocated to the Series 1999 Bonds before its disposition or redemption date, the value of that investment on the date it ceases to be allocated to the Series 1999 Bonds.

(c) In the case of an investment that is held at the end of any Computation Period, the value of that investment at the end of the Computation Period.

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(2) income and revenue which may not legally be pledged for revenue bond debt service;

(3) passenger facility charges, head taxes, federal grants or substitutes therefor allocated to capital projects;

(4) payments made under Credit Facilities issued to pay or secure the payment of a particular Series of Parity Bonds;

(5) proceeds of insurance or condemnation proceeds other than business interruption insurance;

(6) income and revenue of the State separately pledged and used by it to pay and secure the payment of the principal of and interest on any issue or series of Special Revenue Bonds of the State issued to acquire, construct, equip, install or improve part or all of the particular facilities from which such income and revenue are derived, provided that nothing in this subparagraph (6) shall permit the withdrawal from Revenue of any income or revenue derived or to be derived by the State from any income producing facility which shall have been contributing to Revenue prior to the issuance of such Special Revenue Bonds; and

(7) income from investments irrevocably pledged to the payment of bonds issued or to be refunded under any refunding bond plan of the State.

Notwithstanding the foregoing, the State may elect to include other receipts (e.g., passenger facility charges) at any time as additional security or additional Revenue for any one or more series of obligations.

Rule means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

S&P means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., and its successors and assigns, except that if such corporation or division shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody's or Fitch) selected by the Designated Representative.

SEC means the Securities and Exchange Commission.

Series means an issue of Parity Bonds, identified by a separate Series designation.

Series 1999 Bonds means the Series 1999A Bonds and the Series 1999B Bonds.

Series 1999 Bond Insurer means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

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Reciprocal Payment means any payment to be made to, or for the benefit of, the State under a Derivative Product by the Reciprocal Payor.

Reciprocal Payor means any bank or corporation, partnership or other entity which is a party to a Derivative Product and which is obligated to make one or more Reciprocal Payments thereunder.

Registered Owner means the person named as the registered owner of a Parity Bond in the Bond Register.

Registered Owners' Trustee means the bank or trust company acting in such capacity pursuant to the terms of Section 7.01 hereof.

Registrar means Chase Manhattan Trust Company, National Association, Seattle, Washington, appointed by the Committee in Section 5.01 and acting as an independent Registrar with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in Section 5.01.

Repair and Replacement Reserve Account means the account of that name maintained in the Revenue Fund pursuant to Section 3.02(b) of this resolution.

Reserve Account means the account of that name maintained in the Bond Fund pursuant to Section 3.02(a)(3) of this resolution.

Reserve Account Requirement means the lowest of (i) Maximum Annual Debt Service with respect to all Parity Bonds; (ii) 125% of Average Annual Debt Service with respect to all Parity Bonds; and (iii) 10% of the initial principal amount of each Series of Parity Bonds then Outstanding.

Retirement Account means the account of that name maintained in the Bond Fund pursuant to Section 3.02(a)(2) of this resolution.

Revenue Fund means the special fund created by the Act and known as the "International Airports Revenue Fund" into which all Revenues are required to be deposited.

Revenues means all revenues, fees, charges and rentals derived by the State or State corporations from the ownership, lease, use and operation of the AJAS and all of the facilities and improvements thereof and facilities and improvements used in connection therewith. The term "Revenues" includes all income and profit derived from the investment of moneys in any funds or accounts created by the Act (except the Construction Fund) or established pursuant to the Bond Resolution; it does not include the proceeds of any State tax or license. If and to the extent permitted by the Act, the term Revenues shall exclude

(1) the proceeds of any borrowing by the State and the earnings thereon (other than earnings on proceeds deposited in the Reserve Account);

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Series 1999A Bond Insurance Policy means the financial guaranty insurance policy issued by the Series 1999 Bond Insurer insuring the payment when due of the principal of and interest on the Series 1999A Bonds as provided therein.

Series 1999A Bonds means the State of Alaska International Airports System Revenue Bonds, Series 1999A, the issuance and sale of which is authorized by this resolution.

Series 1999A Components means the components of the Anchorage Airport Project identified on Exhibit A attached hereto and shall include the 1998B Components.

Series 1999B Bond Insurance Policy means the municipal bond insurance policy issued by the Series 1999 Bond Insurer insuring the payment when due of the principal of and interest on the Series 1999B Bonds as provided therein.

Series 1999B Bonds means the State of Alaska International Airports System Revenue Bonds, Series 1999B, the issuance and sale of which is authorized by this resolution.

Series 1999B Components means all components of the Anchorage Airport Project that are not classified as 1999A Components and shall include the 1998A Components.

Series 1999 Surety Bond Issuer means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York.

SID means any public or private repository or entity designated by the State of Alaska as the state repository for the purposes of the Rule and recognized as such by the SEC. As of the date of adoption of this resolution, there is no such state repository.

Special Facilities means particular facilities situated on the properties owned by the AJAS and financed with the proceeds of Special Revenue Bonds.

Special Revenue Bonds means any issue or series of revenue bonds, revenue warrants or other revenue obligations of the State issued to directly or indirectly acquire (by purchase, lease or otherwise), construct, equip, install or improve part or all of Special Facilities and which are payable from and secured by the income and revenue derived from the use, lease or operations of such Special Facilities.

State means the State of Alaska.

State Payments means any payment, other than a termination payment or payment occurring as a result of default or expense payment, required to be made by or on behalf of the State under a Derivative Product and which is determined according to a formula set forth in a Derivative Product.

Supplemental Resolution means any resolution then in full force and effect which has been duly adopted by the Committee under the Act, or any act supplementary thereto or amendatory thereof, at a meeting of the Committee duly convened and held, at which a quorum

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was present and acted thereon, amendatory of or supplemental to this resolution; but only if and to the extent that such supplemental resolution is specifically authorized hereunder.

Surplus Revenues means any moneys remaining in the Revenue Fund, on the fifth business day of any month, after the requirements of subsections (b) and (c) of Section 3.02 have been satisfied.

Underwriters means, with respect to the Series 1999 Bonds, collectively, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Lehman Brothers Inc., PaineWebber Incorporated, Prudential Securities Incorporated and Salomon Smith Barney.

Yield Reduction Payments mean payments made to the United States with respect to the Series 1999 Bonds in the manner permitted by Internal Revenue Service regulations that reduce the yield on investments.

SECTION 1.02. Rules of Construction. The following rules of construction shall be applied to the Bond Resolution.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of the Bond Resolution, and the words "herein," "hereof," "hereunder" and other words of similar import refer to the Bond Resolution as a whole and not to any particular Article, Section or subdivision hereof.

(d) In the Bond Resolution, the words "hereof," "herein," "hereto," "hereby" and "hereunder" (except in the form of Parity Bond) refer to the entire Bond Resolution.

(e) Every "request," "order," "demand," "application," "appointment," "notice," "statement," "certificate," "consent," "direction" or similar action hereunder by the AIAS shall, unless the form thereof is specifically provided, be in writing signed by the Authorized AIAS Representative.

SECTION 1.03. Equal Security. In consideration of the acceptance of the Parity Bonds by those who shall hold the same from time to time, the Bond Resolution shall constitute a contract between the State and the owners from time to time of the Parity Bonds and interest coupons appertaining thereto, and the covenants and agreements herein set forth to be performed on behalf of the State shall be for the equal and proportionate benefit, security and protection of all owners of the Parity Bonds and interest coupons without preference, priority or distinction as

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SECTION 2.02. Issuance of Additional Series of Future Parity Bonds. The State may issue hereunder from time to time one or more Series of Parity Bonds by means of a supplemental resolution for any purpose of the State now or hereafter permitted by law, provided that the State shall comply with the terms and conditions for the issuance of Parity Bonds hereinafter set forth in this Section 2.02 and in Section 2.03 hereof.

Each Series of Parity Bonds shall be authorized by a supplemental resolution which shall, among other provisions, specify and provide for:

(a) the authorized principal amount, designation and Series of such Parity Bonds;

(b) the general purpose or purposes for which such Series of Parity Bonds is being issued, and the deposit, disbursement and application of the proceeds of the sale of the Parity Bonds of such Series;

(c) the date or dates, and the maturity date or dates, of the Parity Bonds of such Series, and the principal amount maturing on each maturity date;

(d) the interest rate or rates on the Parity Bonds of such Series (which may be a rate of zero) and the interest payment date or dates therefor, and whether such interest rate or rates shall be fixed, variable or a combination of both and, if necessary, the manner of determining such rate or rates;

(e) the circumstances, if any, under which the Parity Bonds of such Series will be deemed to be no longer Outstanding;

(f) the currency or currencies in which the Parity Bonds of such Series are payable;

(g) the denominations of, and the manner of dating, numbering, and, if necessary, authenticating, the Parity Bonds of such Series;

(h) the place or places of payment of the principal, redemption price, if any, or purchase price, if any, of and interest on, the Parity Bonds of such Series;

(i) the tender agent or tender agents, if any, for the Parity Bonds of such Series and the duties and obligations thereof;

(j) the remarketing agent or remarketing agents, if any, for the Parity Bonds of such Series and the duties and obligations thereof;

(k) the registrar or trustee, if any, for the Parity Bonds of such Series and the duties and obligations thereof;

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to security or otherwise of any of the Parity Bonds or interest coupons over any of the others by reason of the number or date thereof or the time of sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided in the Parity Bonds or in the Bond Resolution.

ARTICLE II PARITY BONDS; SERIES

SECTION 2.01. Authorization. Parity Bonds may be issued hereunder from time to time in order to obtain funds for purposes authorized by the Act. The maximum principal amount of Parity Bonds which may be issued hereunder is not limited; subject, however, to the right of the State, which is hereby reserved, to limit or restrict the aggregate principal amount of Parity Bonds which may at any time be issued and outstanding hereunder. The Parity Bonds are designated generally as the "State of Alaska International Airports System Revenue Bonds." The Parity Bonds may be issued in such Series as from time to time shall be authorized by or pursuant to the Act and established by the Committee, and the Bond Resolution constitutes a continuing agreement with the owners of all of the Parity Bonds issued or to be issued and at any time outstanding to secure the full and final payment of the principal of and premium, if any, and the interest on all Parity Bonds which may from time to time be executed and delivered hereunder, subject to the covenants, agreements, provisions and conditions herein contained.

Parity Bonds and the lien thereof created and established hereunder shall be obligations only of the special fund(s) established in the supplemental resolution authorizing their issuance. Parity Bonds shall be payable solely from and secured solely by Revenues as provided in Article III of this resolution; *provided, however*, that any Series of Parity Bonds also may be payable from and secured by a Credit Facility pledged specifically to or provided for that Series of Parity Bonds or may be issued or maintained in conjunction with a Derivative Product.

From and after the time of issuance and delivery of the Parity Bonds of each Series and so long thereafter as any of the same remain Outstanding, the State hereby irrevocably obligates and binds itself to set aside and pay into the Bond Fund out of Revenues, on or prior to the date on which the interest on or principal of and interest on the Parity Bonds shall become due, the amount necessary to pay such interest or principal and interest coming due on the Parity Bonds of such Series.

Said amounts so pledged to be paid into such special funds are hereby declared to be a prior lien and charge upon Revenues superior to all other charges of any kind or nature whatsoever except for charges equal in rank that may be made thereon to pay and secure the payment of the principal of and interest on other Series of Parity Bonds issued under authority of a supplemental resolution in accordance with the provisions of Sections 2.02 and 2.03 of this resolution.

Parity Bonds shall not in any manner or to any extent constitute general obligations of the State or of any political subdivision of the State of Alaska.

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(l) the form or forms of the Parity Bonds of such Series and any coupons attached thereto, which may include but shall not be limited to, registered form, bearer form with or without coupons, and book-entry form, and the methods, if necessary, for the registration, transfer and exchange of the Parity Bonds of such Series;

(m) the terms and conditions, if any, for the redemption of the Parity Bonds of such Series prior to maturity, including the redemption date or dates, the redemption price or prices and other applicable redemption terms;

(n) the terms and conditions, if any, for the purchase of the Parity Bonds of such Series upon any optional or mandatory tender for purchase prior to maturity, including the tender date or dates, the purchase date or dates, the purchase price or prices and other applicable terms;

(o) the manner of sale of the Parity Bonds of such Series, with or without a premium or a discount;

(p) if so determined by the State, the authorization of and any terms and conditions with respect to credit or liquidity support for the Parity Bonds of such Series and the pledge or provision of moneys, assets or security other than Revenues to or for the payment of the Parity Bonds of such Series or any portion thereof;

(q) a subaccount within the Reserve Account for the Parity Bonds of such Series and the application of moneys or securities therein; and

(r) any other provisions which the State deems necessary or desirable in connection with the Parity Bonds of such Series.

SECTION 2.03. Parity Bonds.

(a) Limitations on Issuance of Parity Bonds. All Parity Bonds authorized to be issued under Section 2.01 of this resolution shall have an equal lien and charge upon the Revenues upon fulfillment of the conditions of this resolution, whether at the time of authorization or issuance of such Parity Bonds. Except as provided in subsection (b) below, the State shall not issue any Series of Future Parity Bonds or incur any additional indebtedness with a parity lien or charge on Revenues (*i.e.*, on a parity of lien with Parity Bonds at the time Outstanding) unless:

(1) The issuance of the additional Series of Future Parity Bonds shall have been authorized by legislation amending or supplementing the Act.

(2) Such additional Series of Future Parity Bonds shall have been authorized to pay the costs of acquiring, equipping, constructing or installing additions and improvements to and extensions of the AIAS, facilities for the landing, parking, loading, storing, repairing, safety or utility of aircraft at the AIAS or passenger, freight or terminal facilities, including safety equipment and devices, at the AIAS, found to be necessary by the

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Commissioner of Transportation and Public Facilities and constituting a project authorized by the Act.

(3) The State shall be in compliance with all covenants set forth in the Bond Resolution or will be in compliance when the Future Parity Bonds are issued.

(4) There shall have been filed a certificate (prepared as described in subsection (c) or (d) below) demonstrating fulfillment of the Coverage Requirement.

(b) *No Certificate Required.* The certificate described in the foregoing subsection (a)(4) shall not be required as a condition to the issuance of Future Parity Bonds:

(1) if the Future Parity Bonds are for the purpose of refunding Outstanding Parity Bonds upon compliance with the provisions of Section 2.04 of this resolution; or

(2) if the Future Parity Bonds are being issued to pay costs of facilities for which Parity Bonds have been issued previously and the principal amount of such Future Parity Bonds being issued for completion purposes does not exceed an amount equal to an aggregate of 15% of the principal amount of Parity Bonds theretofore issued for such facilities and reasonably allocable to the facilities to be completed as shown in a written certificate of a Designated Representative, and there is delivered a Consultant's certificate stating that the nature and purpose of such facilities has not materially changed.

(c) *Certificate of the State Without A Consultant.* If required pursuant to the foregoing subsection (a)(4), a certificate may be delivered by the State without a Consultant if Net Revenues for the Base Period (confirmed by an independent auditor) conclusively demonstrate compliance with the Coverage Requirement.

(d) *Certificate of a Consultant.* Unless compliance with the requirements of subsection (a)(4) have been otherwise satisfied (as provided in (b) or (c) above), compliance with the Coverage Requirement of this Section 2.03 shall be demonstrated conclusively by a certificate of a Consultant.

In making the computations of Net Revenues for the purpose of certifying compliance with the Coverage Requirement of this Section 2.03, the Consultant shall use as a basis the Net Revenues for the Base Period. In making such computations the Consultant shall make such adjustments to Net Revenues as he deems reasonable.

SECTION 2.04. Refunding Parity Bonds. The State, by means of a supplemental resolution adopted in compliance with the provisions of Section 2.02 hereof, may issue refunding Future Parity Bonds hereunder as follows:

(a) *Refunding of Parity Bonds.* Future Parity Bonds may be issued at any time for the purpose of refunding (including by purchase) Parity Bonds, including amounts to pay principal thereof and redemption premium, if any, and interest thereon to the date of

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remain outstanding; except that out of Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by Section 3.02. Said pledge shall constitute a first lien on the Revenues for the payment of the Parity Bonds in accordance with the terms thereof.

All Revenues shall be deposited in the special fund created by the Act and known as the "International Airports Revenue Fund" (herein called the "Revenue Fund"), which shall be completely segregated and set apart from all other funds of the State and shall be maintained by the State so long as any of the Parity Bonds are Outstanding. All moneys at any time deposited in the Revenue Fund shall be held in trust for the benefit of the owners from time to time of the Parity Bonds and the coupons appertaining thereto, and shall be disbursed, allocated and applied solely for the uses and purposes set forth in Section 3.02.

SECTION 3.02. Allocation of Moneys in Revenue Fund. All moneys in the Revenue Fund shall be set aside in the State Treasury, or deposited by the State with the Registrar, as hereinafter specified, in the following order of priority in the following respective special funds and accounts, each of which the State hereby covenants to establish and maintain, and shall be held in trust by the State or by the Registrar in such funds and accounts and disbursed and applied only for the purposes hereinafter authorized:

(a) *Flow of Funds.* All Revenues shall be deposited in the Revenue Fund as collected. The Revenue Fund shall be held separate and apart from all other funds and accounts of the State Treasury, and the Revenues deposited therein shall be used only for the following purposes and in the following order of priority:

First, to be deposited in the Interest Account for the payment of interest on Parity Bonds;

Second, to be deposited in the Retirement Account for the payment of principal of and redemption premium for Parity Bonds;

Third, to be deposited in the Reserve Account to establish and maintain the Reserve Requirement;

Fourth, to be deposited in the Repair and Replacement Reserve Account in order to maintain the balance required therein by subsection (c) of this Section 3.02;

Fifth, to pay Maintenance and Operating Costs of the AIAS and all improvements and facilities thereof;

Sixth, to pay the costs of renewals, replacements and extraordinary repairs to the AIAS and all of the improvements and facilities thereof;

Seventh, to be deposited in any debt service fund for subordinate lien debt (to the extent permitted by the Act);

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redemption (or purchase) and the expenses of issuing such Future Parity Bonds to purchase or refund the same and of effecting such refunding upon delivery of a certificate as provided in Section 2.03 hereof. Such refunding Future Parity Bonds also may be issued without a certificate if the Maximum Annual Debt Service on all Parity Bonds to be Outstanding after the issuance of the refunding Future Parity Bonds shall not be greater than the Maximum Annual Debt Service were such refunding not to occur and total debt service has been reduced.

(b) *Refunding of Other Bonds.* Future Parity Bonds may be issued at any time for the purpose of refunding (including by purchase) any other bonds of the State (issued for the AIAS), including amounts to pay principal thereof and redemption premium, if any, and interest thereon to the date of redemption of such bonds (or purchase) and the expenses of issuing the Future Parity Bonds to purchase or refund the same and of effecting such refunding; provided, however, that prior to the issuance of such Future Parity Bonds the State must provide a certificate if required by Section 2.03 hereof.

(c) *Refunding of Parity Bonds within One Year of the Maturity Thereof.* Future Parity Bonds may be issued for the purpose of refunding (including by purchase) at any time within one year prior to maturity, any Parity Bonds for the payment of which sufficient Net Revenues or other moneys are not available, without the requirement of a certificate pursuant to Section 2.03 hereof.

SECTION 2.05. Validity of Parity Bonds. The validity of the authorization and issuance of the Parity Bonds shall not be affected in any way by any proceedings taken by the State for the acquisition or construction of the additions, improvements, extensions or facilities for which the Parity Bonds are issued or by any contracts made by the State in connection therewith. The recital contained in the Parity Bonds that the same are issued pursuant to the Act shall be conclusive evidence of their validity and of the regularity of their issuance in conformity with the Act.

SECTION 2.06. Special Facilities Bonds. The State hereby reserves the right to issue, from time to time, in one or more series, Special Facilities Bonds as herein provided to finance and refinance Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments arising from the use, operation, lease of Special Facilities or any source other than money provided by the State. In no event shall any Revenues or any other amounts held in any other fund or account maintained by the State as security for Parity Bonds or for the construction, operation, maintenance or repair of the AIAS be pledged to the payment of Special Facilities Bonds or to the payment of any lessee expense for maintenance and operation of Special Facilities.

ARTICLE III REVENUES

SECTION 3.01. Pledge of Revenues, Revenue Fund. All of the Revenues are hereby irrevocably pledged to the punctual payment of the principal of and interest on the Parity Bonds, and Revenues shall not be used for any other purpose while any of the Parity Bonds

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Eighth, to be deposited into any reserve account for subordinate lien debt (to the extent permitted by the Act);

Ninth, to redeem before their fixed maturities any and all revenue bonds issued for the purposes of the AIAS, to acquire, construct and install necessary additions and improvements to and extensions of and facilities for the AIAS and all of their facilities, and to pay any and all other costs relating to the ownership, use and operation of the AIAS; and

Tenth, for any other purpose permitted by the Act as it is then in effect including any amendments thereto which may hereafter be adopted. Specifically, to the extent permitted by the Act, Maintenance and Operating Costs shall be paid prior to principal and interest on Parity Bonds, and the payment of such Maintenance and Operating Costs shall be made as a first priority under this Section 3.02(a).

(b) *International Airports Revenue Bond Redemption Fund.* The special fund of the State created by the Act and known as the "International Airports Revenue Bond Redemption Fund" (herein called the "Bond Fund") shall be held by the Registrar, which shall establish accounts within said Fund designated as the Interest Account, the Retirement Account and the Reserve Account.

(1) Interest Account. The State shall deposit from the Revenue Fund with the Registrar in the Interest Account commencing with the month of issuance of the Series of Parity Bonds, in approximately equal monthly installments on or before the fifth business day of each month (provided that the initial monthly deposit may be made on such later date prior to the close of the month following the date of issuance of a Series of Parity Bonds), an amount equal to at least one-sixth of the aggregate amount of interest becoming due and payable on all outstanding Parity Bonds during the next ensuing six months, until the requisite amount of interest on all of the outstanding Parity Bonds is on deposit in such fund. Amounts previously deposited in the Interest Account from accrued interest received upon the sale of Parity Bonds or from transfers from the Construction Fund for interest during construction shall be credited against such installments, and the amount of any such installment to be deposited from the Revenue Fund shall be correspondingly reduced. No deposit need be made in the Interest Account if the amount contained therein is at least equal to the interest to become due in the next ensuing six months upon all of the Parity Bonds then Outstanding. Moneys in the Interest Account shall be used and withdrawn by the Registrar solely for the purpose of paying the interest on the Parity Bonds as it shall become due and payable (including accrued interest on any Parity Bonds purchased or redeemed prior to maturity pursuant to the Bond Resolution).

(2) Retirement Account. The State shall deposit from the Revenue Fund with the Registrar in the Retirement Account, in approximately equal monthly installments on or before the fifth business day of each month, following the date of delivery of any Parity Bonds, an amount at least equal to the sum of (A) one-twelfth of the aggregate yearly amount of principal becoming due and payable on the outstanding serial Parity Bonds during the next ensuing twelve months and (B) at least one-twelfth of any minimum sinking fund payment required on any minimum sinking fund payment date occurring within the next ensuing twelve months. (In the event that the first maturity date or the first minimum sinking fund payment date

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with respect to any Series of Parity Bonds shall be less than twelve months after the date of delivery of said Series of Parity Bonds, such deposits in the Retirement Account during the period between said date of delivery and said first maturity date or first minimum sinking fund payment date shall be in such monthly amounts, larger than those provided by the foregoing sentence, as may be necessary to assure that there will be on hand in the Retirement Account on said maturity date or minimum sinking fund payment date an amount sufficient to pay the principal or minimum sinking fund payment then due.) No deposit need be made in the Retirement Account if the amount contained therein is sufficient (i) to pay the principal of all serial Parity Bonds then outstanding maturing by their terms in the next ensuing twelve months and (ii) to provide any such minimum sinking fund payment required or any minimum sinking fund payment date occurring within the next ensuing twelve months. Moneys in the Retirement Account shall be used and withdrawn by the Registrar solely for the purpose of paying the principal of the Parity Bonds as they become due and payable or for the purchase or redemption of term Parity Bonds prior to their fixed maturity date.

(3) **Reserve Account.** A Reserve Account (the "Reserve Account") is hereby authorized to be created for the purpose of securing the payment of the principal of, premium, if any, and interest on all Parity Bonds.

The State hereby covenants and agrees that on the date of issuance of each Series of Parity Bonds, the State will assure that the amount on hand in the Reserve Account shall be sufficient to meet the Reserve Account Requirement.

The Reserve Account Requirement shall be maintained by deposits of cash, a Qualified Letter of Credit or Qualified Insurance, or a combination of the foregoing. To the extent that the State obtains a Qualified Letter of Credit or Qualified Insurance in substitution for cash or securities in the Reserve Account, all or a portion of the money on hand in the Reserve Account shall be transferred to the Retirement Account. In computing the amount on hand in the Reserve Account, Qualified Insurance and/or a Qualified Letter of Credit shall be valued at the face amount thereof, and all other obligations purchased as an investment of moneys therein shall be valued at market at least annually. The market value of securities then credited to the Reserve Account shall be determined and any deficiency in the Reserve Account shall be made up in equal installments within six months after the date of such valuation. As used herein, the term "cash" shall include U.S. currency, cash equivalents and evidences thereof, including demand deposits, certified or cashier's check; and the deposit to the Reserve Account may be satisfied by the transfer of qualified investments to such account.

If the balance on hand in the Reserve Account is sufficient to satisfy the Reserve Requirement, interest earnings shall be applied as provided in the following sentences. Whenever there is a sufficient amount in the Bond Fund, including all accounts therein, to pay the principal of, premium, if any, and interest on all Outstanding Parity Bonds, the money in the Reserve Account may be used to pay such principal, premium, if any, and interest. So long as the money left remaining on deposit in the Reserve Account is equal to the Reserve Requirement, money in the Reserve Account shall be transferred to the Retirement Account. The State also may transfer out of the Reserve Account any money required in order to prevent any Parity Bonds from becoming "arbitrage bonds" under the Code.

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If a deficiency in the Interest Account or the Retirement Account shall occur immediately prior to a debt service payment date with respect to Parity Bonds, such deficiency shall be made up from the Reserve Account by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the Reserve Account, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency with respect to the Parity Bonds, and if a deficiency still exists immediately prior to a debt service payment date and after the withdrawal of cash, the State shall then draw from any Qualified Letter of Credit or Qualified Insurance for the Parity Bonds in sufficient amount to make up the deficiency. Drawings under Qualified Insurance and Qualified Letters of Credit shall be made on a pro-rata basis (in proportion to the respective maximum coverage(s) available under Qualified Insurance and Qualified Letters of Credit). Such draw shall be made at such times and under such conditions as such Qualified Letter of Credit or such Qualified Insurance shall provide. Reimbursement shall be made over a twelve-month period to the issuer of any Qualified Letter of Credit or Qualified Insurance in accordance with the reimbursement agreement related thereto, and after making necessary provision for the payments required to be made in paragraphs First and Second of Section 3.02(a) of this resolution. If the State shall have failed to make any payment required to be made under such reimbursement agreement for the Parity Bonds, the issuer shall be entitled to exercise all remedies available at law or under this resolution; provided, however, that no acceleration of the Parity Bonds shall be permitted, and no remedies which adversely affect Registered Owners of the Parity Bonds shall be permitted. Any deficiency created in the Reserve Account by reason of any such withdrawal shall be made up from the next available Revenue but in no event later than within one year from Qualified Insurance or a Qualified Letter of Credit or out of Net Revenues (or out of other money on hand and legally available for such purpose) after making necessary provisions for the payments required to be made into the Interest Account and Retirement Account within such year.

In making the payments and credits to the Reserve Account required by this Section 3.02(b)(3), to the extent that the State has obtained Qualified Insurance or a Qualified Letter of Credit for specific amounts required pursuant to this section to be paid out of the Reserve Account such amounts so covered by Qualified Insurance or a Qualified Letter of Credit shall be credited against the amounts required to be maintained in the Reserve Account by this Section 3.02(b)(3) to the extent that such payments and credits to be made are to be made or insured by Qualified Insurance, or are to be made or guaranteed by a Qualified Letter of Credit. In the event of termination of a Qualified Letter of Credit or if the issuer of the Qualified Insurance or the Qualified Letter of Credit shall be insolvent or no longer in existence, the Reserve Requirement shall be satisfied (A) in equal monthly payments, within six months after the insolvency or incapacity, but no later than the date of cancellation or termination, with cash or with other Qualified Insurance or another Qualified Letter of Credit, or (B) in equal monthly payments, within six months after the insolvency of the issuer of a Qualified Letter of Credit or Qualified Insurance or termination of a Qualified Letter of Credit, out of Net Revenues (or out of other money on hand and legally available for such purpose) after making necessary provisions for the payments required to be made into the Interest Account and Retirement Account.

(c) **Repair and Replacement Reserve Account.** The State shall establish a separate account, within the Revenue Fund, designated the "Repair and Replacement Reserve

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Account," which shall be maintained so long as any of the Parity Bonds are outstanding. On or before the fifth business day of each month, the State shall transfer from the Revenue Fund to the Repair and Replacement Reserve Account an amount equal to one percent (1%) of the Revenues received during the month preceding the month last ended, until such time as the balance in the Repair and Replacement Reserve Account shall equal five hundred thousand dollars (\$500,000). Thereafter, the State shall transfer from the Revenue Fund to the Repair and Replacement Reserve Account, on or before the fifth business day of each month, such sums, up to one percent (1%) of the Revenues received during the month preceding the month last ended, as may be necessary to restore and maintain a balance of five hundred thousand dollars (\$500,000) in the Repair and Replacement Reserve Account. In the event that the amount in the Reserve Account shall at any time be reduced below the balance required to be maintained therein, the State shall transfer moneys from the Repair and Replacement Reserve Account to the Registrar for deposit in the Reserve Account to the extent necessary to eliminate such deficiency. Subject to the foregoing, moneys in the Repair and Replacement Reserve Account shall be used only to pay the costs of extraordinary repairs, renewals and replacements of facilities of the AIAS to the extent that (i) such costs are not provided for by the proceeds of insurance and (ii) Surplus Revenues are not available for the payment thereof.

(d) **Derivative Products.** The following shall be conditions precedent to the use of any Derivative Product:

(1) **Opinion of Bond Counsel.** The State shall obtain an opinion of its bond counsel on the due authorization and execution of such Derivative Product opining that the action proposed to be taken by the State is authorized or permitted by this resolution or the applicable provisions of any supplemental resolution authorizing Parity Bonds, as such resolutions may be amended or supplemented from time to time and will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on any Parity Bonds then Outstanding.

(2) **Payments.** Each Derivative Product shall set forth the manner in which the State Payments and Reciprocal Payments are to be calculated and a schedule of Derivative Payment Dates.

(3) **Supplemental Agreements to Govern Derivative Products.** Prior to entering into a Derivative Product, the Committee shall adopt a resolution, which shall:

(i) create and establish a Derivative Product Account or provide for some other way to account for the use of a Derivative Product; establish general provisions for the retention of Revenues in amounts sufficient to make, when due, State Payments;

(ii) establish general provisions for the rights of providers of Derivative Products or Derivative Facilities; and

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(iii) set forth such other matters as the Committee deems necessary or desirable in connection with the management of Derivative Products as are not clearly inconsistent with the provisions of this resolution.

Except as may be otherwise provided in the resolution establishing a Derivative Product Account, additional Parity Bonds may be delivered in connection with any Derivative Product. This resolution may be amended in the future to reflect the lien position and priority of any payments made in connection with a Derivative Product, provided, however, that the lien on Net Revenues of payments under Derivative Products must be subordinate to the lien thereon of Parity Bonds.

SECTION 3.03. Deposit and Investment of Moneys in Funds. All moneys held in the Construction Fund, the Revenue Fund and the Bond Fund and all accounts and subaccounts therein shall be held in time or demand deposits in any bank or trust company authorized to accept deposits of public funds (including the Registrar), and shall be secured at all times by such obligations as are required by law and to the fullest extent required by law, except such moneys which are at the time invested in accordance with this Section. All such moneys shall be invested in Permitted Investments. In addition, such money may be invested in any of the investment pools operated by the Department of Revenue. Each investment (other than investments in the State investment pools) shall mature or in the case of investment pool funds shall be available at such times and in such amounts as shall be required to provide money to make the payments required to be made from said accounts and funds. If money is held by the Registrar, the Registrar shall not invest money in the absence of written direction to the Registrar by a Designated Representative from the Department of Revenue. Moneys in the Repair and Replacement Reserve Account shall be invested only in Permitted Investments maturing within five years from the date of investment. All interest or other income received on any moneys so invested shall be deposited in and become a part of the respective fund or account from which such investment was made, except as shall be necessary to comply with the tax covenants set forth in Section 8.09 or otherwise to comply with the requirements of the Code. The Registrar shall not be accountable for any depreciation in the value of the investments made in accordance with the provisions of this Section, or for any losses incurred upon any authorized disposition thereof.

SECTION 3.04. Certification by Committee of Amounts Required. The Committee shall, on or before December 31 of each year, commencing with the year in which the Parity Bonds of Series are issued, certify to the Commissioner of the Department of Revenue and the Commissioner of the Department of Transportation and Public Facilities the amounts required in the next ensuing calendar year by the Bond Resolution to be paid out of the Revenue Fund into the Bond Fund (including the Interest Account, the Retirement Account and the Reserve Account) and to be paid into the Repair and Replacement Reserve Account. At the same time the Committee shall also certify to said Commissioners the last date or dates upon which such payments may be made.

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ARTICLE IV
COVENANTS OF THE STATE

SECTION 4.01. Punctual Payment. The State shall punctually pay or cause to be paid the principal and interest to become due in respect of all the Parity Bonds, in strict conformity with the terms of the Parity Bonds and of the Bond Resolution, and it shall faithfully observe and perform all of the conditions, covenants and requirements of the Bond Resolution and of the Parity Bonds.

SECTION 4.02. Against Sale or Other Disposition of AIAS. The State shall not sell, mortgage or otherwise dispose of the AIAS or any part thereof essential to the proper operation of the airports or to the maintenance of the Revenues. The State shall not enter into any lease or agreement which impairs the operation of the AIAS or any part thereof necessary to secure adequate Revenues for the payment of the principal of and interest on the Parity Bonds, or which would otherwise impair the rights of the Parity Bondowners with respect to the Revenues or the operation of the AIAS.

SECTION 4.03. Maintenance and Operation of AIAS. The State shall maintain and preserve the airports in good repair at all times from the Revenues and any other funds available for such purposes, and shall operate the AIAS in an efficient and economical manner.

SECTION 4.04. Payment of Claims. The State shall pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Revenues or any part thereof, or upon any funds in the hands of the Registrar, prior or superior to the lien of the Parity Bonds, or which might impair the security of the Parity Bonds.

SECTION 4.05. Insurance.

(a) The State shall procure, and maintain at all times while any of the Parity Bonds shall be outstanding, fire and extended coverage insurance on all buildings constituting any part of the AIAS, in amounts sufficient to provide for the recovery of not less than eighty percent (80%) of the replacement cost of any building damaged by the perils insured against. Any proceeds of any such insurance shall be applied to the repair, reconstruction or other improvement of the AIAS.

(b) The State shall procure, and maintain at all times while any of the Parity Bonds shall be outstanding, public liability insurance, with limits of not less than five million dollars (\$5,000,000 combined single limit), to protect the State from claims for bodily injury or death which may arise from the operation of the AIAS.

(c) Any or all such insurance may be provided as a part of the State's comprehensive self insurance and excess insurance and need not be separately provided for the AIAS.

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(b) If less than all of the AIAS shall have been taken in such eminent domain proceedings, and if the Committee determines that such eminent domain proceedings have materially affected the operation of the airports or the ability of the State to meet any of its obligations hereunder, the State shall deposit such proceeds with the Registrar in the Retirement Account and they shall be applied to the purchase or redemption of Parity Bonds.

(c) (1) If all of the AIAS shall have been taken in such eminent domain proceedings and if such proceeds, together with any other moneys then available to the Registrar for the purpose, are sufficient to provide for the payment of the entire amount of principal then due or to become due upon the Parity Bonds, together with the interest thereon and any redemption premiums thereon, so as to enable the State to retire all of the Parity Bonds then outstanding, whether by call and redemption at the then current redemption prices or by payment at maturity or partly by payment at maturity and partly by call and redemption, the Registrar shall apply such proceeds to such retirement.

(2) If all of the AIAS shall have been taken in such eminent domain proceedings and if such proceeds, together with any other moneys then available to the Registrar for the purpose, are insufficient to provide moneys for the purposes specified in paragraph (1) of this subsection (c), the Registrar shall apply such proceeds in accordance with the provisions of Section 3.02 so far as the same may be applicable.

SECTION 4.10. Rate Covenant. The Commissioner of Transportation and Public Facilities shall fix and collect such fees, charges and rentals to be derived by the State from the ownership, lease, use and operation of the AIAS as will provide Net Revenues in each Fiscal Year at least equal to the Rate Covenant. If the Net Revenues in any Fiscal Year are less than required to fulfill the Rate Covenant, then the Commissioner of Transportation and Public Facilities may retain a Consultant to make recommendations as to operations and the revision of schedules of rentals, tariffs, rates, fees and charges; and upon receiving such recommendations or giving reasonable opportunity for such recommendations to be made, the Commissioner of Transportation and Public Facilities, on the basis of such recommendations and other available information, will establish rentals, tariffs, rates, fees and charges for services and operations which will be necessary to meet the Rate Covenant in the Fiscal Year during which such adjustments are made. If the Commissioner of Transportation and Public Facilities has taken the steps set forth in this paragraph, there shall be no default under this Section 4.10 or Default under the provisions of Section 7.01 of this resolution during such Fiscal Year, as long as the AIAS meets the Rate Covenant in the next upcoming Fiscal Year.

SECTION 4.11. Further Assurances. The State and the Committee shall adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Bond Resolution, and for the better assuring and confirming unto the owners of the Parity Bonds of the rights and benefits provided in the Bond Resolution.

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(d) The State shall deliver to the Registrar in the month of July of each year a schedule setting forth the self insurance program and the insurance policies then outstanding and in force upon or in connection with the AIAS, including the names of the insurers which have issued the policies, the amounts thereof and the property and risks covered thereby, which shall be open to inspection by any interested Parity Bondowner.

SECTION 4.06. Books and Accounts; Financial Statements.

(a) The State shall keep proper books of record and accounts of the AIAS, separate from all other records and accounts of the State, in which complete and correct entries shall be made of all transactions relating to the AIAS. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Registrar or of the owners of not less than ten percent (10%) of the principal amount of the Parity Bonds then outstanding, or their representatives authorized in writing.

(b) The State shall cause to be prepared and placed on file with the Registrar annually within 180 days after the close of each Fiscal Year so long as any of the Parity Bonds are outstanding, a detailed statement for the preceding Fiscal Year showing the Revenues, disbursements from the Revenues and expenditures applicable to the AIAS, together with a detailed balance sheet reflecting the balances in all funds relating to the AIAS held by the State or the Registrar as of the end of such Fiscal Year, which statement and balance sheet shall be accompanied by an opinion in writing of an Independent Certified Public Accountant.

SECTION 4.07. Protection of Security and Rights of Parity Bondowners. The State shall preserve and protect the security of the Parity Bonds and the rights of the Parity Bondowners, and shall warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any of the Parity Bonds by the State, the Parity Bonds and coupons appertaining thereto shall be incontestable by the State.

SECTION 4.08. Maintenance of Registrar. The State shall appoint and at all times have a paying agent, authenticating agent, transfer agent and registrar for the purpose of paying the principal of, and the interest on, the Parity Bonds, authenticating Parity Bonds, transferring ownership therein and maintaining a Bond Register for Parity Bonds held in registered form. The Registrar is initially appointed as the Registrar for all Parity Bonds hereunder.

SECTION 4.09. Eminent Domain Proceeds. If all or any part of the AIAS shall be taken from State ownership and airport use by eminent domain proceedings, the net proceeds realized by the State from such taking shall be held in a special fund in trust and shall be applied and disbursed as follows:

(a) If the Committee determines that such eminent domain proceedings have not materially affected the operation of the airports or the ability of the State to meet any of its obligations hereunder, such proceeds shall be treated as Revenues and shall be applied as provided in Section 3.02.

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ARTICLE V
THE REGISTRAR

SECTION 5.01. Appointment of Registrar. The Committee has found it reasonably necessary to select a Registrar for the owners of the Parity Bonds, for the safeguarding and disbursement of the moneys in the Bond Fund, and for such duties with respect to the authentication, delivery and registration of the Parity Bonds as the Committee has determined and set forth in the Bond Resolution. Chase Manhattan Trust Company, National Association is hereby appointed Registrar for the Parity Bondowners, for the safeguarding and disbursement of the moneys in the Bond Fund (including the Interest Account, the Retirement Account and the Reserve Account), and for the duties with respect to the authentication, delivery and registration of the Parity Bonds herein set forth.

The Committee may remove the Registrar initially appointed, and any successor thereto, and may appoint a successor or successors thereto; but any such successor shall be a bank or trust company, having a combined capital and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any such supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Registrar may at any time resign by giving written notice to the State and by giving notice to the Parity Bondowners. Upon receiving such notice of resignation, the Committee shall promptly appoint a successor Registrar by an instrument in writing. Any resignation or removal of the Registrar and appointment of a successor Registrar shall become effective upon acceptance of appointment by the successor Registrar. The fees of the Registrar shall be as set forth in a written agreement between the Debt Manager and the Registrar.

SECTION 5.02. Liability of Agents. The recitals of facts, covenants and agreements herein and in the Parity Bonds contained shall be taken as statements, covenants and agreement of the State, and the Registrar shall not assume any responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Bond Resolution or of the Parity Bonds or coupons, or shall incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Parity Bonds assigned to or imposed upon it. The Registrar shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

SECTION 5.03. Notice to Agents. The Registrar shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Parity Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Registrar may consult with counsel, who may be of counsel to the State, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

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The Registrar shall not be bound to recognize any person as the owner of a Parity Bond unless and until such Parity Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under this resolution the Registrar shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Registrar, be deemed to be conclusively proved and established by a certificate of the Committee, and such certificate shall be full warrant to the Registrar for any action taken or suffered under the provisions of the Bond Resolution upon the faith thereof, but in its discretion the Registrar may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

ARTICLE VI

MODIFICATION OR AMENDMENT OF THE BOND RESOLUTION

SECTION 6.01. Amendments Permitted

(a) This resolution and the right and obligations of the State and of the owners of the Parity Bonds and the coupons may be modified or amended at any time by a supplemental resolution, with the written consent of the owners of at least two-thirds of the aggregate principal amount of Parity Bonds then Outstanding, exclusive of Parity Bonds disqualified as provided in Section 6.03. No such modification or amendment shall (1) extend the maturity of any Parity Bond or of any interest installment thereon, or reduce the interest rate thereon, or reduce the principal thereof or any premium payable on the redemption thereof, without the express consent of the owner of such Parity Bond, or (2) reduce the percentage of Parity Bonds required for written consent to an amendment or modification, or (3) modify any of the rights or obligations of the Registrar without its written assent thereto.

(b) This resolution and the rights and obligations of the State and of the owners of the Parity Bonds and the coupons may also be modified or amended at any time by a supplemental resolution, without the consent of any Parity Bondowners, but only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the State in the Bond Resolution contained, other covenants and agreements thereafter to be observed, or to surrender any right or power herein reserved to or conferred upon the State;

(2) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Bond Resolution, or in regard to questions arising under the Bond Resolution or in any other respect as the Committee may deem necessary or desirable and not inconsistent with the Bond Resolution, and which shall not materially adversely affect the interests of the owners of the Parity Bonds; and

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owner by filing such revocation with the Registrar prior to the date when the notice hereinafter in this Section provided for has been published.

After the owners of the required percentage of Parity Bonds shall have filed their consents to the supplemental resolution, the State shall mail and publish a notice of the Parity Bondowners in the manner hereinbefore provided in this Section for the mailing of the supplemental resolution and publication of the notice of adoption thereof, stating in substance that the supplemental resolution has been consented to by the owners of the required percentage of Parity Bonds and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of the supplemental resolution or consents thereto). Proof of the publication of such notice shall be filed with the Registrar. A record, consisting of the papers required by this Section to be filed with the Registrar, shall be proof of the matters therein stated until the contrary is proved. The supplemental resolution shall become effective upon the filing with the Registrar of proof of the mailing or publication of such last-mentioned notice, and the supplemental resolution shall be deemed conclusively binding (except as otherwise specifically provided in this Article) upon the State and the owners of all Parity Bonds and coupons upon such filing or if notice was required to be made by publication as provided above, at the expiration of sixty days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty-day period.

SECTION 6.03. Disqualified Parity Bonds. Parity Bonds owned or held by or for the account of the State or any agency or instrumentality thereof shall not be deemed outstanding for the purpose of any consent or any calculation of outstanding Parity Bonds provided for in this Article VI, and shall not be entitled to consent to or take any action provided for in this Article VI. The Registrar may adopt appropriate regulations to require each Parity Bondowner, before his consent provided for in this Article VI shall be deemed effective, to reveal if the Parity Bonds as to which consent is given are disqualified as provided in this Section.

SECTION 6.04. Consent of Credit Facility Issuer. If and to the extent that any Series of Parity Bonds is secured by a Credit Facility that assures the full payment of all principal and interest on such Series, then, for so long as the Credit Facility Issuer is not then in default of its obligations under such Credit Facility, the adoption of any supplemental resolution amending this resolution shall be subject to the prior written consent of the Credit Facility Issuer. In addition, the Credit Facility Issuer shall be considered as the owner of such Series of Parity Bonds for all purposes requiring the consent of registered and beneficial owners, and neither the registered nor the beneficial owners of Parity Bonds shall have any right to receive notice of any amendment nor shall such owner have any right to consent or object to the adoption of a supplemental resolution.

SECTION 6.05. Effect of Supplemental Resolution. From and after the time any supplemental resolution becomes effective pursuant to Section 6.01(b) or Section 6.02, the Bond Resolution shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations under the Bond Resolution of the State, the Registrar and all owners of outstanding Parity Bonds (and of interest coupons appertaining thereto, whether attached thereto or detached therefrom) shall thereafter be determined, exercised and enforced

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(3) to provide for the issuance of an additional Series of Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of Article II.

The provisions of Sections 6.02 and 6.03 shall not apply to any supplemental resolution adopted pursuant to this subsection (b), and such a supplemental resolution shall become effective upon its adoption.

Notwithstanding anything in this resolution to the contrary, the adoption by the Committee of a supplemental resolution authorizing the issuance of Future Parity Bonds shall not be considered an additional resolution for purposes of this Article VI, and the Committee may approve such supplemental resolution in accordance with Sections 2.02 and 2.03 hereof without the requirement of notice to or consent of any party (unless otherwise required by Section 2.02 and 2.03 or by the terms of any other contractual arrangement of the State).

SECTION 6.02. Procedure for Amendment with Written Consent of Parity Bondowners. The Committee may at any time adopt a supplemental resolution amending the provisions of the Parity Bonds or of the Bond Resolution, to the extent that such amendment is permitted by Section 6.01, to take effect when and as provided in this Section. A copy of such supplemental resolution, together with a request to Parity Bondowners for their consent thereto, shall be mailed by the State to each registered owner of Parity Bonds outstanding and to each owner of any such Parity Bonds payable to bearer who shall have filed with the Registrar an address for notices, but failure to mail copies of such supplemental resolution and request shall not affect the validity of the supplemental resolution when assented to as in this Section provided. Notice of the fact of the adoption of such supplemental resolution (stating that a copy thereof is available for inspection at the principal office of the Registrar) shall be provided to all owners of Parity Bonds then held in book-entry only form in accordance with the operational procedures then in effect at DTC and with respect to Parity Bonds then held in registered form, but not then held in book-entry only form, such notice shall be given by U.S. Mail, postage prepaid to the owner of each Parity Bond then affected at the address shown for such owner on the Bond Register and with respect to Parity Bonds held in coupon or bearer form, notice of such amendment shall be published at least once a week for two successive weeks in a financial newspaper or journal, printed in the English language and customarily published on each business day, of general circulation in San Francisco, California, and in a similar newspaper or journal of general circulation in New York, New York, the first publication in each case to be made not more than fifteen days after the date of adoption of such resolution.

Such supplemental resolution shall not become effective unless there shall be filed with the Registrar the written consents of the owners of at least two-thirds of the aggregate principal amount of the Parity Bonds then Outstanding (exclusive of Parity Bonds disqualified as provided in Section 6.03) and a notice shall have been published as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Parity Bonds for which such consent is given, which proof shall be such as is permitted by Section 8.05. Any such consent shall be binding upon the owner of the Parity Bonds giving such consent and on any subsequent owner (whether or not such subsequent owner has notice thereof) unless such consent is revoked in writing by the owner giving such consent or a subsequent

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hereunder subject in all respects to such modification and amendments, and all the terms and conditions of any such supplemental resolution shall be deemed to be part of the terms and conditions of the Bond Resolution for any and all purposes.

SECTION 6.06. Endorsement or Replacement of Parity Bonds Issued After Amendments. The Committee may determine that Parity Bonds issued and delivered after the effective date of any action taken as provided in this Article VI shall bear a notation, by endorsement or otherwise, in form approved by the Committee, as to such action. In that case, upon demand of the owner of any Parity Bond outstanding at such effective date and presentation of his Parity Bond for the purpose at the principal office of the Registrar or at such other office as the Committee may select and designate for that purpose, a suitable notation shall be made on such Parity Bond. The Committee may determine that new Parity Bonds, so modified as in the opinion of the Committee is necessary to conform to such Parity Bondowners' action, shall be prepared, executed and delivered. In that case, upon demand of the owner of any Parity Bond then outstanding, such new Parity Bonds shall be exchanged at the principal office of the Registrar, without cost to any Parity Bondowner, for Parity Bonds then outstanding, upon surrender of such Parity Bonds with all unmaturing coupons appertaining thereto.

ARTICLE VII DEFAULT AND REMEDIES OF BONDOWNERS

SECTION 7.01. Default. The Committee hereby finds and determines that the failure or refusal of the State or any of its officers to perform the covenants and obligations of this resolution will endanger the operation of the AIAS and the application of Revenue and such other money, funds and securities to the purposes herein set forth. Any one or more of the following shall constitute a Default under this resolution:

(a) The State shall fail to make payment of the principal of any Parity Bond when the same shall become due and payable;

(b) The State shall fail to make payments of any installment of interest on any Parity Bond when the same shall become due and payable;

(c) The State shall default in the observance or performance of any other covenants, conditions, or agreements on the part of the State contained in this resolution, and such default shall have continued for a period of (1) 30 days after notice thereof has been delivered to the Committee or (2) the next upcoming Fiscal Year if the Commissioner of Transportation of Public Facilities has taken the steps set forth in Section 4.10 of this resolution but the conditions of that paragraph have not been met.

Subject to provisions of the preceding paragraph, upon the occurrence of a Default and so long as such Default shall not have been remedied, a Registered Owners' Trustee may be appointed for the Parity Bonds of the Series then in Default by the owners of 51% in principal amount of the Outstanding Parity Bonds of such Series by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners or by their attorneys-in-fact duly authorized and delivered to such Registered Owners' Trustee, notification

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thereof being given to the State. Any Registered Owners' Trustee appointed under the provisions of this Section shall be a bank or trust company organized under the laws of a state or a national banking association. The fees and expenses of a Registered Owners' Trustee shall be borne by the Registered Owners and not by the State. The bank or trust company acting as a Registered Owners' Trustee may be removed at any time, and a successor Registered Owners' Trustee may be appointed by the owners of a majority in principal amount of the Parity Bonds then Outstanding of the Series in Default, by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners or by their attorneys-in-fact duly authorized.

The Registered Owners' Trustee appointed in the manner herein provided, and each successor thereto, is hereby declared to be a trustee for the owners of all the Parity Bonds for which such appointment is made and is empowered to exercise all the rights and powers herein conferred on the Registered Owners' Trustee.

A Registered Owners' Trustee may upon the happening of a Default and during the continuation thereof, take such steps and institute such suits, actions or other proceedings in its own name, or as trustee, all as it may deem appropriate for the protection and enforcement of the rights of Registered Owners to collect any amounts due and owing the State with respect to the AIAS, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this resolution.

Any action, suit or other proceedings instituted by a Registered Owners' Trustee hereunder shall be brought in its name as trustee for the Registered Owners and all such rights of action upon or under any of the Parity Bonds of the Series then in Default or the provisions of this resolution may be enforced by a Registered Owners' Trustee without the possession of any of said Series of Parity Bonds, and without the production of the same at any trial or proceedings relating thereto except where otherwise required by law, and the respective owners of said Parity Bonds by taking and holding the same, shall be conclusively deemed irrevocably to appoint a Registered Owners' Trustee the true and lawful trustee to the respective owners of said Series of Parity Bonds then in Default, with authority to institute any such action, suit or proceeding, to receive as trustee and deposit in trust any sums that become distributable on account of said Series of Parity Bonds; to execute any paper or documents for the receipt of such moneys, and to do all acts with respect thereto that the Registered Owner himself might have done in person. Nothing herein contained shall be deemed to authorize or empower any Registered Owners' Trustee to consent to accept or adopt, on behalf of any owner of said Parity Bonds then in Default, any plan of reorganization or adjustment affecting the said Series of Parity Bonds or any right of any owner thereof, or to authorize or empower the Registered Owners' Trustee to vote the claims of the owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the State shall be entitled to participate or enter an appearance.

No owner of any one or more of the Series of Parity Bonds in Default shall have any right to institute any action, suit or proceedings at law or in equity for the enforcement of the same, unless Default shall have happened and be continuing, and unless no Registered Owners' Trustee has been appointed as herein provided, but any remedy herein authorized to be exercised by a

SECTION 8.02. Bond Details.

(a) *Series 1999A Bonds.* The Series 1999A Bonds shall be designated as "State of Alaska International Airports System Revenue Bonds, Series 1999A," shall be registered as to both principal and interest and shall be numbered separately in the manner and with any additional designation as the Registrar deems necessary for purposes of identification, shall be dated January 15, 1999, shall be in the denomination of \$5,000 each or any integral multiple of \$5,000 (provided that no Series 1999A Bonds shall represent more than one maturity), shall bear interest from January 15, 1999 until the Series 1999A Bond bearing such interest has been paid or its payment duly provided for, payable semiannually on the first days of each April and October, beginning on October 1, 1999, and shall mature on the following dates in the following years in the following amounts and bear interest at the following rates per annum:

Maturity Years (October 1)	Principal Amounts	Interest Rates
2001	\$ 2,230,000	4.000%
2002	4,040,000	4.000
2003	4,200,000	4.000
2004	4,370,000	4.000
2005	4,545,000	4.100
2006	40,000	4.150
2006	4,690,000	4.250
2007	4,955,000	4.250
2008	255,000	4.300
2008	4,885,000	5.000
2009	100,000	4.375
2009	5,300,000	5.000
2010	170,000	4.450
2010	5,495,000	5.125
2011	50,000	4.550
2011	5,905,000	5.125
2012	145,000	4.650
2012	6,115,000	5.125
2013	275,000	4.700
2013	6,305,000	5.125
2014	100,000	4.750
2014	6,815,000	5.125
2015	620,000	4.800
2015	6,650,000	5.125
2019	32,935,000	5.000
2024	51,330,000	5.000

Registered Owners' Trustee may be exercised individually by any Registered Owner, in his own name and on his own behalf or for the benefit of all Registered Owners, in the event no Registered Owners' Trustee has been appointed, or with the consent of the Registered Owners' Trustee if such Registered Owners' Trustee has been appointed; provided however, that nothing in this resolution or in the Parity Bonds shall affect or impair the obligation of the State which is absolute and unconditional, to pay from Revenue the principal of and interest on said Parity Bonds to the respective owners thereof at the respective due dates therein specified, or affect or impair the right of action, which is absolute and unconditional, of such owners to enforce such payments.

The remedies herein conferred upon or reserved to the owners of the Parity Bonds and to a Registered Owners' Trustee are not intended to be exclusive of any other remedy or remedies, excepting only acceleration of debt and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. The privileges herein granted shall be exercised from time to time and continued so long as and as often as the occasion therefor may arise and no waiver of any default hereunder, whether by a Registered Owners' Trustee or by the owners of Parity Bonds, shall extend to or shall affect any subsequent default or shall impair any rights or remedies consequent thereon. No delay or omission of the Registered Owners or of a Registered Owners' Trustee to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein.

Upon any such waiver, such Default shall cease to exist, and any Default arising therefrom shall be deemed to have been cured, for every purpose of this resolution; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

ARTICLE VIII
SERIES 1999 BONDS

SECTION 8.01. Authorization of Series 1999 Bonds.

(a) *Series 1999A Bonds.* The State shall issue the Series 1999A Bonds as authorized by the Act, in the principal amount of \$162,500,000 for the purpose of providing part of the funds necessary to (i) pay the costs of the Series 1999A Components, (ii) pay and redeem the 1998B Notes, (iii) to pay the costs of purchasing a surety bond to fund a portion of the Reserve Requirement, and (iv) pay all costs incidental to the foregoing and to the issuance of the Series 1999A Bonds including the portion of the Series 1999A Bond Insurance Policy premium for the Series 1999A Bonds.

(b) *Series 1999B Bonds.* The State shall issue the Series 1999B Bonds, as authorized by the Act, in the principal amount of \$16,675,000 for the purpose of providing part of the funds necessary to (i) pay the costs of the Series 1999B Components, (ii) pay and redeem the 1998A Notes, (iii) to pay the costs of purchasing a surety bond to fund a portion of the Reserve Requirement, and (iv) pay all costs incidental to the foregoing and to the issuance of the Series 1999B Bonds including the portion of the Series 1999B Bond Insurance Policy premium for the Series 1999B Bonds.

(b) *Series 1999B Bonds.* The Series 1999B Bonds shall be designated as "State of Alaska International Airports System Revenue Bonds, Series 1999B," shall be registered as to both principal and interest and shall be numbered separately in the manner and with any additional designation as the Registrar deems necessary for purposes of identification, shall be dated January 15, 1999, shall be in the denomination of \$5,000 each or any integral multiple of \$5,000 (provided that no Series 1999B Bonds shall represent more than one maturity), shall bear interest from January 15, 1999 until the Series 1999B Bond bearing such interest has been paid or its payment duly provided for, payable semiannually on the first days of each April and October, beginning on October 1, 1999, and shall mature on the following dates in the following years in the following amounts and bear interest at the following rates per annum:

Maturity Years (October 1)	Principal Amounts	Interest Rates
2001	\$ 240,000	4.000%
2002	435,000	4.000
2003	450,000	4.000
2004	470,000	4.000
2005	485,000	4.000
2006	505,000	4.000
2007	525,000	4.000
2008	550,000	4.000
2009	570,000	4.125
2010	595,000	4.200
2011	620,000	4.300
2012	645,000	4.400
2013	675,000	4.500
2014	705,000	4.500
2015	735,000	4.600
2016	85,000	4.875
2019	3,225,000	5.000
2024	5,160,000	5.000

(c) *Series 1999 Bonds a Special Fund Obligation.* The Series 1999 Bonds are not general obligations of the State, and no tax revenues of the State may be used to pay the principal of, premium, if any, and interest on the Series 1999 Bonds.

The Series 1999 Bonds shall be obligations only of the Bond Fund and shall be payable and secured as provided herein. The Series 1999 Bonds do not constitute an indebtedness of the State within the meaning of the constitutional provisions and limitations of the State of Alaska.

SECTION 8.03. Redemption and Purchase

(a) Optional Redemption

(i) The Series 1999A Bonds maturing on and after October 1, 2010 are subject to redemption on or after April 1, 2009 in whole or in part at any time, with maturities to be selected by the State, at the following prices, expressed as a percentage of par, plus accrued interest to the date fixed for redemption:

Redemption Dates	Redemption Prices
April 1, 2009 to March 31, 2010	101.0%
April 1, 2010 to March 31, 2011	100.5
April 1, 2011 and thereafter	100.0

(ii) The Series 1999B Bonds maturing on and after October 1, 2010 are subject to redemption on or after April 1, 2009 in whole or in part at any time, with maturities to be selected by the State, at the following prices, expressed as a percentage of par, plus accrued interest to the date fixed for redemption:

Redemption Dates	Redemption Prices
April 1, 2009 to March 31, 2010	101.0%
April 1, 2010 to March 31, 2011	100.5
April 1, 2011 and thereafter	100.0

(b) Mandatory Redemption. Unless previously redeemed pursuant to the foregoing optional redemption provisions, the Series 1999A Term Bonds stated to mature on October 1, 2019 are subject to mandatory redemption on October 1 of the following years in the following principal amounts, at a price of par:

Redemption Dates	Amounts
2016	\$ 7,640,000
2017	8,025,000
2018	8,425,000
2019*	8,845,000

* Maturity

Unless previously redeemed pursuant to the foregoing optional redemption provisions, the Series 1999A Term Bonds stated to mature on October 1, 2024 are subject to mandatory redemption on October 1 of the following years in the following principal amounts, at a price of par:

Redemption Dates	Amounts
2020	\$ 9,290,000
2021	9,755,000
2022	10,240,000
2023	10,755,000
2024*	11,290,000

* Maturity

Unless previously redeemed pursuant to the foregoing optional redemption provisions, the Series 1999B Term Bonds stated to mature on October 1, 2019 are subject to mandatory redemption on October 1 of the following years in the following principal amounts, at a price of par:

Redemption Dates	Amounts
2016	\$ 685,000
2017	805,000
2018	845,000
2019*	890,000

* Maturity

Unless previously redeemed pursuant to the foregoing optional redemption provisions, the Series 1999B Term Bonds stated to mature on October 1, 2024 are subject to mandatory redemption on October 1 of the following years in the following principal amounts, at a price of par:

Redemption Dates	Amounts
2020	\$ 935,000
2021	980,000
2022	1,030,000
2023	1,080,000
2024*	1,135,000

* Maturity

(c) Purchase of Series 1999 Bonds for Retirement. The State reserves the right to use at any time any Revenue on deposit in the Revenue Fund available after providing for the payments authorized by Section 3.02(c)(1) through (3) to purchase for retirement any of the Series 1999 Bonds offered to the State at any price deemed reasonable to the State's Debt Manager.

(d) Effect of Optional Redemption/Purchase. To the extent that the State shall have optionally redeemed or purchased any Term Bonds since the last scheduled mandatory redemption of such Term Bonds, the State may reduce the principal amount of the Term Bonds of the same Series and maturity to be redeemed in like aggregate principal amount. Such reduction may be applied in the year specified by the Designated Representative.

(e) Selection of Series 1999 Bonds for Redemption. The Series and maturities to be redeemed shall be selected by the State and, within a maturity, as long as the Series 1999 Bonds are held in book-entry only form, the selection of Series 1999 Bonds to be redeemed shall be made in accordance with the operational arrangements in effect at DTC. If the Series 1999 Bonds are no longer held in uncertificated form, the selection of such Series 1999 Bonds to be redeemed shall be made as provided in this subsection (e). If the State redeems at any one time fewer than all of the Series 1999 Bonds of a Series having the same maturity date, the particular Series 1999 Bonds or portions of Series 1999 Bonds of such Series and maturity to be redeemed shall be selected by lot (or in such other manner determined by the Registrar) in increments of \$5,000. In the case of a Series 1999 Bond of a denomination greater than \$5,000, the State and Registrar shall treat each Series 1999 Bond as representing such number of separate Series 1999 Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such Series 1999 Bond by \$5,000. In the event that only a portion of the principal sum of a Series 1999 Bond is redeemed, upon surrender of the such Series 1999 Bond at the principal office of the Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof or, at the option of the Registered Owner, a Series 1999 Bond of like maturity and interest rate in any of the denominations herein authorized.

(f) Notice of Redemption

(i) Official Notice. Unless waived by any owner of Series 1999 Bonds to be redeemed, official notice of any such redemption (which notice, in the case of an optional redemption, shall state that redemption is conditioned by the Registrar on the receipt of sufficient funds for redemption) shall be given by the Registrar on behalf of the State by mailing a copy of an official redemption notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Series 1999 Bonds to be redeemed at the address shown on the Register or at such other address as is furnished in writing by such Registered Owner to the Registrar.

All official notices of redemption shall be dated and shall state:

(A) the redemption date,

(B) the redemption price,

(C) if fewer than all Outstanding Series 1999 Bonds are to be redeemed, the identification by maturity and Series (and, in the case of partial redemption, the respective principal amounts) of the Series 1999 Bonds to be redeemed.

(D) that on the date fixed for redemption, provided that in the case of optional redemption the full amount of the redemption price is on deposit therefor, the redemption price will become due and payable upon each such Series 1999 Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and

(E) the place where such Series 1999 Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Registrar.

Unless the State has revoked the notice of redemption in the case of an optional redemption, on or prior to any redemption date, the State shall deposit with the Registrar an amount of money sufficient to pay the redemption price of all the Series 1999 Bonds or portions of Series 1999 Bonds which are to be redeemed on that date.

Failure to give notice as to redemption of any Series 1999 Bond or any defect in such notice shall not invalidate redemption of any other Series 1999 Bond.

Notwithstanding the foregoing, if the Series 1999 Bonds are then held in book-entry only form, notice of redemption shall be given only in accordance with the operational arrangements then effect at DTC but not less than 30 days prior to the date of redemption.

(ii) Effect of Notice; Bonds Due. Official notice of redemption having been given as aforesaid, the Series 1999 Bonds or portions of Series 1999 Bonds so to be redeemed shall, on the redemption date (unless in the case of optional redemption the State shall default in the payment of the redemption price), become due and payable at the redemption price therein specified, and from and after such date such Series 1999 Bonds or portions of Series 1999 Bonds shall cease to bear interest. Upon surrender of such Series 1999 Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Registrar at the redemption price. Installments of interest due on or prior to a mandatory redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Series 1999 Bond, there shall be prepared for the Registered Owner a new Series 1999 Bond of the same maturity and Series in the aggregate amount of the unpaid principal. All Series 1999 Bonds which have been redeemed shall be canceled and destroyed by the Registrar and shall not be reissued.

(iii) Additional Notice. In addition to the foregoing notice, further notice shall be given by the State as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (A) the CUSIP numbers of all Series 1999 Bonds being redeemed; (B) the date of issue of the Series 1999 Bonds as originally issued; (C) the rate of interest borne by each Series 1999 Bond being redeemed; (D) the Series designation and maturity date of each Series 1999 Bond being redeemed; and (E) any other descriptive information needed to identify

accurately the Series 1999 Bonds being redeemed. Each further notice of redemption may be sent at least 35 days before the redemption date to the Series 1999 Bond Insurer, as applicable, and to each NRMSIR, the SID, if any, and to the Underwriters or to their business successors, if any, and to such persons (including securities repositories who customarily at the time receive notices of redemption in accordance with rules promulgated by the SEC) and with such additional information as the Registrar deems appropriate, but such mailings shall not be a condition precedent to the redemption of such Series 1999 Bonds.

(iv) Use of CUSIP Numbers. Upon the payment of the redemption price of Series 1999 Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by maturity and Series, the Series 1999 Bonds being redeemed with the proceeds of such check or other transfer.

(v) Amendment of Notice Provisions. The foregoing notice provisions of this Section 8.03, including but not limited to the information to be included in redemption notices and the persons designated to receive notices, may be amended without the consent of any owners of Series 1999 Bonds by additions, deletions and changes in order to maintain compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

SECTION 8.04. Place and Medium of Payment. The principal of, premium, if any, and interest on the Series 1999 Bonds shall be payable in lawful money of the United States of America. Interest on the Series 1999 Bonds shall be calculated on the basis of a 360-day year (twelve 30-day months). For so long as all Series 1999 Bonds are in fully immobilized form, such payments of principal and interest thereon shall be made as provided in the operational arrangements of DTC as referred to in the Letter of Representations.

In the event that the Series 1999 Bonds are no longer in fully immobilized form, interest on the Series 1999 Bonds shall be paid by check or draft mailed (or by wire transfer, without transfer fee, to a Registered Owner of such Series 1999 Bonds in aggregate principal amount of \$1,000,000 or more who so requests) to the Registered Owners of the Series 1999 Bonds at the addresses for such Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date. Principal and premium, if any, of the Series 1999 Bonds shall be payable upon presentation and surrender of such Series 1999 Bonds by the Registered Owners at the principal office of the Registrar.

SECTION 8.05. Registration.

(a) Registrar/Bond Register. So long as any Series 1999 Bonds remain Outstanding, the Registrar shall make all necessary provisions to permit the exchange and registration of transfer of Series 1999 Bonds at its principal corporate trust office. The Registrar may be removed at any time as provided in Section 5.01 upon prior notice to the Series 1999 Bond Insurer, as the case may be, DTC, each NRMSIR and the SID, if any, and a successor Registrar appointed by the Committee. No resignation or removal of the Registrar shall be effective until a successor shall have been appointed and until the successor Registrar shall have accepted the duties of the Registrar hereunder. The Registrar is authorized, on behalf of the

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appointed by the Committee pursuant to subsection (ii) below or such substitute depository's successor, or (C) to any person as provided in subsection (iv) below.

(ii) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by the Committee to discontinue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the Committee may hereafter appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(iii) In the case of any transfer pursuant to clause (A) or (B) of subsection (i) above, the Registrar shall, upon receipt of all Outstanding Series 1999 Bonds, together with a written request on behalf of the Committee, issue a single new Series 1999 Bond for each maturity of the Series 1999 Bonds then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the Committee.

(iv) In the event that (A) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (B) the Committee determines that it is in the best interest of the beneficial owners of the Series 1999 Bonds that such owners be able to obtain such bonds in the form of Series 1999 Bond certificates, the ownership of such Series 1999 Bonds may then be transferred to any person or entity as herein provided, and shall no longer be held in fully immobilized form. The Committee shall deliver a written request to the Registrar, together with a supply of definitive Series 1999 Bonds, to issue Series 1999 Bonds as herein provided in any authorized denomination. Upon receipt by the Registrar of all then Outstanding Series 1999 Bonds together with a written request on behalf of the Committee to the Registrar, new Series 1999 Bonds shall be issued in the appropriate denominations and Series registered in the names of such persons as are requested in such written request.

(e) Registration of Transfer of Ownership or Exchange; Change in Denominations. The transfer of any Series 1999 Bond may be registered and Series 1999 Bonds may be exchanged, but no transfer of any such Series 1999 Bond shall be valid unless such Series 1999 Bond is surrendered to the Registrar with the assignment form appearing on such Series 1999 Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Registrar. Upon such surrender, the Registrar shall cancel the surrendered Series 1999 Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Series 1999 Bond (or Series 1999 Bonds at the option of the new Registered Owner) of the same date, Series, maturity and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Series 1999 Bond, in exchange for such surrendered and canceled Series 1999 Bond. Any Series 1999 Bond may be surrendered to the Registrar and exchanged, without charge, for an equal aggregate principal amount of Series 1999 Bonds of the same date, Series, maturity and interest rate, in any authorized denomination or denominations. The Registrar shall not be

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State, to authenticate and deliver Series 1999 Bonds transferred or exchanged in accordance with the provisions of such Series 1999 Bonds and this resolution and to carry out all of the Registrar's powers and duties under this resolution. The Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Series 1999 Bonds.

(b) Registered Ownership. The State and the Registrar, each in its discretion, may deem and treat the Registered Owner of each Series 1999 Bond as the absolute owner thereof for all purposes (except as provided in Section 8.14 of this resolution), and neither the State nor the Registrar shall be affected by any notice to the contrary. Payment of any such Series 1999 Bond shall be made only as described in Section 8.04 hereof, but such Series 1999 Bond may be transferred as herein provided. All such payments made as described in Section 8.04 shall be valid and shall satisfy and discharge the liability of the State upon such Series 1999 Bond to the extent of the amount or amounts so paid.

(c) DTC Acceptance/Letter of Representations. To induce DTC to accept the Series 1999 Bonds as eligible for deposit at DTC, the State has executed and delivered to DTC the Letter of Representations.

Neither the State nor the Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees (or any successor depository) with respect to the Series 1999 Bonds in respect of the accuracy of any records maintained by DTC (or any successor depository) or any DTC participant, the payment by DTC (or any successor depository) or any DTC participant of any amount in respect of the principal of or interest on Series 1999 Bonds, any notice which is permitted or required to be given to Registered Owners under this resolution (except such notices as shall be required to be given by the State to the Registrar or to DTC (or any successor depository)), or any consent given or other action taken by DTC (or any successor depository) as the Registered Owner. For so long as any Series 1999 Bonds are held in fully immobilized form hereunder, DTC or its successor depository shall be deemed to be the Registered Owner for all purposes hereunder, and all references herein to the Registered Owners shall mean DTC (or any successor depository) or its nominee and shall not mean the owners of any beneficial interest in such Series 1999 Bonds.

If any Series 1999 Bond shall be duly presented for payment and funds have not been duly provided by the State on such applicable date, then interest shall continue to accrue thereafter on the unpaid principal thereof at the rate stated on such Series 1999 Bond until such Series 1999 Bond is paid.

(d) Use of Depository.

(i) The Series 1999 Bonds shall be registered initially in the name of "Cede & Co.", as nominee of DTC, with one Series 1999 Bond maturing on each of the maturity dates for the Series 1999 Bonds in a denomination corresponding to the total principal therein designated to mature on such date. Registered ownership of such immobilized Series 1999 Bonds, or any portions thereof, may not thereafter be transferred except (A) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any substitute depository

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obligated to register the transfer or to exchange any Series 1999 Bond during the 15 days preceding the date any such Series 1999 Bond is to be redeemed.

(f) Registrar's Ownership of Series 1999 Bonds. The Registrar may become the Registered Owner of any Series 1999 Bond with the same rights it would have if it were not the Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as member of, or in any other capacity with respect to, any committee formed to protect the right of the Registered Owners of Series 1999 Bonds.

(g) Registration Covenant. The State covenants that, until all Series 1999 Bonds have been surrendered and canceled, it will maintain a system for recording the ownership of each Series 1999 Bond that complies with the provisions of Section 149 of the Code.

SECTION 8.06. Application of Proceeds of Series 1999 Bonds. Upon receipt of payment for any of the Series 1999 Bonds when the same shall have been sold by the State, the State shall forthwith deposit the proceeds received from such sale in the following respective funds:

(a) The State shall deposit with the Registrar in the Interest Account established pursuant to Section 3.02 the accrued interest to the date of payment of the purchase price of the Series 1999 Bonds received upon the sale thereof.

(b) The State shall transfer the insurance premium for the 1999A Bond Insurance Policy and the 1999B Bond Insurance Policy to the Series 1999 Bond Insurer.

(c) The State shall deliver an amount sufficient to pay and redeem the 1998A Notes and the 1998B Notes to the trustee for said 1998 Notes pursuant to the 1998 Note Resolution and the trust agreement referred to thereunder.

(d) The State shall set aside the sum of \$15,806,762.51 from the Series 1999A Bonds and the sum of \$1,538,492.51 from the Series 1999B Bonds for deposit into special accounts within the Construction Fund to be designated as the Series 1999A Capitalized Interest Account and the Series 1999B Capitalized Interest Account.

(e) The State shall deposit the remainder of such proceeds in the Construction Fund.

SECTION 8.07. Construction Fund.

(a) Construction Fund. The Net Proceeds of the Series 1999 Bonds shall be deposited in the Construction Fund maintained in the State Treasury. However, the net proceeds of the Series 1999A Bonds and the Series 1999B Bonds shall be segregated for purposes of accounting for expenditures. To that end, separate accounts are authorized to be maintained in the State Treasury's Construction Fund, one each for the Series 1999A Bond proceeds and the interest and investment earnings (proceeds of sale and reinvestment) thereon and for the Series 1999B Bond proceeds and the interest and investment earnings thereon. Disbursements shall be made from the proceeds of the Series 1999A Bonds to pay or reimburse the State for its payment of the costs of the Series 1999A Components, and disbursements shall be made from

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the proceeds of the 1999B Bonds to pay or reimburse the State for its payment of the costs of the Series 1999B Components. Costs of issuance shall be paid ratably from the proceeds of each Series.

The proceeds of the Series 1999A Bonds deposited in the Series 1999A Capitalized Interest Account, together with interest earnings thereon, may be used at the direction of the Authorized AIAS Representative to pay interest on the Series 1999A Bonds pending completion of the Series 1999A Components. The proceeds of the Series 1999B Bonds deposited in the Series 1999B Capitalized Interest Account, together with interest earnings thereon, may be used at the direction of the Authorized AIAS Representative to pay interest on the Series 1999B Bonds pending completion of the Series 1999B Components. In the alternative, (i) money in the Series 1999A Capitalized Interest Account may be used to pay costs of the Series 1999A Components at the direction of the Commissioner of Transportation and Public Facilities, to the extent permitted within the then current appropriation available for the Series 1999A Components, and (ii) money in the Series 1999B Capitalized Interest Account may be used to pay costs of the Series 1999B Components at the direction of the Commissioner of Transportation and Public Facilities, to the extent permitted within the then current appropriation available for the Series 1999B Components.

Money in the Construction Fund may be invested in those obligations identified as "Permitted Investments". In addition, such proceeds may be invested in any of the investment pools operated by the Department of Revenue. Earnings on such investments shall accrue to the benefit of the respective account and subaccount for each Series of the Series 1999 Bonds and may be used at the direction of the Debt Manager, to pay debt service on the Bonds, prior to the completion of construction, except as may be required to be used to pay the Rebutable Arbitrage pursuant to this resolution. The allocation of interest earnings and investment earnings between the respective Series of the Series 1999 Bonds will be made utilizing the State's accounting system and cooperation through the Department of Transportation and Public Facilities, the Department of Administration, Division of Finance and the Department of Revenue, Treasury Division. Any balance remaining with respect to the Series 1999 Bonds after the completion of the Series 1999A Components and the Series 1999B Components, and after all the costs thereof have been paid, shall be transferred to the Bond Fund.

(b) *Reserve Account.* The State hereby covenants and agrees that on the date of issuance of the Series 1999 Bonds, it will cause the Series 1999 Surety Bond Issuer to deliver two surety bonds to the Registrar, one for the Series 1999A Bonds in the amount equal to \$11,857,498.75, and one for the Series 1999B Bonds in the amount of \$1,194,846.25, which together with the remaining balance on hand in the Reserve Account (currently in the form of a surety bond) to be equal to the Reserve Requirement. The Designated Representative is hereby authorized to execute and deliver a guaranty agreement with the Series 1999 Surety Bond Issuer substantially in the form of such exhibit to the commitment dated January 11, 1999, from the Series 1999 Surety Bond Issuer for the Series 1999A Bonds and a guaranty agreement with the Series 1999 Surety Bond Issuer substantially in the form of such exhibit to the commitment dated January 11, 1999, from the Series 1999 Surety Bond Insurer for the Series 1999B Bonds.

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with respect to the Series 1999 Bonds, equal at least 90% of the Rebutable Arbitrage with respect to the Series 1999 Bonds; and (B) a final rebate installment payment in an amount which, when added to the future value of all previous rebate payments made with respect to the Series 1999 Bonds, equals 100% of the Rebutable Arbitrage.

(ii) *Computation of Rebutable Arbitrage.* As of any Computation Date, the Rebutable Arbitrage for the Series 1999 Bonds is the excess of the future value, as of such date, of all Receipts over the future value, as of such date, of all Payments.

(iii) *Payment Procedure.* (A) The first rebate installment payment will be made for a Computation Date that is no later than five years after the issue date of the Series 1999 Bonds. Subsequent rebate installment payments will be made for a Computation Date that is not later than five years after the previous Computation Date for which rebate installment payment was made. Each rebate installment payment will be paid no later than 60 days after the Computation Date to which the payment relates.

(B) A final rebate payment will be paid within 60 days of the date the Series 1999 Bonds are Discharged or such other period as is permitted by Internal Revenue Service regulations.

(C) Each payment of Rebutable Arbitrage will be made to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19445 and will be accompanied by IRS Form 8038-T.

(c) *Private Person Use Limitation for Series 1999B Bonds.* The State covenants that for as long as the Series 1999B Bonds are outstanding, it will not permit:

(i) More than 10% of the Net Proceeds of the Series 1999B Bonds to be used for any Private Person Use; and

(ii) More than 10% of the principal or interest payments on the Series 1999B Bonds in a Bond Year to be directly or indirectly: (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (B) derived from payments (whether or not made to the State) in respect of property, or borrowed money, used or to be used for any Private Person Use.

The State further covenants that, if:

(iii) More than five percent of the Net Proceeds of the Series 1999B Bonds are to be used for any Private Person Use; and

(iv) More than five percent of the principal or interest payments on the Series 1999B Bonds in a Bond Year are (under the terms of this resolution or any underlying arrangement) directly or indirectly: (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any

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SECTION 8.08. *Defeasance.* In the event that money and/or noncallable Government Obligations maturing or having guaranteed redemption prices at the option of the owner at such time or times and bearing interest to be earned thereon in amounts (together with such money, if any) sufficient to redeem and retire part or all of any Series 1999 Bonds in accordance with their terms, are hereafter irrevocably set aside in a special account and pledged to effect such redemption and retirement, and, if such Series 1999 Bonds are to be redeemed prior to maturity, irrevocable notice, or instructions to give notice of such redemption has been delivered to the Registrar, then no further payments need be made into the Bond Fund or any account therein for the payment of the principal of, premium, if any, and interest on the Series 1999 Bonds so provided for and such Series 1999 Bonds shall then cease to be entitled to any lien, benefit or security of this resolution, except the right to receive the funds so set aside and pledged and notices of early redemption, if any, and such Series 1999 Bonds shall no longer be deemed to be Outstanding hereunder, or under any resolution authorizing the issuance of bonds or other indebtedness of the State.

Within 45 days of any defeasance of Series 1999 Bonds, the State shall provide notice of defeasance of Series 1999 Bonds to Registered Owners of Series 1999 Bonds being defeased, to the Series 1999 Bond Insurer, as applicable, and to each NRM/SIR and SID, if any, in accordance with Section 8.14.

SECTION 8.09. *Tax Covenants.* The State covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the exemption from federal income taxation of the interest on the Series 1999 Bonds and will take or require to be taken such acts as may reasonably be within its ability and as may from time to time be required under applicable law to continue the exemption from federal income taxation of the interest on the Series 1999 Bonds.

(a) *Arbitrage Covenant.* Without limiting the generality of the foregoing, the State covenants that it will not take any action or fail to take any action with respect to the proceeds of sale of the Series 1999 Bonds or any other funds of the State which may be deemed to be proceeds of the Series 1999 Bonds pursuant to Section 148 of the Code and the regulations promulgated thereunder which, if such use had been reasonably expected on the dates of delivery of the Series 1999 Bonds to the initial purchasers thereof, would have caused the Series 1999 Bonds to be "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code.

The State represents that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is an issuer whose arbitrage certifications may not be relied upon. The State will comply with the requirements of Section 148 of the Code and the applicable regulations thereunder throughout the term of the Series 1999 Bonds.

(b) *Rebutable Arbitrage.*

(i) *General Rule.* The State will pay to the United States of America in accordance with the provisions of this Section 8.09(b): (A) rebate installment payments which, when added to the future value as of the Computation Date of all previous rebate payments made

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Private Person Use, or (B) derived from payments (whether or not made to the State) in respect of property, or borrowed money, used or to be used for any Private Person Use,

then, (1) any Private Person Use of the projects described in subsection (iii) hereof or Private Person Use payments described in subsection (iv) hereof that are in excess of the five percent limitations described in such subsections (iii) or (iv) will be for a Private Person Use that is related to the state or local governmental use of the Series 1999B Components, and (2) any Private Person Use will not exceed the amount of Net Proceeds of the Series 1999B Bonds used for the state or local governmental use portion of the project to which the Private Person Use of such portion of the Series 1999B Components relates. The State further covenants that it will comply with any limitations on the use of the projects by other than state and local governmental users that are necessary, in the opinion of its bond counsel, to preserve the tax exemption of the interest on the Series 1999B Bonds. The covenants of this section are specified solely to assure the continued exemption from regular income taxation of the interest on the Series 1999B Bonds.

(d) *Use of Proceeds of the Series 1999A Bonds.* The Series 1999A Components include only facilities that are directly related and essential to:

(i) servicing aircraft or enabling aircraft to take off and land or

(ii) transferring passengers or cargo to or from aircraft or functionally related and subordinate to such airport facilities,

The State will, at all times while the Series 1999A Bonds are Outstanding be the owner of all elements of the Series 1999A Components being financed with such Series 1999A Bonds. If any portion of the Series 1999A Components is the subject of a lease or management contract with an entity other than a governmental unit, then the lease or management contract must meet the requirements of Section 142(b)(1)(B) of the Code.

The Series 1999A Components shall not include any:

(i) lodging facility,

(ii) retail facility (including food and beverage facilities) in excess of a size necessary to serve passengers and employees,

(iii) retail facility (other than parking) for passengers or the general public located outside the airport,

(iv) office building for persons who are not employees of a governmental unit or the State,

(v) industrial park or manufacturing facility, that is to be used for any private business use (within the meaning of Section 141(b)(6) of the Code).

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STATEMENT OF INSURANCE

Any element of any Series 1999A Components that is an office must be located at the airport and no more than a de minimis amount of the functions performed at such office may not be directly related to day-to-day operations of the airport. Any storage or training facilities included in any project must be located at the airport and must be of a character and size commensurate with the character and size of the airport.

All elements of the Series 1999A Components need to be located at or in close proximity to the take-off and landing area in order to perform their functions.

Any land acquired by the State as a part of the Series 1999A Components will be (A) acquired solely to mitigate damages attributable to airport noise or (B) land that is adjacent to the airport, impaired by a significant level of airport noise and (1) in the case of improved land, use of the land and improvements before acquisition is incompatible with the airport noise level, use after acquisition is compatible with the airport noise level and the post-acquisition use is essentially different from the pre-acquisition use or (2) in the case of unimproved land (including agricultural land), use of the land after its acquisition will not be incompatible with the level of airport noise.

(e) *Modification of Tax Covenants.* The covenants of this section are specified solely to assure the continued exemption from regular income taxation of the interest on the Series 1999 Bonds. To that end, the provisions of this section may be modified or eliminated without any requirement for formal amendment thereof (and without the consent of the Series 1999 Bond Insurer, the Registrar or any Registered Owner) upon receipt of an opinion of the State's Bond Counsel that such modification or elimination will not adversely affect the tax exemption of interest on any Series 1999 Bonds.

SECTION 8.10. *Lost, Stolen, Mutilated or Destroyed Series 1999 Bonds.* In case any Series 1999 Bond or Series 1999 Bonds shall be lost, stolen, mutilated or destroyed, the Registrar may execute and deliver a new Series 1999 Bond or Series 1999 Bonds of like date, number and tenor to the Registered Owner thereof upon the owner's paying the expenses and charges of the State in connection therewith and upon his filing with the State evidence satisfactory to the State that such Series 1999 Bond was actually lost, stolen or destroyed (including the presentation of a mutilated Bond) and of his ownership thereof, and upon furnishing the State with indemnity satisfactory to the State.

SECTION 8.11. *Forms of Series 1999 Bonds and Registration Certificate.*

(a) *Required Recital.* Each Series 1999 Bond shall include a recital to the effect that it is issued under AS 37.15.410 - 37.15.550.

(b) *Series 1999A Bonds.* The Series 1999A Bonds shall be in substantially the following form:

its airport properties and facilities. Simultaneously herewith, the State is issuing another series of airport revenue bonds, Series 1999B, in the aggregate principal amount of \$16,675,000.

The bonds of this issue maturing on and after October 1, 2010 shall be subject to optional redemption in advance of their scheduled maturity on or after April 1, 2009 in whole or in part on any date at the following prices, expressed as a percentage of par, plus accrued interest to the date of redemption.

Redemption Periods	Redemption Prices
April 1, 2009 to March 31, 2010	101.0%
April 1, 2010 to March 31, 2011	100.5
April 1, 2011 and thereafter	100.0

Unless redeemed pursuant to the foregoing optional redemption provisions, the bonds of this series maturing on October 1, 2019 shall be redeemed by the State on October 1 of the following years in the following principal amounts at a price of par, plus accrued interest to the date of redemption:

Redemption Dates	Amounts
2016	\$ 7,640,000
2017	8,025,000
2018	8,425,000
2019*	8,845,000

* Maturity

Unless redeemed pursuant to the foregoing optional redemption provisions, the bonds of this series maturing on October 1, 2024 shall be redeemed by the State on October 1 of the following years in the following principal amounts at a price of par, plus accrued interest to the date of redemption:

Redemption Dates	Amounts
2020	\$ 9,290,000
2021	9,755,000
2022	10,240,000
2023	10,755,000
2024*	11,290,000

* Maturity

The bonds of this series are private activity bonds. The bonds of this series are not "qualified tax exempt obligations" eligible for investment by financial institutions within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

So long as this bond is held by DTC or its nominee, the manner of selection of bonds of this issue within a maturity for redemption and transfer of bonds and the provision of notice of

Municipal Bond Insurance Policy No. _____ (the "Policy") with respect to payments due for principal of and interest on this bond has been issued by Ambac Assurance Corporation ("Ambac Assurance"). The Policy has been delivered to the United States Trust Company of New York, New York, New York, as the Insurance Trustee under said Policy and will be held by such Insurance Trustee or any successor insurance trustee. The Policy is on file and available for inspection at the principal office of the Insurance Trustee and a copy thereof may be secured from Ambac Assurance or the Insurance Trustee. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this bond acknowledges and consents to the subrogation rights of Ambac Assurance as more fully set forth in the Policy.

NO. _____ UNITED STATES OF AMERICA
STATE OF ALASKA S. _____

INTERNATIONAL AIRPORTS SYSTEM REVENUE BONDS, SERIES 1999A
Maturity Date: _____ CUSIP No. _____
Interest Rate: _____
Registered Owner: _____
Principal Amount: _____

THE STATE OF ALASKA (the "State"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the special fund of the State known as the "International Airports Revenue Bond Redemption Fund" (the "Bond Fund") the Principal Amount indicated above and to pay interest thereon from the Bond Fund from January 15, 1999, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the Interest Rate set forth above, payable semiannually on the first days of each April and October, beginning on October 1, 1999. The principal of, premium, if any, and interest on this bond are payable in lawful money of the United States of America. Interest shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the State to The Depository Trust Company ("DTC"). Principal shall be paid as provided in the Letter of Representations to the Registered Owner or assigns upon presentation and surrender of this bond at the principal office of Chase Manhattan Trust Company, National Association, Seattle, Washington (the "Registrar"). Capitalized terms used in this bond which are not specifically defined have the meanings given such terms in the Bond Resolution.

This bond is one of a series of bonds of the State in the aggregate principal amount of \$162,800,000 of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued under AS 37.15.410 - 37.15.550 and pursuant to Resolution No. 99-01 of the State Bond Committee (the "Bond Resolution") to finance additions and improvements to

redemption shall be governed by the Letter of Representations and DTC's operational arrangements. The State and Registrar shall deem the person in whose name this bond is registered to be the absolute owner hereof for the purpose of receiving payment of the principal of, premium, if any, and interest on the bond and for any and all other purposes whatsoever.

The State hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Resolution.

The State does hereby pledge and bind itself to set aside from Revenue and to pay into the Bond Fund the various amounts required by the Bond Resolution to be paid into and maintained in said Fund, all within the times provided by said Bond Resolution.

Said amounts so pledged to be paid out of Revenue into the Bond Fund are hereby declared to be a first and prior lien and charge upon the Revenue, if any, equal in rank to the lien and charge upon such Revenue of the amounts required to pay and secure the payment of the Outstanding Parity Bonds, the Series 1999B Bonds and any revenue bonds of the State hereafter issued on a parity with the bonds of this issue.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Registrar.

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Alaska and resolutions of the State and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the State of Alaska, has caused this bond to be executed by the manual or facsimile signatures of the Governor and attested by the Lieutenant Governor, and the seal of the State to be impressed or a facsimile thereof imprinted hereon as of the 15th day of January, 1999.

STATE OF ALASKA

By _____ /s/ _____
Governor

ATTEST:

Lieutenant Governor

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

This bond is one of the bonds described in the within mentioned Bond Resolution and is one of the State of Alaska International Airports System Revenue Bonds, Series 1999A of the State of Alaska, dated January 15, 1999.

CHASE MANHATTAN TRUST
COMPANY, NATIONAL ASSOCIATION,
Registrar

By _____
Authorized Signer

In the event any Series 1999A Bonds are no longer in fully immobilized form, the form of such Series 1999A Bonds may be modified to conform to printing requirements and the terms of this resolution.

(c) *Series 1999B Bonds.* The Series 1999B Bonds shall be in substantially the following form:

Municipal Bond Insurance Policy No. _____ (the "Policy") with respect to payments due for principal of and interest on this bond has been issued by Ambac Assurance Corporation ("Ambac Assurance"). The Policy has been delivered to the United States Trust Company of New York, New York, New York, as the Insurance Trustee under said Policy and will be held by such Insurance Trustee or any successor insurance trustee. The Policy is on file and available for inspection at the principal office of the Insurance Trustee and a copy thereof may be secured from Ambac Assurance or the Insurance Trustee. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this bond acknowledges and consents to the subrogation rights of Ambac Assurance as more fully set forth in the Policy.

NO. _____ UNITED STATES OF AMERICA \$ _____
STATE OF ALASKA

INTERNATIONAL AIRPORTS SYSTEM REVENUE BONDS, SERIES 1999B

Maturity Date: _____ CUSIP No. _____
Interest Rate: _____
Registered Owner: _____
Principal Amount: _____

Unless redeemed pursuant to the foregoing optional redemption provisions, the bonds of this series maturing on October 1, 2024 shall be redeemed by the State on October 1 of the following years in the following principal amounts at a price of par, plus accrued interest to the date of redemption:

Redemption Dates	Amounts
2020	\$ 935,000
2021	980,000
2022	1,030,000
2023	1,080,000
2024*	1,135,000

* Maturity

The bonds of this series are not private activity bonds. The bonds of this series are not "qualified tax exempt obligations" eligible for investment by financial institutions within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

So long as this bond is held by DTC or its nominee, the manner of selection of bonds of this issue within a maturity for redemption and transfer of bonds and the provision of notice of redemption shall be governed by the Letter of Representations and DTC's operational arrangements. The State and Registrar shall deem the person in whose name this bond is registered to be the absolute owner hereof for the purpose of receiving payment of the principal of, premium, if any, and interest on the bond and for any and all other purposes whatsoever.

The State hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Resolution.

The State does hereby pledge and bind itself to set aside from Revenue and to pay into the Bond Fund the various amounts required by the Bond Resolution to be paid into and maintained in said Fund, all within the times provided by said Bond Resolution.

Said amounts so pledged to be paid out of Revenue into the Bond Fund are hereby declared to be a first and prior lien and charge upon the Revenue, if any, equal in rank to the lien and charge upon such Revenue of the amounts required to pay and secure the payment of the Outstanding Parity Bonds, the Series 1999A Bonds and any revenue bonds of the State hereafter issued on a parity with the bonds of this issue.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Registrar.

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Alaska and

THE STATE OF ALASKA (the "State"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the special fund of the State known as the "International Airports Revenue Bond Redemption Fund" (the "Bond Fund") the Principal Amount indicated above and to pay interest thereon from the Bond Fund from January 15, 1999, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the Interest Rate set forth above, payable semiannually on the first days of each April and October, beginning on October 1, 1999. The principal of, premium, if any, and interest on this bond are payable in lawful money of the United States of America. Interest shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the State to The Depository Trust Company ("DTC"). Principal shall be paid as provided in the Letter of Representations to the Registered Owner or assigns upon presentation and surrender of this bond at the principal office of Chase Manhattan Trust Company, National Association, Seattle, Washington (the "Registrar"). Capitalized terms used in this bond which are not specifically defined have the meanings given such terms in the Bond Resolution.

This bond is one of a series of bonds of the State in the aggregate principal amount of \$16,675,000 of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued under AS 37.15.410 - 37.15.550 and pursuant to Resolution No. 99-01 of the State Bond Committee (the "Bond Resolution") to finance additions and improvements to its airport properties and facilities. Simultaneously herewith, the State is issuing another series of airport revenue bonds, Series 1999A, in the aggregate principal amount of \$162,500,000.

The bonds of this issue maturing on and after October 1, 2010 shall be subject to optional redemption in advance of their scheduled maturity on or after April 1, 2009 in whole or in part on any date at the following prices, expressed as a percentage of par, plus accrued interest to the date of redemption.

Redemption Periods	Redemption Prices
April 1, 2009 to March 31, 2010	101.0%
April 1, 2010 to March 31, 2011	100.5
April 1, 2011 and thereafter	100.0

Unless redeemed pursuant to the foregoing optional redemption provisions, the bonds of this series maturing on October 1, 2019 shall be redeemed by the State on October 1 of the following years in the following principal amounts at a price of par, plus accrued interest to the date of redemption:

Redemption Dates	Amounts
2016	\$ 685,000
2017	805,000
2018	845,000
2019*	890,000

* Maturity

resolutions of the State and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the State of Alaska, has caused this bond to be executed by the manual or facsimile signatures of the Governor and attested by the Lieutenant Governor, and the seal of the State to be impressed or a facsimile thereof impressed hereon as of the 15th day of January, 1999.

STATE OF ALASKA

By _____
Governor

ATTEST:

Lieutenant Governor

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

This bond is one of the bonds described in the within mentioned Bond Resolution and is one of the State of Alaska International Airports System Revenue Bonds, Series 1999B of the State of Alaska, dated January 15, 1999.

CHASE MANHATTAN TRUST
COMPANY, NATIONAL ASSOCIATION,
Registrar

By _____
Authorized Signer

In the event any Series 1999B Bonds are no longer in fully immobilized form, the form of such Series 1999B Bonds may be modified to conform to printing requirements and the terms of this resolution.

SECTION 3.12. Execution. The Series 1999 Bonds shall be executed on behalf of the State with the manual or facsimile signature of the Governor, shall be attested by the manual or facsimile signature of the Lieutenant Governor and shall have the seal of the State impressed or a facsimile thereof impressed thereon.

Only such Series 1999 Bonds as shall bear thereon a Certificate of Authentication in the form hereinbefore recited, manually executed by the Registrar, shall be valid or obligatory for

any purpose or entitled to the benefits of this resolution. Such Certificate of Authentication shall be conclusive evidence that the Series 1999 Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this resolution.

In case either of the officers of the State who shall have executed the Series 1999 Bonds shall cease to be such officer or officers of the State before the Series 1999 Bonds so signed shall have been authenticated or delivered by the Registrar, or issued by the State, such Series 1999 Bonds may nevertheless be authenticated, delivered and issued and upon such authentication, delivery and issuance, shall be as binding upon the State as though those who signed the same had continued to be such officers of the State. Any Series 1999 Bond may also be signed and attested on behalf of the State by such persons as at the actual date of execution of such Series 1999 Bond shall be the proper officers of the State although at the original date of such Series 1999 Bond any such person shall not have been such officer.

SECTION 8.13. Sale of Series 1999 Bonds. The Series 1999 Bonds shall be sold by negotiated sale to the Underwriters under the terms of a Bond Purchase Contract, dated this date (the "Bond Purchase Contract"). The Bond Purchase Contract is hereby approved, and the Designated Representative is hereby authorized and directed to execute the Bond Purchase Contract. Upon the adoption of this resolution, the proper officials of the State including the Designated Representative, are authorized and directed to undertake all action necessary for the prompt execution and delivery of the Series 1999 Bonds to the Underwriters thereof and further to execute all closing certificates and documents required to effect the closing and delivery of the Series 1999 Bonds in accordance with the terms of the Bond Purchase Contract.

The Designated Representative is authorized to ratify and to approve for purposes of the Rule, on behalf of the State, the Official Statement (and any Preliminary Official Statement) relating to the issuance and sale of the Series 1999 Bonds and the distribution of the Series 1999 Bonds pursuant thereto with such changes, if any, as may be deemed by him/her to be appropriate.

As a condition precedent to the issuance of the Series 1999 Bonds, the State shall comply with the provisions of Sections 2.02 and 2.03, so that the Series 1999 Bonds may be issued as Parity Bonds.

SECTION 8.14. Undertaking to Provide Ongoing Disclosure. The Committee hereby authorizes the Debt Manager to enter into an agreement for ongoing disclosure, substantially in the form attached to the Preliminary Official Statement for the Series 1999 Bonds for the benefit of the Beneficial Owners of the Series 1999 Bonds in order to assist the Underwriters in complying with of the Rule.

SECTION 8.15. Municipal Bond Insurance Policy, Provisions Relating to Municipal Bond Insurer.

(a) **Acceptance of Insurance.** In accordance with the offer of Underwriters to purchase the Series 1999 Bonds, the Committee hereby approves the commitment of the Series 1999 Bond Insurer to provide bond insurance policies guaranteeing the payment when due

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an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Series 1999 Bond Insurer, they must surrender their Series 1999 Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Series 1999 Bonds to be registered in the name of the Series 1999 Bond Insurer) for payment to the Insurance Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Series 1999 Bond Insurer, they must surrender their Series 1999 Bonds for payment thereon first to the Registrar who shall note on such Series 1999 Bonds the portion of the principal paid by the Registrar, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(5) In the event that the Registrar has notice that any payment of principal or of interest on a Series 1999 Bond which has become due for payment and which is made to a bondholder by or on behalf of the State has been deemed a preferential transfer and therefore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Registrar shall, at the time the Series 1999 Bond Insurer is notified pursuant to (1) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from the Series 1999 Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Registrar shall furnish to the Series 1999 Bond Insurer its records evidencing the payments of principal of and interest on the Series 1999 Bonds which have been made by the Registrar, and subsequently recovered from registered owners and the dates on which such payments were made.

(6) In addition to those rights granted the Series 1999 Bond Insurer under this resolution, the Series 1999 Bond Insurer shall, to the extent it makes payment of principal or of interest on Series 1999 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 1999A Bond Insurance Policy and the Series 1999B Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Registrar shall note the Series 1999 Bond Insurer's rights as subrogee on the registration books of the State maintained by the Registrar upon receipt from the Series 1999 Bond Insurer of proof of the payment of interest thereon to the registered owners of the Series 1999 Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Registrar shall note the Series 1999 Bond Insurer's rights as subrogee on the registration books of the State maintained by the Registrar upon surrender of the Series 1999 Bonds by the registered owners thereof together with proof of the payment of principal thereof.

(c) **Consent of the Series 1999 Bond Insurer.** Any provision of this resolution expressly and specifically recognizing or granting rights in or to the Series 1999 Bond Insurer may not be amended in any manner which affects the rights of the Series 1999 Bond Insurer hereunder without the prior written consent of the Series 1999 Bond Insurer.

(d) **Consent of the Series 1999 Bond Insurer in Addition to Bondholder Consent.** Unless otherwise provided in this section, the Series 1999 Bond Insurer's consent shall

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of principal of and interest on the Series 1999A Bonds (the "Series 1999A Bond Insurance Policy") and the Series 1999B Bonds (the "Series 1999B Bond Insurance Policy"). The Committee further authorizes and directs all proper officers, agents, attorneys and employees of the State to cooperate with the Series 1999 Bond Insurer in preparing such additional agreements, certificates, and other documentation on behalf of the State as shall be necessary or advisable in providing for the Series 1999A Bond Insurance Policy and the Series 1999B Bond Insurance Policy.

(b) **Payments Under the Series 1999 Bond Insurance Policy.** As long as the Series 1999A Bond Insurance Policy or the Series 1999B Bond Insurance Policy shall be in full force and effect, the State agrees to comply with the following provisions:

(1) At least one day prior to any interest payment date, the State will determine whether there will be sufficient funds in the Bond Fund to pay the principal of or interest on the Series 1999 Bonds on such interest payment date. If the State determines that there will be insufficient funds in such fund, it shall so notify the Series 1999 Bond Insurer. Such notice shall specify the amount of the anticipated deficiency, the Series 1999 Bonds to which such deficiency is applicable and whether such Series 1999 Bonds will be deficient as to principal or interest, or both. If the State has not so notified the Series Bond Insurer at least one day prior to an interest payment date, the Series 1999 Bond Insurer will make payments of principal or interest due on the Series 1999 Bonds on or before the first day next following the date on which the Series 1999 Bond Insurer shall have received notice of nonpayment.

(2) The State shall, after giving notice to the Series 1999 Bond Insurer as provided in (1) above, make available to the Series 1999 Bond Insurer and, at the Series 1999 Bond Insurer's direction, to the United States Trust Company of New York, as insurance trustee for the Series 1999 Bond Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books of the State maintained by the Registrar, if any, and all records relating to the funds and accounts maintained under this resolution.

(3) The State shall provide the Series 1999 Bond Insurer and the Insurance Trustee with a list of registered owners of Series 1999 Bonds entitled to receive principal or interest payments from the Series 1999 Bond Insurer under the terms of the Series 1999A Bond Insurance Policy and the Series 1999B Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Series 1999 Bonds entitled to receive full or partial interest payments from the Series 1999 Bond Insurer and (ii) to pay principal upon Series 1999 Bonds surrendered to the Insurance Trustee by the registered owners of Series 1999 Bonds entitled to receive full or partial principal payments from the Series 1999 Bond Insurer.

(4) The State shall, at the time it provides notice to the Series 1999 Bond Insurer pursuant to (1) above, notify registered owners of Series 1999 Bonds entitled to receive the payment of principal or interest thereon from the Series 1999 Bond Insurer (i) as to the fact of such entitlement, (ii) that the Series 1999 Bond Insurer will remit to them all or a part of the interest payments next coming due upon proof of bondholder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of

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be required in addition to bondholder consent, when required, for the following purposes: (i) execution and delivery of any amendment, supplement or change to or modification of this resolution; (ii) removal of the Registrar and selection and appointment of any successor Registrar (other than the designated State fiscal agent); and (iii) any initiation or approval of any action not described in (i) or (ii) above which requires bondholder consent.

(e) **Consent of the Series 1999 Bond Insurer Upon Default.** Anything in this resolution to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined herein, the Series 1999 Bond Insurer shall be deemed to be a bondholder of the Series 1999 Bonds it insures for purposes of enforcement of all rights and remedies granted to the bondholders for the benefit of the bondholders under this resolution.

(f) **The Series 1999 Bond Insurer as Third Party Beneficiary.** To the extent that this resolution confers upon or gives or grants to the Series 1999 Bond Insurer any right, remedy or claim under or by reason of this resolution, the Series 1999 Bond Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

(g) **Parties Interested Herein.** Nothing in this resolution expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the State, the Series 1999 Bond Insurer or the Registrar, and the registered owners of the Series 1999 Bonds, any right, remedy or claim under or by reason of this resolution or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises or agreements in this resolution contained by and on behalf of the State shall be for the sole and exclusive benefit of the State, the Series 1999 Bond Insurer, the Registrar, and the registered owners of the Series 1999 Bonds.

(h) **Rights of Series 1999 Bond Insurer.** While the Series 1999A Bond Insurance Policy or the Series 1999B Bond Insurance Policy is in effect, the State shall furnish to the Series 1999 Bond Insurer (to the attention of the Surveillance Department, unless otherwise indicated):

(1) as soon as practicable after the filing thereof, a copy of any financial statement of the State and a copy of any audit and annual report of the State;

(2) a copy of any notice to be given to the registered owners of the Series 1999 Bonds, including, without limitation, notice of any redemption of or defeasance of Series 1999 Bonds, and any certificate rendered pursuant to this resolution relating to the security for the Series 1999 Bonds; and

(3) such additional information the Series 1999 Bond Insurer may reasonably request.

(i) **Notices.** The State shall notify the Series 1999 Bond Insurer of any failure of the State to provide relevant notices or certificates.

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(j) Access to Insurer. The State will permit the Series 1999 Bond Insurer to discuss the affairs, finances and accounts of the State or any information the Series 1999 Bond Insurer may reasonably request regarding the security for the Series 1999 Bonds with appropriate officers of the State. The State will permit the Series 1999 Bond Insurer to have access to and to make copies of all books and records relating to the Series 1999 Bonds at any reasonable time.

(k) Accounting. The Series 1999 Bond Insurer shall have the right to direct an accounting at the State's expense, and the State's failure to comply with such direction within 30 days after receipt of written notice at the direction from the Series 1999 Bond Insurer shall be deemed a default hereunder; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the Series 1999 Bonds.

(l) Notice of Deficiency. Notwithstanding any other provision of this resolution, the State shall immediately notify the Series 1999 Bond Insurer if at any time there are insufficient money to make any payments of principal and/or interest on the Series 1999 Bonds as required.

ARTICLE IX
MISCELLANEOUS

SECTION 9.01. Liability of State Limited to Revenues. Notwithstanding anything in the Bond Resolution contained, the State shall not be required to advance any moneys derived from the proceeds of any taxes, or from any source of income other than the Revenues, for the payment of the principal of or interest on the Parity Bonds, for the maintenance and operation of the airports or for the performance of any covenants herein contained. Nevertheless, the State may, but shall not be required to, advance for any of the purposes hereof any moneys which the Legislature may hereafter authorize.

The Parity Bonds shall be revenue bonds, secured exclusively by the Revenues as in the Bond Resolution provided. The Parity Bonds are not a general obligation of the State, and the general fund of the State is not liable, and the credit or taxing power of the State is not pledged, for the payment of the Parity Bonds or their interest. The owners of the Parity Bonds, or the coupons thereto appertaining, shall never have the right to compel the exercise of the taxing power by the State or the forfeiture of any property of the State.

SECTION 9.02. Benefits of Resolution Limited to Parties. Nothing in the Bond Resolution, expressed or implied, is intended to give to any person other than the State, the Registrar, the Paying Agents and the owners of the Parity Bonds and coupons, any right, remedy or claim under or by reason of the Bond Resolution. Any covenants, stipulations, promises or agreements in the Bond Resolution contained by and on behalf of the State shall be for the sole and exclusive benefit of the owners of the Parity Bonds and coupons, the Registrar.

SECTION 9.03. Successor Is Deemed Included in All References to Predecessor. Whenever in the Bond Resolution the Committee, any officer of the State, the Registrar is named

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Parity Bondowners may be in one or more instruments of substantially similar tenor, and shall be executed by Parity Bondowners in person or by their attorneys appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Parity Bondowner or his attorney of any such request, consent or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request, consent or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

Except as otherwise herein expressly provided, the amount of Parity Bonds transferable by delivery held by any person executing any such request, consent or other instrument or writing as a Parity Bondowner, the numbers of the Parity Bonds held by such person, and the date of his holding such Parity Bonds, may be proved by a certificate, which need not be acknowledged or verified, satisfactory to the Registrar, executed by a trust company, bank, banker or other depository wherever situated, showing that at the date therein mentioned such person had on deposit with such depository, or exhibited to it, the Parity Bonds described in such certificate. The Registrar and the State may conclusively assume that such ownership continues until written notice to the contrary is served upon the Registrar. The fact and the date of execution of any request, consent or other instrument and the amount and distinguishing numbers of Parity Bonds held by the person so executing such request, consent or other instrument may also be proved in any other manner which the Registrar may deem sufficient. The Registrar may nevertheless, in its discretion, require further or other proof in cases where it deems the same desirable. The ownership of registered Parity Bonds and the amount, maturity, number and date of holding the same shall be proved by the registry books.

Any request, consent or other instrument or writing of the owner of any Parity Bond shall bind all future owners of such Parity Bond in respect of anything done or suffered to be done by the Registrar or the State in good faith and in accordance therewith.

SECTION 9.06. Waiver of Personal Liability. No member of the Committee and no officer, agent or employee of the State, or of any department or agency thereof, shall be individually or personally liable for the payment of the principal of or interest on the Parity Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

SECTION 9.07. Publication for Successive Weeks. Any publication to be made under the provisions of the Bond Resolution in successive weeks may be made in each instance upon any business day of the week and need not be made on the same day of any succeeding week or in the same newspaper for any or all of the successive publications, but may be made in different newspapers.

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or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Bond Resolution contained by or on behalf of the Committee, any officer of the State or the Registrar shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 9.04. Discharge of Bond Resolution; Resolution No. 68-4.

If---

(i) all of the outstanding Parity Bonds shall have matured, or if notice of redemption of all of the outstanding Parity Bonds prior to maturity shall have been given, or provision satisfactory to the Registrar shall have been irrevocably made for the giving of such notice, and if the State shall have deposited with the Registrar, in trust, funds pursuant to the Bond Resolution sufficient to pay and available for the payment of all amounts then due and thereafter to become due on all Parity Bonds, including all principal, interest and redemption premiums, or

(ii) all of the outstanding Parity Bonds are to be refunded, and the conditions set forth in Section 2.04 have been satisfied with respect to such Parity Bonds,

then, at the election of the State, and notwithstanding that any Parity Bonds or interest coupons shall not have been surrendered for payment, the pledge of the Revenues provided for in the Bond Resolution and all other obligations of the State under the Bond Resolution shall cease and terminate, except only the obligation of the State to pay or cause to be paid to the owners of the Parity Bonds and interest coupons not so surrendered and paid all sums due thereon. Notice of such election shall be filed with the Registrar.

Notwithstanding anything herein to the contrary, this resolution shall not be terminated until all obligations and amounts due and owing to any Credit Facility Issuer, including but not limited to the Series 1999 Bond Insurer and the Series 1999 Surety Bond Issuer have been paid and satisfied in full.

Any funds held by any Registrar, at the time of receipt by the Registrar of such notice from the State, which are not required for the purpose above mentioned, shall be paid over to the Registrar. Any funds thereafter held by the Registrar, which are not required for said purpose, shall be paid over to the State.

This resolution is intended to replace and supersede Resolution No. 68-4 of the Committee, and upon the approval hereof and the approval of MBIA, Resolution No. 68-4 shall be of no further force and effect, having been completely replaced and superseded by this resolution. Resolution No. 93-5 shall remain in full force and effect, as a supplement, to be implemented consistent with the terms of this resolution.

SECTION 9.05. Execution of Documents by Parity Bondowners. Any request, consent or other instrument which the Bond Resolution may require or permit to be executed by

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SECTION 9.08. Partial Invalidity. If any one or more of the covenants or agreements, or portions thereof, provided in this resolution on the part of the State (or of the Registrar) to be performed should be contrary to law, then such covenant or covenants, such agreement or agreements, or such portions thereof, shall be null and void and shall be deemed separable from the remaining covenants and agreements or portions thereof and shall in no way affect the validity of the this resolution or of the Parity Bonds; but the Parity Bondowners shall retain all the rights and benefits accorded to them under the Act or any other applicable provisions of law.

SECTION 9.09. Restatement; Repeal of Inconsistent Resolutions. This resolution amends and restates Resolution No. 68-4, and following the approval of this resolution, Resolution No. 68-4, as originally enacted, shall be of no further force and effect. Any resolution of the Committee and any part of any resolution, inconsistent with this resolution, is hereby repealed to the extent of such inconsistency.

SECTION 9.10. Effective Date. This resolution shall become effective immediately upon its adoption.

ADOPTED AND APPROVED by the State Bond Committee of the State of Alaska, the 28th day of January, 1999.

STATE OF ALASKA
STATE BOND COMMITTEE

DEBORAH SEDWICK
Chair and Member

ROBERT POE, JR.
Member

WILSON L. CONDON
Secretary and Member

APPROVED AS TO FORM:

BRUCE M. BÔTELHO
Attorney General

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EXHIBIT A

SERIES 1999A COMPONENTS

1. Project Design and Administration.
2. Concourse C Replacement.
3. Terminal Renovation.
4. Roads and Parking.
5. Airside Apron Improvements.

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APPENDIX D

STATE BOND COMMITTEE OF THE STATE OF ALASKA, SUPPLEMENTAL RESOLUTION NO. 2006-01

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OF THE STATE OF ALASKA

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State of Alaska International Airports System Revenue and Refunding Bonds

\$118,975,000 Principal Amount of International Airports System Revenue Bonds,
Series 2006A (AMT)
and of

\$70,760,000 Principal Amount of International Airports System Revenue Bonds,
Series 2006B (Non-AMT)
and of

\$50,000,000 Principal Amount of International Airports System Variable Rate Revenue Bonds,
Series 2006C (AMT)
and of

\$104,860,000 Principal Amount of International Airports System Revenue Refunding Bonds,
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Adopted February 23, 2006

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STATE BOND COMMITTEE
SUPPLEMENTAL RESOLUTION NO. 2006-01

A Resolution of the State Bond Committee of the State of Alaska; authorizing the issuance and sale of four series of revenue bonds of the Alaska International Airports System for the purpose of financing improvements and refunding certain outstanding revenue bonds of the State; approving certain protective covenants; and approving an agreement for ongoing disclosure (supplemental to Resolution No. 99-01, adopted January 28, 1999, Resolution No. 99-07 adopted October 15, 1999, Resolution No. 2002-01 adopted March 7, 2002 and Resolution No. 2003-10 adopted December 3, 2003).

WHEREAS, Chapter 88, SLA 1961, as amended (herein called the "1961 Act"), authorized the issuance and sale of revenue bonds of the State of Alaska (the "State") to acquire, equip, construct and install additions, improvements, extensions and facilities, all as more fully described in the Act (hereinafter defined) and in this Fourth Supplemental Resolution, at the international airports owned and operated by the State and located at or near the cities of Anchorage and Fairbanks (defined more particularly hereinafter as the "AIAS"); and

WHEREAS, the 1961 Act has been amended from time to time, most recently by Chapter 28, SLA 2005 (the "2005 Authorization") and is codified as AS 37.15.410 to 37.15.550 (collectively, the "Act"); and

WHEREAS, the 2005 Authorization increased the aggregate principal amount of airport revenue bonds authorized to be issued under the Act to \$812,500,000; and

WHEREAS, the State Bond Committee adopted Resolution No. 99-01 (the "Resolution") authorizing the issuance of two series of airport revenue bonds, Resolution No. 99-07 authorizing one series of airport revenue bonds (the "First Supplemental Resolution"), Resolution No. 2002-01 authorizing two series of airport revenue bonds (the "Second Supplemental Resolution") and Resolution No. 2003-10 authorizing two series of airport revenue bonds (the "Third Supplemental Resolution");

WHEREAS, the State has issued and has outstanding the following described airport revenue bonds:

Original Authorizing Resolution No.	Designation	Dated Date of Issue	Original Principal Amount	Current Outstanding Principal Amount (as of 2/1/06)
99-01	International Airport System Revenue Bonds, Series 1999A	1/15/99	\$162,500,000	\$143,115,000
99-01	International Airports System Revenue Bonds, Series 1999B	1/15/99	\$ 16,675,000	\$ 14,595,000
99-07	International Airports System Revenue Bonds, Series 1999C	10/1/99	\$ 25,000,000	\$ 22,530,000
2002-01	International Airports System Revenue Bonds, Series 2002A (AMT)	4/1/02	\$ 13,060,000	\$ 6,605,000
2002-01	International Airports System Revenue Bonds, Series 2002B	4/1/02	\$ 127,720,000	\$127,720,000
2003-10	International Airports System Revenue and Refunding Bonds, Series 2003A (AMT)	12/11/03	\$ 73,025,000	\$ 67,710,000
2003-10	International Airports System Revenue Bonds, Series 2003B	12/11/03	\$ 21,900,000	\$ 21,900,000

(collectively, the "Outstanding Parity Bonds"); and

WHEREAS, the Resolution provides that the State Bond Committee may, by supplemental resolution, establish one or more other series of Bonds, and the State may issue, and the Registrar may authenticate and deliver, Bonds of any series so established, in such principal amount as shall be determined by the State Bond Committee, subject to the conditions and limitations contained in Sections 2.02, 2.03 and 2.04 of the Resolution; and

WHEREAS, Resolution No. 2005-09 of the State Bond Committee appointed an underwriting team (the "Underwriters") for the underwriting of the bonds authorized to be issued by this supplemental resolution; and

WHEREAS, the AIAS is in need of additional improvements to be funded in whole or in part with the proceeds of the increased authorization provided in the 2005 Authorization (hereinafter defined as the "Series 2006A-C Components" and the "Series 2006B Components"); and

WHEREAS, the costs of the Series 2006A-C Components shall be funded in whole or in part with the proceeds of two series of airport revenue bonds authorized under the Resolution and this Fourth Supplemental Resolution in the aggregate principal amount of not to exceed \$118,975,000 (herein defined as the "Series 2006A Bonds") and in the aggregate principal amount of \$50,000,000 (herein defined as the "Series 2006C Bonds"); and

WHEREAS, the costs of the Series 2006B Components shall be funded in whole or in part with the proceeds of a series of airport revenue bonds authorized under the Resolution and

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this Fourth Supplemental Resolution in the aggregate principal amount of not to exceed \$70,760,000 (herein defined as the "Series 2006B Bonds"); and

WHEREAS, the State has outstanding its International Airports System Revenue Bonds, Series 1999B, issued under date of January 15, 1999 (the "Series 1999B Bonds"), pursuant to the Resolution and maturing as follows:

Maturity Years (October 1)	Principal Amounts	Interest Rates
2006	\$ 505,000	4.000%
2007	525,000	4.000
2008	550,000	4.000
2009	570,000	4.125
2010	595,000	4.200
2011	620,000	4.300
2012	645,000	4.400
2013	675,000	4.500
2014	705,000	4.500
2015	735,000	4.600
2016	85,000	4.875
2019	3,225,000	5.000
2024	5,160,000	5.000

and;

WHEREAS, the Resolution provides that the State may call the Series 1999B Bonds maturing on or after October 1, 2010 (the "Series 1999B Refunded Bonds") for redemption on any date on and after April 1, 2009, at the following prices, expressed as a percentage of the principal amounts of the bonds to be redeemed, together with interest accrued to the date of redemption, as follows:

Redemption Dates	Redemption Prices
April 1, 2009 to March 31, 2010	101.0%
April 1, 2010 to March 31, 2011	100.5
April 1, 2011 and thereafter	100.0

; and

WHEREAS, the State has outstanding its International Airports System Revenue Bonds, Series 2002B, issued under date of April 1, 2002 (the "Series 2002B Bonds"), pursuant to the Second Supplemental Resolution and maturing as follows:

Maturity Years (October 1)	Principal Amounts	Interest Rates
2007	\$ 735,000	4.150%
2008	1,320,000	4.300
2008	2,400,000	4.500
2009	3,880,000	4.375
2010	1,175,000	4.650
2010	2,875,000	5.250
2011	200,000	4.750
2011	4,060,000	5.500
2012	1,270,000	4.850
2012	3,220,000	5.500
2013	525,000	4.900
2013	4,205,000	5.750
2014	700,000	4.950
2014	4,295,000	5.750
2015	1,235,000	5.050
2015	4,045,000	5.750
2016	155,000	5.125
2016	5,420,000	5.750
2017	650,000	5.200
2017	5,245,000	5.750
2018	620,000	5.250
2018	5,610,000	5.750
2019	500,000	5.250
2019	6,085,000	5.750
2020	1,165,000	5.300
2020	5,795,000	5.750
2021	7,355,000	5.250
2027	52,980,000	5.250

WHEREAS, the Resolution provides that the State may call the Series 2002B Bonds maturing on or after October 1, 2013 (the "Series 2002B Refunded Bonds") for redemption on any date on and after October 1, 2012, at a price of par plus accrued interest to the date of redemption; and

WHEREAS, as a result of changed market conditions, it appears to the Committee that a substantial debt service savings may be obtained by refunding the Series 1999B Refunded Bonds and the Series 2002B Refunded Bonds through the issuance and sale of refunding airport revenue bonds in an aggregate principal amount of \$104,860,000 herein authorized (hereinafter defined as the "Series 2006D Bonds"); and

WHEREAS, it appears to the State Bond Committee that it is in the best interest of the State that the Series 2006A Bonds, the Series 2006B Bonds, the Series 2006C Bonds and the Series 2006D Bonds (collectively, the "Series 2006 Bonds"), should be issued and sold pursuant to the terms of this Fourth Supplemental Resolution; and

WHEREAS, in its determination of all of the matters and questions relating to the issuance and sale of the Series 2006 Bonds and the fixing of the maturities, terms, conditions and covenants thereof as provided in the Act, the decisions of the committee, as expressed in this supplemental resolution, were and are those found to be reasonably necessary for the best interests of the State and its inhabitants and those which will accomplish the most advantageous sale of the Series 2006 Bonds with due regard, however, for necessary or normal costs of maintenance and operation, renewals and replacements of and repairs to said airports and to all improvements thereto and facilities thereof owned, used, operated or leased in connection therewith, the future growth and expansion of the airports and all of such facilities, and the possibility of additional revenue bond financing for airports purposes; and

WHEREAS, the terms, conditions and covenants providing for the payment of the principal of the Series 2006 Bonds and interest thereon and the other terms, conditions, covenants and protective features safeguarding such payment and relating to the maintenance, operation and improvement of said airports set forth in the Resolution and this supplemental resolution have been found to be necessary by the State Bond Committee; and

WHEREAS, the conditions and limitations contained in Sections 2.03 and 2.04 of the Resolution have been satisfied or will be satisfied at the time of issuance of the Series 2006 Bonds; and

WHEREAS, the signatory airlines under the AIAS operating agreements have been given the opportunity to review and comment on a draft of this Fourth Supplemental Resolution and a draft of the official statement for the sale of the bonds authorized herein; and

WHEREAS, the State Debt Manager held a public hearing in Juneau, Alaska on this date pursuant to a notice published in the *Juneau Empire*, regarding the issuance of the Series 2006A Bonds and the Series 2006C Bonds to be authorized herein; and

WHEREAS, the Controller of the Alaska International Airports System held a public hearing in Anchorage, Alaska on this date pursuant to a notice published in the *Anchorage Daily News-Miner*, regarding the issuance of the Series 2006A Bonds and the Series 2006C Bonds to be authorized herein; and

WHEREAS, the Manager of the Fairbanks International Airport held a public hearing in Fairbanks, Alaska on this date pursuant to a notice published in the *Fairbanks Daily News-Miner*, regarding the issuance of the Series 2006A Bonds and the Series 2006C Bonds to be authorized herein; and

WHEREAS, the State Bond Committee may delegate authority to the Designated Representative (as defined in the First Supplemental Resolution) to approve the final interest rates, maturity dates, redemption rights, interest payment dates, and principal maturities under such terms and conditions as are specified in the purchase contract of the Underwriters;

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NOW THEREFORE, BE IT RESOLVED by the State Bond Committee of the State of Alaska, as follows:

ARTICLE XXII
DEFINITIONS AND RULES OF CONSTRUCTION

Section 22.01. Definitions. For purposes of this Fourth Supplemental Resolution, and of any certificate, opinion or other document mentioned herein, the following capitalized terms shall have the meanings specified in this Section 22.01. Unless otherwise defined in this Fourth Supplemental Resolution, all capitalized terms used herein shall have the meanings assigned to such terms in the Resolution. Capitalized terms defined in the recitals hereto shall have the meanings set forth in the recitals hereto.

Acquired Obligations means the Government Obligations acquired by the State under the terms of this Fourth Supplemental Resolution and the Escrow Agreement to effect the defeasance and refunding of the Refunded Bonds.

Aggregate Interest Coverage means, as of any date, the aggregate amount of Interest Coverage determined with respect to Series 2006C Bonds in the Commercial Paper Mode, including all Interest Periods then in effect.

All-Hold Rate means, on any date of determination, for (i) an Auction Period of seven days or less, the interest rate per annum equal to 90% of the Index on such date; (ii) an Auction Period of 35-days, the interest rate per annum equal to 100% of the Index; or (iii) an Auction Period greater than 35 days, the interest rate per annum equal to 70% of the Index on such date, provided that in no event shall the All-Hold Rate be more than the Maximum Rate.

Applicable Auction Rate means, with respect to Series 2006C Bonds in the Auction Mode, the rate per annum at which interest accrues on such Series 2006C Bonds for any Auction Interest Period.

Applicable Percentage means, as of any Auction Date, the percentage (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the Bonds in the Auction Mode in effect at the close of business on the Business Day immediately preceding such Auction Date:

Prevailing Rating	Percentage of Index
AAA/AAA/Aaa	150%
AA/AA/Aa	175
A/A/A	200

If the Prevailing Rating of the Series 2006C Bonds in the Auction Mode is below A/A/A or if the Series 2006C Bonds then in the Auction Mode are not then rated, then no Applicable Percentage shall apply and the Auction Maximum Rate shall be determined as set forth in the definition of Auction Maximum Rate.

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Auction means the implementation of the Auction Procedures on an Auction Date.

Auction Agent means the Initial Auction Agent unless and until a Substitute Auction Agent Agreement becomes effective, after which "Auction Agent" shall include both the Initial Auction Agent (if it is continuing to act in such capacity under this Fourth Supplemental resolution) and each such Substitute Auction Agent so acting.

Auction Agent Agreement means, on any date, each Initial Auction Agent Agreement or a Substitute Auction Agent Agreement then in effect.

Auction Agent Fee has the meaning provided in each Auction Agent Agreement.

Auction Beneficial Owner means the Person who is the Beneficial Owner of Series 2006 Bonds in the Auction Mode according to the records of (i) DTC or its participants or a successor Securities Depository while such Series 2006C Bonds in the Auction Mode are in book-entry form or (ii) the Registrar while such Series 2006C Bonds in the Auction Mode are not in book-entry form.

Auction Date means, with respect to Series 2006C Bonds in the Auction Mode, the Business Day next preceding the first day of each Auction Period for such Series 2006C Bonds, other than:

- (a) each Auction Period commencing after the ownership of such Series 2006C Bond in the Auction Mode is no longer maintained in book-entry form by a Securities Depository;
- (b) each Auction Period commencing after the occurrence and during the continuance of an Auction Payment Default; or
- (c) any Auction Period commencing fewer than two Business Days after the cure or waiver of an Auction Payment Default.

The Auction Date determined as provided in this definition may be adjusted as provided in Section 23.02(e)(10)(B).

Auction Defaulted Interest means interest on any Series 2006C Bonds in the Auction Mode which is payable by the State or Series 2006 Insurer but is not punctually paid or duly provided for on any Auction Interest Payment Date.

Auction Interest Payment Date means, with respect to Series 2006C Bonds in the Auction Mode, the Business Day immediately following each Auction Period for such Series 2006C Bonds.

Auction Interest Period means the period with respect to Series 2006C Bonds in the Auction Mode commencing on and including an Auction Interest Payment Date for such

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Series 2006C Bonds and ending on but excluding the next succeeding Auction Interest Payment Date for such Series 2006 Bonds; *provided*, that the first Auction Interest Period within each Auction Interest Rate Period for such Series 2006C Bonds shall commence on and include the Mode Change Date for such Series 2006C Bonds.

Auction Interest Rate Period means each period during which Series 2006C Bonds are in the Auction Mode.

Auction Mode means, on any date, the mode for Series 2006C Bonds bearing interest as auction rate securities as provided in Section 23.02(e) and the Auction Procedures.

Auction Maximum Rate means while the Series 2006C Bonds in the Auction Mode the Auction Maximum Rate shall be defined to be the lesser of (i) 400% of the Index or (ii) 15% per annum; *provided*, however that in no event shall the Auction Maximum Rate be higher than the maximum rate permitted by law.

Auction Payment Default means (i) (A) a default by the State in the due and punctual payment of any installment of interest on Series 2006C Bonds in the Auction Mode or (B) a default by the State in the due and punctual payment of any principal of Series 2006C Bonds in the Auction Mode at stated maturity or pursuant to a mandatory redemption; and (ii) a failure by the Series 2006 Insurer to pay the related claim on the Bond Insurance Policy.

Auction Period means:

- (a) with respect to Series 2006C Bonds in the Auction Mode and in a one-day Auction Period, a period, generally of one Business Day and ending on such Business Day (unless such Business Day is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day),
- (b) with respect to Series 2006C Bonds in the Auction Mode and in a seven-day Auction Period, any of:
 - (1) a period, generally of seven days, beginning on and including a Monday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Sunday) and ending on and including the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day),
 - (2) a period, generally of seven days, beginning on and including a Tuesday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Monday) and ending on and including the Monday thereafter (unless such Monday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day),
 - (3) a period, generally of seven days, beginning on and including a Wednesday (or the day following the last day of the prior Auction Period for such Series 2006C

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Bonds if the prior Auction Period does not end on a Tuesday) and ending on and including the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day),

(4) a period, generally of seven days, beginning on and including a Thursday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Wednesday) and ending on and including the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day) or

(5) a period, generally of seven days, beginning on and including a Friday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Thursday) and ending on and including the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), and

(c) with respect to Series 2006C Bonds in the Auction Mode and in a 28-day Auction Period, any of:

(1) a period, generally of 28 days, beginning on and including a Monday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Sunday) and ending on and including the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day),

(2) a period, generally of 28 days, beginning on and including a Tuesday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Monday) and ending on and including the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day),

(3) a period, generally of 28 days, beginning on and including a Wednesday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Tuesday) and ending on and including the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day),

(4) a period, generally of 28 days, beginning on and including a Thursday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Wednesday) and ending on and including the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day) or

(5) a period, generally of 28 days, beginning on and including a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period for such Series 2006C Bonds does not end on a Thursday) and ending on and including the fifth Thursday

thereafter (unless such Thursday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day);

(d) with respect to Series 2006C Bonds in the Auction Mode and in a 35-day Auction Period, any of:

(1) a period, generally of 35 days, beginning on and including a Monday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Sunday) and ending on and including the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day),

(2) a period, generally of 35 days, beginning on and including a Tuesday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Monday) and ending on and including the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day),

(3) a period, generally of 35 days, beginning on and including a Wednesday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Tuesday) and ending on and including the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day),

(4) a period, generally of 35 days, beginning on and including a Thursday (or the day following the last day of the prior Auction Period for such Series 2006C Bonds if the prior Auction Period does not end on a Wednesday) and ending on and including the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day) or

(5) a period, generally of 35 days, beginning on and including a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period for such Series 2006C Bonds does not end on a Thursday) and ending on and including the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day);

provided, however, that in the event of a Mode Change of the Series 2006C Bonds from another Mode to an Auction Mode, the initial Auction Period following such Mode Change shall begin on and include the Mode Change Date for such Series 2006C Bonds, and; *provided, further*, that in the event of an irregular Auction Period established to effect or facilitate a conversion of the Series 2006C Bonds to a Fixed Mode, the Auction Period shall end on the date specified by the Designated Representative pursuant to Section 23.02(e)(10)(A)(iii).

Auction Procedures means the provisions set forth in Section 2 of the Auction and Settlement Procedures attached as Exhibit B to the Auction Agent Agreement.

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Auction Rate means, with respect to the interest rate on the Series 2006C Bonds in the Auction Mode, the rate of interest per annum on such Series 2006C Bonds that results from implementation of the Auction Procedures, and determined as described in Section 2(c)(ii) of the Auction Procedures; *provided*, however, that the Auction Rate shall not exceed the Auction Maximum Rate. While Auction Procedures are suspended for the Series 2006C Bonds, the Auction Rate for such Series 2006C Bonds will be determined as otherwise described in Section 23.02(e).

Auction Rating Agency means each Rating Agency, or if any Rating Agency discontinues its securities rating service, then such other nationally recognized securities rating agency as may be specified by the Market Agent with the consent of the Designated Representative and acceptable to the Series 2006 Insurer.

Authorized Denominations means, with respect to the Series 2006 Bonds:

(a) with respect to Series 2006C Bonds in a Commercial Paper Mode, \$100,000 and any integral multiple of \$1,000 in excess thereof,

(b) with respect to Series 2006C Bonds in a Daily Mode or Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof,

(c) with respect to Series 2006C Bonds in a Long Term Mode or a Fixed Rate Mode, \$5,000 and any integral multiple thereof within a maturity,

(d) with respect to Bank Bonds, any amount (but only during the period that such Series 2006C Bonds are Bank Bonds); and

(e) with respect to Series 2006C Bonds in the Auction Mode, \$25,000 or any integral multiple thereof.

Bank means Lloyds TSB Bank plc, acting through its New York Branch.

Bank Bonds shall have the meaning assigned to Bank Bonds, if any, in the third paragraph of Section 23.03(g) hereof.

Bank Interest Rate means the rate of interest payable with respect to Bank Bonds, if any, which rate of interest shall be determined in accordance with the provisions of the Reimbursement Agreement or Purchase Agreement, as applicable; *provided*, that the Bank Interest Rate shall not exceed the lesser of (a) twenty-five percent (25%) per annum and (b) the maximum rate of interest permitted by law.

Bank Purchase Subaccount means the subaccount by that name created within the Purchase Account in accordance with the first paragraph of Section 23.03(g) hereof.

Beneficial Owner means any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2006C Bonds (including persons holding Series 2006C Bonds through nominees, depositories or other intermediary).

Bid has the meaning provided in Section 2(a)(i) of the Auction Procedures.

BMA Municipal Swap Index means the Bond Market Association Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc. or its successor, or as otherwise designated by the Bond Market Association; *provided*, however, that, if such index is no longer produced by Municipal Market Data, Inc. or its successor, then BMA Municipal Swap Index shall mean such other reasonably comparable index selected by the Designated Representative.

Bond Counsel means a firm of lawyers nationally recognized and accepted as bond counsel and so employed by the State for any purpose under this Fourth Supplemental Resolution applicable to the use of that term.

Bond Purchase Contract means the agreement(s) between the State and the Underwriters with respect to the purchase of each series of the Series 2006 Bonds, as approved by the Designated Representative pursuant to Section 23.13.

Broker-Dealer means any broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures which (i) is a participant in or member of the Securities Depository as determined by the rules or bylaws of the Securities Depository (or an affiliate of such a participant or member), (ii) has been appointed as such by the State pursuant to Section 23.02(e)(7), and (iii) has entered into a Broker-Dealer Agreement that is in effect on the date of reference. When used herein at a time when more than one Broker-Dealer is acting under this Fourth Supplemental Resolution, the term "the Broker-Dealer" shall mean, as the context dictates, either all such Broker-Dealers collectively, or only each Broker-Dealer acting with respect to the Series 2006C Bonds.

Broker-Dealer Agreement means one or more agreements between the Auction Agent and the Broker-Dealer(s) pursuant to which the Broker-Dealer(s) agree(s) to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

Business Day means a day (a) other than a day on which banks in Anchorage, Alaska, Seattle, Washington, or New York, New York, the Securities Depository, the Broker-Dealer or the Remarketing Agent or the office of the Credit Facility Issuer or the Liquidity Facility Provider where draws are to be presented are closed and (b) on which the New York Stock Exchange is not closed.

Change of Tax Law means, with respect to any Auction Beneficial Owner, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the

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Closing Date, which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of Series 2006C Bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

Closing Date means the date of initial issuance and delivery of the Series 2006C Bonds.

Code means the Internal Revenue Code of 1986, as amended, together with corresponding and applicable final, temporary or proposed regulations or revenue rulings issued or amended with respect thereto by the U.S. Treasury Department or the Internal Revenue Service, to the extent applicable to the Series 2006C Bonds.

Commercial Paper Bond means a Series 2006C Bond while in a Commercial Paper Mode.

Commercial Paper Dealer means, initially, UBS Securities LLC, its successors and assigns, and any other commercial paper dealer appointed as provided in Section 23.02(e)(2)(B). The State may remove a Commercial Paper Dealer by notice from the Designated Representative to the Commercial Paper Dealer to be removed.

Commercial Paper Mode means the Mode in which the Series 2006C Bonds bear interest at Commercial Paper Rates for Interest Periods established pursuant to Section 23.02(d).

Commercial Paper Rate means the per annum interest rate for a Series 2006C Bond in the Commercial Paper Mode determined pursuant to Section 23.02(d).

Credit Facility means, initially, the Series 2006C Bond Insurance Policy and, thereafter, a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee or other financial instrument or any combination of the foregoing, which obligates a third party to make payment or provide funds for the payment of financial obligations of the State, including but not limited to payment of the scheduled principal of and interest on Series 2006C Bonds. There may also be one or more Credit Facilities outstanding at any time.

Credit Facility Issuer means the Series 2006C Bond Insurer initially and shall include the issuer of any other Credit Facility.

Current Mode means, on any date, the Mode in effect on that date for the Series 2006C Bonds.

Daily Mode means the Mode in which the interest rate on the Series 2006C Bonds is determined on each Business Day.

Daily Rate means the per annum interest rate on Series 2006C Bonds in the Daily Mode determined pursuant to Section 23.02(d).

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deemed to refer to any other nationally recognized securities rating agency (other than S&P or Moody's) designated by the Designated Representative.

Fixed Mode means the Mode in which the Series 2006C Bonds or Series 2006C Bonds bear interest at a Fixed Rate or Fixed Rates to the Maturity Date or Maturity Dates.

Fixed Rate means a per annum interest rate or rates borne by Series 2006C Bonds to the maturity thereof determined pursuant to Section 23.02(d).

Fixed Rate Bonds means Series 2006C Bonds or Bonds issued in the future under a Supplemental Resolution in which the rate of interest on such Series 2006C Bonds or Bonds is fixed and determinable through their final maturity or for a specified period of time. Series 2006C Bonds or Bonds may be deemed to be Fixed Rate Bonds for only a portion of their term.

Fourth Supplemental Resolution means this Resolution No. 2006-01, as the same may be amended in accordance with its terms.

Hold Order has the meaning provided in Section 2(a)(i) of the Auction Procedures.

Index means, on any Auction Date with respect to the Series 2006C Bonds in any Auction Period of 35 days or less, the S&P Weekly Index on such date and, with respect to ARCs in any Auction Period of more than 35 days, the yield on United States Treasury securities on the date the Auction Period began which has a maturity which most closely matches the last day of the Auction Period. If such rate is unavailable, the Index for the Series 2006C Bonds means an index or rate agreed to by all Broker-Dealers. If for any reason on any Auction Date the Index shall not be determined as provided above, the Index shall mean the Index for the Auction Period ending on such Auction Date.

Initial Auction Agent means the auction agent appointed by the State to serve as Initial Auction Agent hereunder pursuant to the Initial Auction Agent Agreement, its successors and assigns.

Initial Auction Agent Agreement means the Auction Agent Agreement between the State and the Initial Auction Agent, relating to the Series 2006C Bonds, including any amendment thereof or supplement thereto.

Initial Market Agent means the Initial Market Agent appointed by the State prior to conversion to the Auction Mode.

Interest Accrual Period means the period during which a Series 2006C Bond accrues interest payable on any Interest Payment Date, commencing on the last Interest Payment Date to which interest has been paid (or, if no interest has been paid in such Mode, commencing on the date of original authentication and delivery of such Series 2006C Bond, or the Mode Change Date, as the case may be) to, but not including, the Interest Payment Date on which interest is to be paid. Notwithstanding anything to the contrary in the foregoing, the Interest Accrual Period

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Default Tender Date means the Business Day that is five Business Days after receipt by the Registrar of notice from a Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, that an event of default under the applicable Reimbursement Agreement or Purchase Agreement has occurred and requesting a mandatory tender of the Series 2006C Bonds or stating that the Credit Facility or Liquidity Facility will not be reinstated.

DTC means The Depository Trust Company, New York, New York as depository for the Series 2006 Bonds, or any successor or substitute depository for the Series 2006 Bonds.

Electronic Means mean e-mail, teletype, telegraph, telex, facsimile transmission, time sharing terminal or any electronic means of communication that produces a written record.

Escrow Agent means the financial institution selected by the Designated Representative as provided in Section 23.16.

Escrow Agreement means the Escrow Agent Agreement pursuant to which the proceeds of the Series 2006D Bonds will be held by the Escrow Agent to defease the Refunded Bonds.

Existing Holder means, with respect to any Auction, a Person who was listed as the Auction Beneficial Owner in the applicable Existing Holder Registry at the close of business on the Business Day immediately preceding such Auction.

Existing Holder Registry means the registry of Persons who are Auction Beneficial Owners of Series 2006C Bonds in the Auction Mode maintained by the Auction Agent as provided in the Auction Agent Agreement.

Expiration Date means the stated expiration date of the Credit Facility or Liquidity Facility, as such stated expiration date may be extended in accordance with the terms of the Credit Facility or Liquidity Facility.

Expiration Tender Date means the day that is one Business Day prior to the Expiration Date.

Favorable Opinion of Bond Counsel means, with respect to any action, a written legal opinion of Bond Counsel, to the effect that such action is permitted under the laws of the State and this resolution and will not impair the exclusion of interest on a Series 2006C Bond from gross income for federal income tax purposes (subject to any exceptions contained in the opinion delivered upon original issuance of such Series 2006C Bond). The Favorable Opinion of Bond Counsel shall be addressed, or a reliance letter provided, to any Remarketing Agent and any Liquidity Facility Provider.

Fitch means Fitch Ratings, Inc., organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Fitch shall be

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for any Bank Bond shall begin on the date that Series 2006C Bond becomes a Bank Bond and shall end on the day immediately preceding the day that Bond ceases to be a Bank Bond and the Interest Accrual Period for Series 2006C Bonds in the Auction Mode shall be the Auction Interest Period.

Interest Coverage means with respect to each Series 2006C Bond in the Commercial Paper Mode, a dollar amount determined in accordance with the following formula:

$$((R \times P) + 365) \times (D + 15)$$

R = Commercial Paper Rate, applicable to such Series 2006C Bond

P = Principal amount of Bonds bearing interest at such Commercial Paper Rate

D = Duration (in days) of the Commercial Paper Interest Period applicable to such Series 2006C Bond

Interest Payment Date means, with respect to Series 2006C Bonds:

(a) with respect to Series 2006C Bonds in the Commercial Paper Mode, the Purchase Date;

(b) with respect to Series 2006C Bonds in the Daily Mode, the first Business Day of each month;

(c) with respect to Series 2006C Bonds in the Weekly Mode, the first Wednesday of each month, or the next succeeding Business Day if the first Wednesday of any month is not a Business Day;

(d) with respect to Series 2006C Bonds in the Long Term Mode (1) the first Business Day of each April and October prior to the Purchase Date and (2) the Purchase Date;

(e) with respect to Series 2006C Bonds in the Fixed Mode, each April 1 and October 1;

(f) with respect to Bank Bonds, as to that portion of the Purchase Price of the Series 2006C Bond paid by the Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, and constituting accrued interest, the date of purchase and thereafter, the dates specified in the applicable Reimbursement Agreement or Purchase Agreement, the applicable Maturity Date, the date of any optional redemption of a Bank Bond and the date of any remarketing of that Bank Bond;

(g) any Mode Change Date (but only with respect to the particular Series 2006C Bonds changing Modes on that date);

(h) any Mandatory Purchase Date (but only with respect to the particular Series 2006C Bonds subject to purchase on that date);

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(i) the Maturity Date (but only with respect to the particular Series 2006C Bonds maturing on that date) and

(j) with respect to Series 2006C Bonds in the Auction Mode, each Auction Interest Payment Date with respect to the Series 2006C Bonds.

Interest Period means the period of time that any interest rate remains in effect for the Series 2006C Bonds, which period:

(a) with respect to Series 2006C Bonds in the Commercial Paper Mode, shall be a period of at least one day, but not more than 270 days, established pursuant to Section 23.02(d);

(b) with respect to Series 2006C Bonds in the Weekly Mode, shall be from and including the Closing Date to and including the following Tuesday and thereafter commencing on each Wednesday to and including Tuesday of the following week, *provided that* in the case of a conversion from a Weekly Mode to a different Mode, the last Interest Period prior to conversion shall end on the last day immediately preceding the Mode Change Date, and *provided that* in the case of a conversion to the Weekly Mode, the Interest Period shall be from and including the first day that the Series 2006C Bonds become subject to the Weekly Mode to and including the following Tuesday and thereafter commencing on each Wednesday to and including Tuesday of the following week;

(c) with respect to the Long Term Mode, initially, shall be a period of one year or more from and including the Mode Change Date to, but not including, the Purchase Date established pursuant to Section 23.02(d), and thereafter shall be the period of one year or more from and including such Purchase Date to but not including the next Purchase Date or Maturity Date established by the Remarketing Agent pursuant to Section 23.02(d);

(d) with respect to Series 2006C Bonds in the Fixed Mode, shall be from and including the Mode Change Date for those Series 2006C Bonds to but not including the Maturity Date for those Series 2006C Bonds;

(e) with respect to the Daily Mode, the period from and including each Business Day during which the Series 2006C Bonds are in the Daily Mode to but excluding the next Business Day;

(f) with respect to any Bank Bond, the period from the date that Series 2006C Bond becomes a Bank Bond to but not including the date that Bond ceases to be a Bank Bond; and

(g) with respect to any Series 2006C Bonds in the Auction Mode, the Auction Interest Rate Period for such Series 2006C Bonds.

In no event shall an Interest Period for any Series 2006C Bond extend beyond the Maturity Date for that Series 2006C Bond or, except in the case of Bank Bonds, the day preceding any Mandatory Purchase Date for that Series 2006C Bond.

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Market Agent means the Initial Market Agent unless and until a Substitute Market Agent Agreement is entered into, after which "Market Agent" shall include both the Initial Market Agent and each Substitute Market Agent so acting.

Market Agent Agreement means a Market Agent Agreement between the State and the Initial Market Agent and each Substitute Market Agent Agreement, in each case as from time to time in effect.

Maturity Date means, with respect to the Series 2006C Bonds, the first Interest Payment Date to occur on or after October 1, 2030, and upon a change of Series 2006C Bonds to the Long Term Mode or Fixed Mode, any Serial Maturity Date or Term Maturity Date for such Series 2006C Bonds established pursuant to Section 23.03(a)(3).

Maximum Rate means, on any day, the lesser of (a) 15%, (b) the maximum interest rate permitted by applicable law, and (c) the per annum interest rate used under any Credit Facility or any Liquidity Facility for the Series 2006C Bonds.

Mode means the Auction Mode, the Commercial Paper Mode, the Daily Mode, the Weekly Mode, the Long Term Mode or the Fixed Mode, as the context may require.

Mode Change Date means the date one Mode terminates for the Series 2006C Bonds and another Mode for such Series 2006C Bonds begins.

Mode Change Notice means the notice sent by the Registrar to the Registered Owners pursuant to Section 23.02(f) notifying the Registered Owners that a change in Mode is to occur.

Moody's means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term Moody's shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch or S&P) selected by the Designated Representative.

New Mode means the Mode to which the Series 2006C Bonds are to be changed in accordance with Section 23.02(f).

Non-Payment Rate means, on any date of determination, the interest rate per annum equal to Maximum Rate.

Notice Parties means the State, the Remarketing Agent (if any), the Auction Agent (if any), the Broker-Dealer (if any), the Market Agent (if any), the Registrar, the Bank, any other Credit Facility Issuer (if any), and the Liquidity Facility Issuer (if any).

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Interest Portion means the dollar amount available with respect to Series 2006C Bonds to be drawn under the Credit Facility or Liquidity Facility then in effect to pay interest, and/or the portion of the Purchase Price constituting interest, on Series 2006C Bonds.

Interest Rate means a Daily Rate, a Weekly Rate, a Long Term Rate, a Fixed Rate, Auction Rate or a Commercial Paper Rate, as the context requires.

Liquidity Facility means, initially, the Standby Bond Purchase Agreement, and thereafter, any line of credit, standby purchase agreement or other financial instrument or any combination of the foregoing, which obligates a third party to make payment or to provide funds for the payment of the Purchase Price of Series 2006C Bonds.

Liquidity Facility Issuer means the issuer of any Liquidity Facility. So long as any Series 2006C Bonds remain Outstanding, any successor Liquidity Facility Issuer shall, at the time of issuance of its Liquidity Facility, be rated in the highest short-term Rating Category by Moody's and S&P.

Long Term Bond means any Series 2006C Bonds while in the Long Term Mode.

Long Term Mode means the Mode in which the interest rate on the Series 2006C Bonds is determined for a period of one year or longer.

Long Term Rate means the per annum interest rate for a term of one year or more to be borne by Series 2006C Bonds on and after a Mode Change Date for such Series 2006C Bonds to a Long Term Mode, which rates shall be determined in accordance with Section 23.02(d).

Mandatory Purchase Date, with respect to the Series 2006C Bonds, means:

(a) any Purchase Date for a Series 2006C Bond in the Commercial Paper Mode or the Long Term Mode,

(b) any Mode Change Date (other than a change between the Weekly Mode and the Daily Mode) for the Series 2006C Bonds changing Modes,

(c) any Substitution Tender Date or Expiration Tender Date,

(d) any Default Tender Date, and

(e) any Resolution Tender Date.

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Notice of Auction Payment Default means a notice substantially in the form of Exhibit E to the Auction Agent Agreement.

Notice of Cure of Auction Payment Default means a notice substantially in the form of Exhibit C attached hereto.

Notice of Percentage Change means a notice to the State, the Broker-Dealer(s), and the Auction Agent substantially in the form provided as Exhibit B to the Market Agent Agreement.

Notice of Proposed Percentage Change means a notice to the State, the Broker-Dealer(s), and the Auction Agent substantially in the form provided as Exhibit A to the Market Agent Agreement.

One Month LIBOR Rate means, as of any date of determination, the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

Optional Redemption means any redemption of Series 2006 Bonds made pursuant to Sections 23.03(a)(1), (2), (3)(B) through (F), and (4) hereof.

Order has the meaning provided in Section 2(a)(i) of the Auction Procedures.

Outstanding, when used as of a particular time with reference to Series 2006 Bonds, means all Series 2006 Bonds delivered hereunder except:

(a) Series 2006 Bonds cancelled by the Registrar or surrendered to the Registrar for cancellation;

(b) Series 2006 Bonds paid or deemed to have been paid within the meaning of this Fourth Supplemental Resolution; and

(c) Series 2006C Bonds in lieu of or in substitution for which replacement Series 2006 Bonds have been executed by the State and delivered by the Registrar hereunder.

Notwithstanding the foregoing, Bank Bonds shall remain outstanding until the applicable Credit Facility Issuer or Liquidity Facility Issuer is paid all amounts due on such Bank Bonds.

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Outstanding Parity Bonds means the following:

Original Authorizing Resolution No.	Designation	Dated Date of Issue	Original Principal Amount	Current Outstanding Principal Amount (as of 2/1/06)
99-01	International Airport System Revenue Bonds, Series 1999A	1/15/99	\$162,500,000	\$143,115,000
99-01	International Airports System Revenue Bonds, Series 1999B	1/15/99	\$ 16,675,000	\$ 14,595,000
99-07	International Airports System Revenue Bonds, Series 1999C	10/1/99	\$ 25,000,000	\$ 22,530,000
2002-01	International Airports System Revenue Bonds, Series 2002A (AMT)	4/1/02	\$ 13,060,000	\$ 6,605,000
2002-01	International Airports System Revenue Bonds, Series 2002B	4/1/02	\$ 127,720,000	\$127,720,000
2003-10	International Airports System Revenue and Refunding Bonds, Series 2003A (AMT)	12/11/03	\$ 73,025,000	\$ 67,710,000
2003-10	International Airports System Revenue Bonds, Series 2003B	12/11/03	\$ 21,900,000	\$ 21,900,000

Participant means (a) any person for which, from time to time, DTC may effect book-entry transfers and pledges of securities pursuant to the book-entry system referred to in Section 23.05 hereof or (b) any securities broker or dealer, bank, trust company or other person that clears through or maintains a custodial relationship with a person referred to in (a).

Person means an individual, a corporation, a partnership, limited liability company, an association, a joint stock company, a trust, an unincorporated organization, a governmental body or a political subdivision, a municipal corporation, a public corporation or any other group or organization of individuals.

Potential Holder means, with respect to any Auction, any Person, including any Existing Holder, who may be interested in acquiring a beneficial interest in Series 2006C Bonds in the Auction Mode subject to such Auction in addition to the Series 2006C Bonds in the Auction Mode, if any, currently owned by such Person.

Principal Payment Date means the Maturity Date or Dates and any Redemption Date for the Series 2006C Bonds.

Purchase Account means the account by that name maintained by the Registrar in accordance with Section 23.03(g) hereof.

Purchase Agreement means the Standby Bond Purchase Agreement and any other standby bond purchase agreement or reimbursement agreement between the State and a Liquidity

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short-term rating upon a change to a Long Term Mode or Fixed Mode) as a result of the action proposed to be taken.

Record Date means:

(a) with respect to Bank Bonds and Series 2006C Bonds in a Commercial Paper Mode, a Daily Mode or a Weekly Mode, the close of business as of the day (whether or not a Business Day) next preceding each Interest Payment Date; and

(b) with respect to the Series 2006A Bonds, the Series 2006B Bonds, the Series 2006D Bonds and Series 2006C Bonds in a Long Term Mode or a Fixed Mode, the 15th day (whether or not a Business Day) of the month next preceding each Interest Payment Date; and

(c) with respect to Series 2006C Bonds in the Auction Mode, the Business Day that is two Business Days before each Auction Interest Payment Date for such Series 2006C Bonds.

Redemption Date means the date fixed for redemption of Series 2006C Bonds subject to redemption in any notice of redemption given in accordance with the terms hereof.

Redemption Price means amounts to be paid to redeem the Series 2006 Bonds on the Redemption Date as set forth in Article XXIII hereof.

Refunded Bonds means, collectively, the Series 1999B Refunded Bonds and the Series 2002B Refunded Bonds.

Registered Owner means the person named as the registered owner of a Series 2006 Bond on the Bond Register. For so long as the Series 2006 Bonds are held by a Securities Depository or its nominee, such Securities Depository shall be deemed to be the Registered Owner.

Refunding Account means the Account by that name created pursuant to Section 23.16(b) of this Fourth Supplemental Resolution.

Reimbursement Agreement means any reimbursement agreement between the State and a Credit Facility Issuer, if any, and any and all modifications, alterations, and amendments and supplements thereto.

Reimbursement Bond means the reimbursement bond, if any, delivered to a direct pay Credit Facility Issuer pursuant to Section 5.01(d) hereof and the Reimbursement Agreement.

Remarketing Agent means UBS Securities LLC and any successor remarketing agent, if any, appointed by the State pursuant to a Remarketing Agreement.

Remarketing Agreement means the agreement of that name between the State and the Remarketing Agent.

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Facility Issuer, if any, and any and all modifications, alterations, and amendments and supplements thereto.

Purchase Date means (a) during the Commercial Paper Mode or the Long Term Mode, the date determined by the Remarketing Agent on the most recent Rate Determination Date as the next date on which a Series 2006C Bond shall be subject to purchase, and (b) during the Daily Mode or the Weekly Mode, any Business Day.

Purchase Price means (a) an amount equal to 100% of the principal amount of any Series 2006C Bond purchased on any Purchase Date, plus, in the case of any purchase of a Series 2006C Bond in the Daily Mode or the Weekly Mode on a day that is not an Interest Payment Date, accrued interest, to the Purchase Date, or (b) an amount equal to 100% of the principal amount of any Series 2006C Bond purchased on a Mandatory Purchase Date.

Rate Determination Date means the date on which the interest rate(s) on a Series 2006C Bond (other than a Bank Bond or Series 2006C Bonds in the Auction Mode) shall be determined, which,

(a) in the case of the Commercial Paper Mode, shall be the first day of an Interest Period;

(b) in the case of the Daily Mode, shall be each Business Day commencing with the first day the Series 2006C Bond becomes subject to the Daily Mode;

(c) in the case of the Weekly Mode, shall be the Business Day prior to the Closing Date (or in the event of a conversion to the Weekly Mode, on the Business Day prior to the Mode Change Date), and thereafter, shall be each Tuesday or, if Tuesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, then the Business Day next preceding such Tuesday;

(d) in the case of the Long Term Mode, shall be a Business Day determined by the Remarketing Agent which shall be at least one Business Day prior to the first day of an Interest Period; and

(e) in the case of the Fixed Mode, shall be a Business Day determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

Rating Agency means Fitch, Moody's or S&P.

Rating Category means the generic rating categories of a Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Rating Confirmation Notice means a written notice from any Rating Agency then maintaining a rating with respect to the Series 2006C Bonds confirming that the rating on the Series 2006C Bonds will not be lowered, withdrawn or suspended (other than a withdrawal of a

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Resolution means Resolution No. 99-01 adopted by the Committee on January 28, 1999.

Resolution Tender Date means the date on which the Series 2006C Bonds are subject to mandatory purchase to effect amendments to this Fourth Supplemental Resolution, pursuant to Section 23.03(e)(5) which date must be an Interest Payment Date or an Auction Interest Payment Date on which the State could have redeemed the Series 2006C Bonds at a price of par.

SEC means the United States Securities and Exchange Commission.

Securities Depository means any clearing agency registered under Section 17A of the Securities Exchange Act of 1934, as amended.

Sell Order has the meaning provided in Section 2(a)(f) of the Auction Procedures.

Serial Bonds means the Series 2006C Bonds maturing on the Serial Maturity Dates after conversion of the Bonds to a Long Term Mode or Fixed Mode, as determined pursuant to Section 23.03(a)(3).

Serial Maturity Dates means the dates on which the Serial Bonds mature, as determined pursuant to Section 23.03(a)(3).

S&P means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term S&P shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody's or Fitch) selected by the Designated Representative.

S&P Weekly Index means the Standard & Poor's Weekly High Grade Index (formerly J.I. Kenny) which is composed of thirty-four MIG-1 rated municipal tax-exempt notes that are not subject to AMT and the coupon of each issue is adjusted to price that component on par and track the high-grade weekly tax-exempt levels.

Series 1999B Refunded Bonds means the State of Alaska International Airports System Revenue Bonds, Series 1999B, issued pursuant to the Resolution, maturing on and after October 1, 2016.

Series 2002B Refunded Bonds means the State of Alaska International Airports System Revenue Bonds, Series 2002B, issued pursuant to the Second Supplemental Resolution, maturing on October 1, 2015 with an interest rate of 5.75% and on and after October 1, 2016.

Series 2006 Bonds means, collectively, the Series 2006A Bonds, the Series 2006B Bonds, the Series 2006C Bonds and the Series 2006D Bonds.

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Series 2006 Bond Insurance Policy means the municipal bond insurance policy, if any, issued by the Series 2006 Insurer insuring the payment when due of the principal of and interest on one or more series of the Series 2006 Bonds as provided therein.

Series 2006 Insurer means MBIA Insurance Corporation, a stock insurance corporation organized and existing under the laws of the State of New York, or any successor thereto or assignee thereof, as issuer of a Series 2006 Bond Insurance Policy for the Series 2006 Bonds of a Series.

Series 2006A Bonds means the State of Alaska International Airports System Revenue Bonds, Series 2006A (AMT), issued pursuant to the Resolution and Article XXIII of this Fourth Supplemental Resolution.

Series 2006A-C Components means the components of the Anchorage Airport Project and the improvements to the Fairbanks Airport identified on Exhibit A attached hereto

Series 2006B Bonds means the State of Alaska International Airports System Revenue Bonds, Series 2006B (Non-AMT), issued pursuant to the Resolution and Article XXIII of this Fourth Supplemental Resolution.

Series 2006B Components means the components of the Anchorage Airport Project and the improvements to the Fairbanks Airport identified on Exhibit B attached hereto

Series 2006C Bonds means the State of Alaska International Airports System Variable Rate Revenue Bonds, Series 2006C (AMT), issued pursuant to the Resolution and Article XXIII of this Fourth Supplemental Resolution.

Series 2006D Bonds means the State of Alaska International Airports System Revenue Refunding Bonds, Series 2006D (Non-AMT), issued pursuant to the Resolution and Article XXIII of this Fourth Supplemental Resolution.

Special Record Date means a special date fixed to determine the names and addresses of holders of the Series 2006C Bonds for purposes of paying interest on a special interest payment date for the payment of Auction Defaulted Interest, in the case of Series 2006C Bonds in the Auction Mode, or in connection with the payment of overdue interest on Series 2006 Bonds in all other Modes.

Standby Bond Purchase Agreement means the agreement of that name between the Bank and the State and any and all modifications, alterations and amendments and supplements thereto.

Submitted Hold Orders has the meaning provided in Section 2(c)(i) of the Auction Procedures.

Substitute Auction Agent means the Person with whom the State enters into a Substitute Auction Agent Agreement.

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Weekly Rate means the per annum interest rate on Series 2006C Bonds while in the Weekly Mode determined pursuant to Section 23.02(d).

Section 22.02. Rules of Construction. The following rules of construction shall be applied to this Fourth Supplemental Resolution.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Fourth Supplemental Resolution, and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Fourth Supplemental Resolution as a whole and not to any particular Article, Section or subdivision hereof.

(d) In this Fourth Supplemental Resolution, the words "hereof," "herein," "hereto," "hereby" and "hereunder" (except in the form of Parity Bond) refer to this entire Fourth Supplemental Resolution.

(e) Every "request," "order," "demand," "application," "appointment," "notice," "statement," "certificate," "consent," "direction" or similar action hereunder by the AIAS shall, unless the form thereof is specifically provided, be in writing signed by the Authorized AIAS Representative.

Section 22.03. Effect of Resolution. Except as expressly provided herein, every term and condition contained in the Resolution shall apply to this Fourth Supplemental Resolution and to the Series 2006 Bonds with the same force and effect as if the same were set forth herein at length.

ARTICLE XXIII THE SERIES 2006 BONDS

Section 23.01. Authorization of the Series 2006 Bonds. As authorized by the Act, the State shall issue four series of bonds. The first series ("Series 2006A Bonds") shall be issued to pay costs of the Series 2006A-C Components, to fund a portion of the Reserve Account Requirement allocable to the Series 2006A Bonds or purchase a Surety Bond therefor and to pay costs of issuance, including, but not limited to, the payment of the premium cost for a Series 2006 Bond Insurance Policy, and shall be issued in the principal amount of \$118,975,000. The second series ("Series 2006B Bonds") shall be issued to pay costs of the Series 2006B Components, to fund a portion of the Reserve Account Requirement allocable to the Series

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Substitute Auction Agent Agreement means an auction agent agreement containing terms substantially similar to the terms of the Initial Auction Agent Agreement whereby a Person having the qualifications required by Section 23.02(e)(6) agrees with the State to perform the duties of the Auction Agent herein with respect to the Series 2006C Bonds in the Auction Mode.

Substitute Market Agent means the Person with whom the State enters into a Substitute Market Agent Agreement.

Substitute Market Agent Agreement means a market agent agreement containing terms substantially similar to the terms of the initial Market Agent Agreement, approved by the Series 2006 Bond Insurer and entered into between the State and a market agent selected by the State.

Substitution Date means the date on which an alternative Credit Facility (other than a bond insurance policy) or Liquidity Facility becomes effective.

Substitution Tender Date means the day that is one Business Day prior to the Substitution Date.

Sufficient Clearing Bids has the meaning provided in Section 2(c)(i) of the Auction Procedures.

Surety Bond means the surety bond(s), if any, issued by the Surety Bond Issuer on the date(s) of issuance of the Series 2006 Bonds for the purpose of satisfying all or a portion of the Reserve Account Requirement. There may be more than one Surety Bond.

Surety Bond Agreement means any Agreement(s) between the State and the Surety Bond Issuer with respect to the Surety Bond(s).

Surety Bond Issuer means any issuer(s) of the Surety Bond(s).

Term Bonds means the Series 2006C Bonds maturing on Term Bond Maturity Dates after conversion of the Series 2006C Bonds to a Long Term Mode or Fixed Mode as determined pursuant to Section 23.03(a)(3).

Term Maturity Dates means the dates on which Series 2006C Term Bonds mature, as determined pursuant to Section 23.03(a)(3).

Underwriters mean UBS Securities LLC, Citigroup Global Markets Inc., Merrill Lynch & Co. and Morgan Stanley.

Weekly Mode means the Mode in which the Interest Rate on the Series 2006C Bonds is determined on a weekly basis.

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2006B Bonds or purchase a Surety Bond therefor and to pay costs of issuance, including, but not limited to, the payment of the premium cost for a Series 2006 Bond Insurance Policy, and shall be issued in the principal amount of \$70,760,000. The third series ("Series 2006C Bonds") shall be issued to pay costs of the Series 2006A-C Components, to fund a portion of the Reserve Account Requirement allocable to the Series 2006C Bonds or purchase a Surety Bond therefor and to pay costs of issuance, including, but not limited to, the payment of the premium cost for a Series 2006C Bond Insurance Policy, and shall be issued in the principal amount of \$50,000,000. The fourth series ("Series 2006D Bonds") shall be issued for the purpose of refunding the Series 1999B Refunded Bonds and refunding the Series 2002B Refunded Bonds and paying costs of issuance, including, but not limited to, the payment of the premium cost for a Series 2006 Bond Insurance Policy, and shall be issued in an aggregate principal amount of \$104,860,000.

Section 23.02. Bond Details

(a) *Description of the Series 2006A Bonds.* The Series 2006A Bonds shall be designated as "State of Alaska International Airports System Revenue Bonds, Series 2006A (AMT)," shall be registered as to both principal and interest and shall be numbered separately in the manner and with any additional designation as the Registrar deems necessary for purposes of identification, shall be dated as of the date of their original delivery, shall be in the denomination of \$5,000 each or any integral multiple of \$5,000 (provided that no Series 2006A Bond shall represent more than one maturity), and shall bear interest from their date, payable on October 1, 2006, and semiannually thereafter on the first days of each April and October and shall mature on October 1 in the years and principal amounts and shall bear interest at the rates set forth as follows:

Year (October 1)	Principal Amount	Interest Rate
2007	\$ 1,400,000	4.000%
2007	275,000	3.500
2008	3,745,000	5.000
2008	2,135,000	3.750
2009	4,040,000	5.000
2009	2,105,000	3.750
2010	6,400,000	5.000
2010	25,000	3.800
2011	6,315,000	5.000
2011	435,000	4.000
2012	5,530,000	5.000
2012	1,550,000	4.000
2013	5,410,000	5.000
2013	2,010,000	4.000
2014	7,200,000	5.000
2014	570,000	4.125
2015	8,005,000	5.000
2015	150,000	4.150
2016	7,645,000	4.000
2016	915,000	4.200
2017	8,795,000	5.000
2017	110,000	4.250
2018	9,280,000	5.000
2018	70,000	4.250
2019	9,815,000	5.000
2020	10,305,000	5.000
2021	10,820,000	5.000
2022	3,550,000	5.000
2022	370,000	4.400

(b) *Description of the Series 2006B Bonds.* The Series 2006B Bonds shall be designated as "State of Alaska International Airports System Revenue Bonds, Series 2006B (Non-AMT)," shall be registered as to both principal and interest and shall be numbered separately in the manner and with any additional designation as the Registrar deems necessary for purposes of identification, shall be dated as of the date of their original delivery, shall be in the denomination of \$5,000 each or any integral multiple of \$5,000 (provided that no Series 2006B Bond shall represent more than one maturity), and shall bear interest from their date, payable on October 1, 2006, and semiannually thereafter on the first days of each April and October and shall mature on October 1 in the years and principal amounts and shall bear interest at the rates set forth as follows:

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Rates) than are otherwise available at the time of any remarketing if the Remarketing Agent determines that, taking into account prevailing market conditions, a lower net interest cost on the Series 2006C Bonds can be achieved over the long term. Notwithstanding the foregoing, (i) if the Remarketing Agent has given or received notice that the Series 2006C Bonds are to be changed from the Commercial Paper Mode to any other Mode or are to be purchased pursuant to a mandatory tender in accordance with Section 4.02, the Remarketing Agent shall select Interest Periods for such Series 2006C Bonds that do not extend beyond the Mandatory Purchase Date or the expiration date of the Standby Bond Purchase Agreement and (ii) the Remarketing Agent shall not establish any Interest Period for such Series 2006C Bonds if, as a result of the selection of such Interest Period, the Aggregate Interest Coverage available for such Series 2006C Bonds would be greater than the Interest Portion with respect to such Series 2006C Bonds. While Series 2006C Bonds are in the Commercial Paper Mode, such Series 2006C Bonds in the Commercial Paper Mode secured by or payable from a Credit Facility or Liquidity Facility shall bear interest at a rate that does not result in Aggregate Interest Coverage on such Series 2006C Bonds greater than the Interest Portion available for such Series 2006C Bonds pursuant to such Credit Facility or Liquidity Facility. The Interest Rate on any Series 2006C Bond in the Auction Mode shall not exceed the Auction Maximum Rate. For all other modes, the Interest Rate on any Series 2006C Bond (other than Bank Bonds, if any) may not exceed the Maximum Rate. The Remarketing Agent shall include a covenant by the Remarketing Agent to comply with the limitations established by this resolution. All Series 2006C Bonds having the same Maturity Date (other than Bank Bonds and Commercial Paper Bonds) shall bear interest at the same Interest Rate, and all Series 2006C Bonds other than Bank Bonds shall be at all times in the same Mode.

(B) In the event the Remarketing Agent fails for any reason to determine the Interest Rate for any Interest Period (except as provided in Section 23.02(d)(7)):

(i) the Interest Rate then in effect for Series 2006C Bonds that accrue interest at Daily Rates will remain in effect from day to day until the Registrar is notified of a new Daily Rate determined by the Remarketing Agent;

(ii) the Interest Rate then in effect for Series 2006C Bonds that accrue interest at Weekly Rates will remain in effect from week to week until the Registrar is notified of a new Weekly Rate determined by the Remarketing Agent; and

(iii) the Interest Rate for any Series 2006C Bond that accrues interest at Commercial Paper Rates and for which a Commercial Paper Rate and Interest Period is not determined shall be equal to the BMA Municipal Swap Index, and the Interest Period for such Series 2006C Bond shall extend to but not include the next Business Day, until the Registrar is notified of a new Commercial Paper Rate and Interest Period determined for such Series 2006C Bond by the Remarketing Agent.

(C) The Interest Rate in effect for Series 2006C Bonds during any Interest Period and, in connection with the Commercial Paper Mode and the Long Term Mode, and the Interest Period, shall be available to Beneficial Owners and Registered Owners between 1:00 p.m. and 5:00 p.m., New York City time, from the Remarketing Agent.

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Year (October 1)	Principal Amount	Interest Rate
2022	\$ 7,445,000	5.000%
2023	11,930,000	5.000
2024	12,525,000	5.000
2025	13,150,000	5.000
2026	13,810,000	5.000
2027	11,900,000	5.000

(c) *Description of the Series 2006C Bonds.* The Series 2006C Bonds shall be designated as "State of Alaska International Airports System Variable Rate Revenue Bonds, Series 2006C (AMT). The Series 2006C Bonds shall be dated the date of their delivery to the Underwriters, shall mature on the Maturity Date(s), shall be issued in Authorized Denominations and, for purposes of calculating Debt Service, shall be deemed to be Balloon Maturity Bonds; provided, that following a determination that Series 2006C Bonds in the Long Term Mode or the Fixed Mode shall have Serial Maturity Dates or be Term Bonds with mandatory sinking fund provisions, the Series 2006C Bonds shall no longer be deemed to be Balloon Maturity Bonds. The Series 2006C Bonds initially shall bear interest in the Weekly Mode. The Series 2006C Bonds (other than Bank Bonds, if any) in any Mode other than a Fixed Mode may be changed to any other Mode at the times and in the manner provided herein. All Series 2006C Bonds (other than Bank Bonds, if any) shall be within the same Mode. On the Mode Change Date for the Series 2006C Bonds, the Current Mode for such Series 2006C Bonds (other than Bank Bonds, if any) shall be changed to the New Mode, as provided in Section 23.02(f). Subsequent to such change in Mode (other than a change to a Fixed Mode), the Series 2006C Bonds (other than Bank Bonds, if any) may again be changed to a different Mode at the times and in the manner provided herein. A Fixed Mode shall be in effect until the Maturity Date(s) for the Series 2006C Bonds and may not be changed to any other Mode. Prior to a change in Mode from or to a Long-Term Mode or to a Fixed Mode, the State shall obtain a Favorable Opinion of Bond Counsel with respect to such change in Mode.

(d) *Determination of Interest Rates for Series 2006C Bonds Other than Series 2006C Bonds in the Auction Mode.*

(1) *Determination by Remarketing Agent.*

(A) The Interest Rate for the Series 2006C Bonds (other than Commercial Paper Bonds, Auction Rate Bonds and Bank Bonds) shall be determined by the Remarketing Agent as the rate of interest that, in the judgment of the Remarketing Agent, would cause such Series 2006C Bonds to have a market value as of the date of determination equal to the principal amount thereof (plus accrued interest, if any), taking into account prevailing market conditions, and with respect to the Commercial Paper Mode, the Remarketing Agent shall determine the Commercial Paper Rate and the Interest Period for each Series 2006C Bond in the Commercial Paper Mode at such rate and for such period (which shall not exceed 270 days) as it deems advisable in order to minimize the net interest cost on the Series 2006C Bonds, taking into account prevailing market conditions; provided, however, that the foregoing shall not prohibit the Remarketing Agent from establishing longer Interest Periods (and at higher Commercial Paper

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(2) *Additional Provisions Regarding Commercial Paper Interest Periods and Interest Rates.*

(A) Any Commercial Paper Bond may accrue interest at a Commercial Paper Rate for an Interest Period different from any other Series 2006C Bond. Each Interest Period shall commence on a Business Day and end on a day immediately preceding a Business Day.

(B) Not later than 1:00 p.m., New York City time, on each Rate Determination Date, the Remarketing Agent shall determine each Commercial Paper Rate and Interest Period for a Commercial Paper Bond and the Remarketing Agent shall provide it to the Registrar by telephonic or Electronic Means. The Registrar shall obtain CUSIP numbers for each Series 2006C Bond in the Commercial Paper Mode for which a Commercial Paper Rate and Interest Period have been determined on such date.

(3) *Daily Rates.* The Daily Rate for each Interest Period in the Daily Mode shall be effective from and including the commencement date thereof and shall remain in effect to, but not including, the next succeeding Business Day. Each such Daily Rate shall be determined by the Remarketing Agent not later than 10:00 a.m., New York City time, on each Business Day and provided by the Remarketing Agent to the Registrar by telephonic or Electronic Means no later than the last Business Day of each month.

(4) *Weekly Rates.* The Weekly Rate for each Interest Period in the Weekly Mode shall be effective from and including the commencement date of such Interest Period through and including the last day thereof. Each such Weekly Rate shall be determined by the Remarketing Agent no later than 4:00 p.m., New York City time, on the Rate Determination Date and provided to the Registrar and the State by the Remarketing Agent by telephonic or Electronic Means by the second Business Day following such Rate Determination Date.

(5) *Long Term Rates.* The Remarketing Agent, with the consent of the Designated Representative shall determine the length of each Interest Period for the Long Term Mode.

(A) The Long Term Rate for each Interest Period during the Long Term Mode shall be effective from and including the commencement date of such Interest Period and remain in effect through and including the last day thereof. Each such Long Term Rate shall be determined not later than 12:00 noon, New York City time, on the Rate Determination Date and provided to the Registrar by the Remarketing Agent by telephonic or Electronic Means by the close of business on such Rate Determination Date.

(B) For any Interest Period in the Long Term Mode, the Maturity Date may be converted by the Remarketing Agent, with the approval of the Designated Representative, to Term Maturities of Serial Maturity Dates as provided in Section 23.03(a)(3).

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(C) If Term Maturity Dates or Serial Maturity Dates are approved by the State, a Long Term Rate shall be set for each such date.

(6) *Fixed Rate.* A Fixed Rate shall be determined as follows:

(A) The Fixed Rate for the Series 2006C Bonds during the Fixed Mode shall be effective from and including the Mode Change Date for such Series 2006C Bonds and remain in effect until the Maturity Date. The Fixed Rate shall be determined not later than 3:00 p.m., New York City time, on the Rate Determination Date and provided to the Registrar by the Remarketing Agent by telephone or Electronic Means by the close of business on such Rate Determination Date.

(B) If Term Maturity Dates or Serial Maturity Dates are established pursuant to Section 23.03(a)(3) and approved by the State, a Fixed Rate shall be set for each such date.

(7) *Rate in Absence of Remarketing Agent.* If there is a vacancy in the office of Remarketing Agent, the Series 2006C Bonds (other than Bank Bonds or Bonds in the Auction Mode) in the Daily or Weekly Mode, shall bear interest at a rate equal to 100% of the S&P Weekly Index then in effect and if the 2006C Bonds are in the Commercial Paper Mode, the Interest Period will be for a duration ending on the next Business Day and the Interest Rate for each Interest Period shall be equal to 100% of the S&P Weekly Index then in effect.

(e) *Interest Rates on Series 2006C Bonds in the Auction Mode.*

(1) *Payments with Respect to Series 2006C Bonds in the Auction Mode.*

(A) Interest with respect to the Series 2006C Bonds in the Auction Mode shall accrue from and including, as applicable, the Closing Date, the Mode Change Date for such Series 2006C Bonds or the most recent Auction Interest Payment Date for such Series 2006C Bonds to which interest has been paid or duly provided for.

(B) The Registrar shall determine the aggregate amount of interest payable with respect to the Series 2006C Bonds in the Auction Mode on each Auction Interest Payment Date for such Series 2006C Bonds. The Registrar shall notify the Securities Depository of its calculations, as provided in Section 23.02(e)(3)(B).

(C) So long as the ownership of the Auction Bonds is maintained in book-entry form by the Securities Depository, purchases and sales of Auction Bonds at an Auction shall be made only through a Broker-Dealer pursuant to a Bid or Sell Order placed in such Auction. The Applicable Auction Rate for each Auction Interest Period after the first Auction Interest Period shall be the Auction Rate, provided that

(i) if a notice of a proposed adjustment in the percentages used to determine the Auction Maximum Rate, the All-Hold Rate and the Non-Payment Rate shall have been given by the Market Agent in accordance with Section 23.02(e)(4)(B) with respect to

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send a Notice of Cure of Auction Payment Default to the Auction Agent, who shall deliver a copy of such notice to each Broker-Dealer by teletype or similar means.

(ii) Auction Defaulted Interest shall cease to be payable to the Auction Beneficial Owner on the relevant Record Date by virtue of having been such Auction Beneficial Owner and such Auction Defaulted Interest shall be payable to the Person in whose name the Series 2006C Bonds are registered at the close of business on a Special Record Date fixed thereby by the Registrar, which shall not be more than 15 days and not fewer than 10 days prior to the date of the proposed payment of Auction Defaulted Interest. The Registrar shall promptly notify the State of the Special Record Date and, at the State's expense, mail to each Auction Beneficial Owner of Series 2006C Bonds of which it has knowledge, not less than 10 days before the Special Record Date, notice of the date of the proposed payment of such Auction Defaulted Interest.

(2) *Calculation of Auction Maximum Rate, All-Hold Rate and Non-Payment Rate.*

(A) The Auction Agent shall calculate the Auction Maximum Rate and the All-Hold Rate on each Auction Date. If the ownership of the Series 2006C Bonds in the Auction Mode is no longer maintained in book-entry form by the Securities Depository, the Auction Agent shall calculate the Auction Maximum Rate on the Business Day immediately preceding each Auction Interest Payment Date after the delivery of certificates representing the Series 2006C Bonds in the Auction Mode pursuant to this Fourth Supplemental Resolution. If an Auction Payment Default shall have occurred, the Auction Agent shall calculate the Non-Payment Rate on the first day of (i) each Auction Interest Period commencing on or after the date of the occurrence and during the continuation of such Auction Payment Default and (ii) any Auction Interest Period commencing less than two Business Days after the cure of any Auction Payment Default. The Auction Agent shall determine the One-Month LIBOR Rate for each Auction Interest Period other than the first Auction Interest Period. The Auction Agent shall promptly advise the State, each Broker-Dealer and the Registrar of the One-Month LIBOR Rate, Auction Maximum Rate, All-Hold Rate and Non-Payment Rate.

(B) If the One-Month LIBOR Rate is not available, the Broker-Dealer shall provide an alternative with the consent of the Auction Agent.

(3) *Notification of Rates, Amounts and Payment Dates.*

(A) So long as the ownership of the Series 2006C Bonds in the Auction Mode is maintained in book-entry form by the Securities Depository, the Registrar shall advise the Securities Depository of each Record Date for the Series 2006C Bonds in the Auction Mode at least two Business Days prior thereto.

(B) On the Business Day preceding each Auction Interest Payment Date with respect to the Series 2006C Bonds in the Auction Mode, the Registrar shall advise the Securities Depository, so long as the ownership of the Series 2006C Bonds in the Auction Mode is maintained in book-entry form by the Securities Depository, of the amount of interest

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the Series 2006C Bonds in the Auction Mode and if, because of a failure to satisfy either of the conditions set forth in clause (i) or (ii) of Section 23.02(e)(4)(C), such adjustment shall not have taken effect, then an Auction with respect to such Series 2006C Bonds shall not be held on the next Auction Date and the Applicable Auction Rate for such Series 2006C Bonds for the Auction Interest Period beginning immediately after such Auction Date shall equal the Auction Maximum Rate on such Auction Date; and

(ii) in the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period (except as contemplated otherwise herein pursuant to (i) above or (X) and (Y) below), the new Auction Period for such Series 2006C Bonds shall be the same as the preceding Auction Period and the Auction Rate for the new Auction Period shall be the same as the Auction Rate for the preceding Auction Period. Notwithstanding the foregoing:

(X) if the ownership of the Series 2006C Bonds in the Auction Mode is no longer maintained in book-entry form by a Securities Depository, the Applicable Auction Rate for any Auction Interest Period commencing after the delivery of certificates representing the Series 2006C Bonds in the Auction Mode pursuant to this Fourth Supplemental Resolution shall equal the Auction Maximum Rate;

(Y) if an Auction Payment Default shall have occurred with respect to the Series 2006C Bonds, the Applicable Auction Rate for the Auction Interest Period for such Series 2006C Bonds commencing on or immediately after the date of such Auction Payment Default and for each Auction Interest Period for such Series 2006C Bonds thereafter, to and including the Auction Interest Period for such Series 2006C Bonds, if any, during which, or commencing less than two Business Days after, such Auction Payment Default is cured in accordance with this Fourth Supplemental Resolution, shall equal the Non-Payment Rate on the first day of each such Auction Interest Period, provided, that if an Auction for such Series 2006C Bonds occurred on the Business Day immediately preceding any such Auction Interest Period, the Applicable Auction Rate for such Auction Interest Period for such Series 2006C Bonds shall be the Non-Payment Rate; and

(Z) if the Auction Rate for the Series 2006C Bonds is equal to the Auction Maximum Rate for three consecutive Auction Periods, then the State agrees to consult with the Series 2006C Bond Insurer regarding the State's plan to remedy such situation through the conversion of such Series 2006C Bonds in the Auction Mode to another mode or refund or otherwise retire the Series 2006C Bonds.

(D) *Auction Defaulted Interest.*

(i) The Registrar shall determine not later than 2:00 p.m., New York City time, on each Auction Interest Payment Date, whether an Auction Payment Default has occurred. If an Auction Payment Default has occurred, the Registrar shall notify the Auction Agent and, not later than 2:30 p.m., New York City time, on such Business Day, the Auction Agent shall send a Notice of Auction Payment Default to each Broker-Dealer by teletype or similar means and, if such Auction Payment Default is cured, the Registrar shall immediately

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distributable in respect of each \$25,000 in principal amount of Series 2006C Bonds in the Auction Mode for any Auction Interest Period or part thereof.

If any day scheduled to be an Auction Interest Payment Date shall be changed after the Registrar shall have given notice, the Registrar shall, not later than 9:15 a.m., New York City time, on the Business Day next preceding the earlier of the new Auction Interest Payment Date or the old Auction Interest Payment Date, by such means as the Registrar deems practicable, give notice of such change to the Auction Agent, so long as no Auction Payment Default has occurred and is continuing and the ownership of the Series 2006C Bonds in the Auction Mode is maintained in book-entry form by the Securities Depository.

(4) *Adjustment in Percentages.*

(A) The Market Agent shall adjust the percentage used in determining the All-Hold Rate, the Applicable Percentages used in determining the Auction Maximum Rate and the percentage of the Index used in calculating the Non-Payment Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any change in market convention or Change of Tax Law such that a Series 2006C Bond in the Auction Mode bearing interest at the Auction Maximum Rate, a Series 2006C Bond in the Auction Mode bearing interest at the All-Hold Rate and a Series 2006C Bond in the Auction Mode bearing interest at the Non-Payment Rate in each case shall have substantially the same market value after such change in market convention or Change of Tax Law as before such change in market convention or Change of Tax Law. In making any such adjustment, the Market Agent shall take into account the following factors, as in existence both before and after such change in market convention or Change of Tax Law: (i) short-term taxable and tax-exempt market rates and indices of such short-term rates; (ii) the market supply and demand for short-term tax-exempt securities; (iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the Series 2006C Bonds in the Auction Mode, (iv) general economic conditions, and (v) economic and financial factors present in the securities industry that may affect, or that may be relevant to, the Series 2006C Bonds in the Auction Mode.

(B) The Market Agent shall communicate its determination to adjust the percentage used in determining the All-Hold Rate, the Applicable Percentages used in determining the Auction Maximum Rate, and the percentage of the Index used in calculating the Non-Payment Rate pursuant to subsection (a) above by means of a Notice of Proposed Percentage Change delivered in writing at least 10 days prior to the Auction Date on which the Market Agent desires to effect the change to the State, the Registrar, the Series 2006C Bond Insurer, the Broker-Dealer and the Auction Agent. Such notice shall be effective only if it is accompanied by the form of a Favorable Opinion of Bond Counsel.

(C) An adjustment in the percentage used to determine the All-Hold Rate, the Applicable Percentage used in determining the Auction Maximum Rate, and the percentage of the Index used in calculating the Non-Payment Rate shall take effect on an Auction Date only if:

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(i) The State, the Registrar, the Broker-Dealer and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day immediately preceding such Auction Date, a Notice of Percentage Change from the Market Agent by telecopy or similar means, (A) authorizing the adjustment of the percentage used to determine the All-Hold Rate, the Applicable Percentages used to determine the Auction Maximum Rate, and the percentage of the Index used to determine the Non-Payment Rate which shall be specified in such authorization, and (B) confirming that Bond Counsel expects to be able to give a Favorable Opinion of Bond Counsel on or prior to such Auction Date; and

(ii) The State, the Registrar, the Series 2006C Bond Insurer, the Broker-Dealer and the Auction Agent receive by 9:30 a.m., New York City time, on such Auction Date, a Favorable Opinion of Bond Counsel.

If the conditions referred to in (i) and (ii) above are not met, the existing percentage used in determining the All-Hold Rate, the existing percentage of the Index used in determining the Non-Payment Rate, and the existing Applicable Percentages used in determining the Auction Maximum Rate shall remain in effect and, subject to Section 2.10(a)(3)(C), the Applicable Auction Rate for each succeeding Auction Interest Period until each such condition is met shall equal the Auction Maximum Rate on the Auction Date for such succeeding Auction Interest Period.

(5) *Market Agent.*

(A) The Designated Representative is hereby directed, prior to conversion to the Auction Mode, to enter into the Market Agent Agreement with the Initial Market Agent and to appoint an Initial Market Agent as the Initial Market Agent thereunder. The Designated Representative is authorized to appoint a Substitute Market Agent, acceptable to the Series 2006C Bond Insurer. The Market Agent shall serve as such under the terms and provisions hereof and of the Market Agent Agreement. The Market Agent shall be a member of the National Association of Securities Dealers, Inc. having capitalization of at least \$25,000,000, and be authorized by law to perform all the duties imposed upon it by this Fourth Supplemental Resolution and the Market Agent Agreement.

(B) The Market Agent may be removed by the Designated Representative at any time. The Market Agent may also be removed pursuant to the written direction of the Series 2006C Bond Insurer and the Auction Beneficial Owners of 66-2/3% of the aggregate principal amount of the Series 2006C Bonds in Auction Mode then outstanding, by an instrument filed with the Market Agent, the Auction Agent, and the Registrar, provided that such removal shall not take effect until the appointment by the Designated Representative of a Substitute Market Agent acceptable to the Series 2006C Bond Insurer or, if the State fails to so appoint a Substitute Market Agent, until the appointment by the Auction Beneficial Owners of a Substitute Market Agent acceptable to the Series 2006C Bond Insurer. The Market Agent may resign upon 30 days' written notice delivered to the Designated Representative.

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acceptable to the Series 2006C Bond Insurer and shall be responsible for providing such Broker-Dealer Agreements to the Auction Agent. No such party shall constitute a Broker-Dealer until a fully executed Broker-Dealer Agreement is delivered to the Auction Agent. As of the date of this Fourth Supplemental Resolution, the Series 2006C Bond Insurer has approved the Underwriters as Persons acceptable to serve as Broker-Dealers under Broker-Dealer Agreements.

(B) Any Broker-Dealer may be removed at any time by the Designated Representative with notice to the Auction Agent, Market Agent and Series 2006C Bond Insurer.

(8) *Provisions Relating to Auctions.* None of the State, the Registrar or the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder, nor shall any of the State, the Registrar or the Auction Agent be responsible for failure by any Securities Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers. None of the State, the Registrar, the Broker-Dealers or the Auction Agent shall have any liability in the event that there are not Sufficient Clearing Bids from time to time pursuant to the Auction Procedures.

(9) *Agreement of Holders.* By purchasing Series 2006C Bonds in the Auction Mode, whether in an Auction or otherwise, each prospective purchaser of Series 2006C Bonds in the Auction Mode and its Broker-Dealer will be deemed to have agreed to the provisions for the replacement of the Auction Agent, each Broker-Dealer and the Market Agent as provided in this resolution, and relevant agreements among the State, the Auction Agent, the Market Agent and the Broker-Dealer, as appropriate.

(10) *Changes in Auction Period or Auction Date.*

(A) *Changes in Auction Period.*

(i) The Designated Representative shall select the initial Auction Period and direct the Registrar to specify the day of the week on which the Auction Period shall commence generally for the Series 2006C Bonds. The Auction Period with respect to each subsequent Auction Interest Rate Period, if any, initially shall be either a one-day, seven-day period, 28-day or a 35-day period commencing on the day in each case as announced by the State in its notice of the proposed Mode Change to such subsequent Auction Interest Rate Period as provided in Section 23.02(f)(3).

(ii) During any Auction Interest Rate Period, the State may from time to time and on any Auction Interest Payment Date, change the length of the Auction Period for the Series 2006C Bonds among one-day, seven-days, 28-days and 35-days in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Series 2006C Bonds. The State shall initiate the change in the length of the Auction Period by giving written notice to the Registrar, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least three Business Days prior to the Auction Date for such Auction Period.

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(6) *Auction Agent.*

(A) The Designated Representative is hereby authorized, prior to conversion to the Auction Mode, to enter into the Initial Auction Agent Agreement with the Initial Auction Agent. The Designated Representative is authorized to appoint a Substitute Auction Agent. Any Substitute Auction Agent shall be (i) subject to the written approval of each Broker-Dealer and the Series 2006C Bond Insurer, and (ii) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof, and (iii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$25,000,000, and, in either case, authorized by law to perform all the duties imposed upon it hereunder and under the Auction Agent Agreement.

(B) The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Fourth Supplemental Resolution by giving at least 90 days' notice to the State, the Broker-Dealer, the Series 2006C Bond Insurer, the Registrar, and the Market Agent. The Auction Agent may be removed at any time by the Designated Representative upon at least 30 days' written notice to the Broker-Dealer, Registrar, Market Agent and Series 2006C Bond Insurer. The Auction Agent also may be removed upon the written direction of the Series 2006C Bond Insurer and Auction Beneficial Owners of 66-2/3% of the aggregate principal amount of the Series 2006C Bonds in Auction Mode then outstanding, by an instrument filed with the Auction Agent, the Market Agent, the State, and the Registrar upon at least 30 days' notice. Neither the resignation nor the removal of the Auction Agent pursuant to the preceding two sentences shall be effective until and unless a Substitute Auction Agent has been appointed and has accepted such appointment; provided, however, that if a Substitute Auction Agent has not been so appointed within 45 days after the notice of resignation of the Auction Agent, the Auction Agent may petition a court of competent jurisdiction to appoint a Substitute Auction Agent. If required by the Market Agent, a Substitute Auction Agent Agreement acceptable to the Series 2006C Bond Insurer shall be entered into with a Substitute Auction Agent. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement if, within 45 days after notifying the State, the Series 2006C Bond Insurer, the Registrar, and the Market Agent in writing that it has not received payment of any Auction Agent Fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment.

(D) If the Auction Agent shall resign or be removed or be dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the State shall use its best efforts to appoint a Substitute Auction Agent.

(7) *Broker-Dealers.*

(A) The Auction Agent shall enter, prior to conversion to the Auction Mode, into a Broker-Dealer Agreement with the initial Broker-Dealer. The Designated Representative may, from time to time, approve one or more additional Persons acceptable to the Series 2006C Bond Insurer to serve as Broker-Dealers under Broker-Dealer Agreements

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(iii) In order to effect or facilitate the conversion of the Series 2006C Bonds from the Auction Mode to the Fixed Mode, the State may, on any Auction Interest Payment Date, change the length of any 35-day, 28-day or seven-day Auction Period for the Series 2006C Bonds to be converted from 35 days to a period shorter than 35 days (but not less than one day). The State shall initiate the change in the length of the Auction Period by giving written notice to the Registrar, the Auction Agent, the Broker-Dealer and the Securities Depository that the Auction Period shall change, the length of the Auction Period, the date on which the Auction Period will end, and the proposed effective date of the change, at least three Business Days prior to the Auction Date for such Auction Period.

(iv) Except for a changed Auction Period established pursuant to Section 23.02(e)(10)(A)(iii), any such changed Auction Period shall be for a period of one-day, seven days, 28 days or 35 days. The changed Auction Period shall apply for all of the Series 2006C Bonds.

(iv) No change in the length or the day of commencement of the Auction Period for the Series 2006C Bonds shall be allowed unless Sufficient Clearing Bids existed at the Auction immediately preceding the proposed change.

(v) In addition, the change in length of the Auction Period for the Series 2006C Bonds shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for the first such Auction Period for such Series 2006C Bonds. For purposes of the Auction for such first Auction Period only, each Existing Holder shall be deemed to have submitted Sell Orders with respect to all of its Auction except to the extent such Existing Holder submits an Order with respect to such Series 2006C Bonds in the Auction Mode. If the condition referred to in the first sentence of this clause (v) is not met, the Auction Rate for the next Auction Period shall be the Auction Maximum Rate, and the Auction Period shall be the Auction Period already in effect.

(B) *Changes in Auction Date.* During any Auction Interest Rate Period, the State may specify an earlier Auction Date for the Series 2006C Bonds for any Business Day earlier (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Series 2006C Bonds in the Auction Mode. The State shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Registrar, the Series 2006C Bond Insurer, the Broker-Dealer, the Auction Agent and the Securities Depository.

(f) *Conversions Between Modes for Series 2006C Bonds.* The Designated Representative may elect to convert the Series 2006C Bonds (other than Bank Bonds) from one Mode to another as follows:

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(1) *Mode Change Dates.*

(A) In the case of a change from the Commercial Paper Mode, the Mode Change Date shall be a day that is the last Purchase Date for all Interest Periods set by the Remarketing Agent.

(B) The Mode Change Date shall be a Business Day.

(C) In the case of a change from the Long Term Mode, the Mode Change Date shall be the Purchase Date of the current Interest Period.

(D) In the case of a conversion from an Auction Mode for the Series 2006C Bonds, the Mode Change Date shall be an Auction Interest Payment Date for such Series 2006C Bonds.

(2) *Notices by State.* The State shall give notice of any proposed conversion to the other Notice Parties not fewer than 15 days before the proposed conversion from a Commercial Paper Mode, Auction Mode, Daily Mode or Weekly Mode and not fewer than 35 days before the proposed conversion from the Long Term Mode.

(3) *Notices by Registrar.* The Registrar shall give notice by first class mail, of proposed conversion to the Registered Owners of Series 2006C Bonds then in the Commercial Paper, Auction Mode, Daily Mode or Weekly Mode not less than 10 days before the proposed Mode Change Date and to Registered Owners of Series 2006C Bonds in the Long Term Mode not less than 30 days before the proposed Mode Change Date or Purchase Date, as the case may be. Such notice shall state:

(A) the proposed Mode Change Date;

(B) that the Series 2006C Bonds will be subject to mandatory tender for purchase on the Mode Change Date for such Series 2006C Bonds (except in the case of conversions between the Daily Mode and the Weekly Mode);

(C) the conditions, if any, to the conversion pursuant to subsection (4) below;

(D) if the Series 2006C Bonds are in certificated form, information with respect to required delivery of Series 2006C Bond certificates and payment of the Purchase Price; and

(E) in the case of a Mode Change to the Auction Mode, that the interest rate shall be adjusted to the Applicable Auction Rate, the proposed effective date of the Auction Interest Rate Period, and the initial Auction Period.

(4) *Conditions to Conversion Between Modes.* A Mode Change will not become effective unless:

(A) if the conversion is from the Commercial Paper Mode, the Registrar has received, prior to the date on which notice of conversion is required to be given to Registered Owners, written confirmation from the Remarketing Agent that it has not established and will not establish any Interest Rate Periods extending beyond the day before the Mode Change Date;

(B) if the conversion is from the Commercial Paper Mode, Auction Mode, Daily Mode or Weekly Mode to a Long Term Mode or Fixed Mode, or from a Long Term Mode to a Commercial Paper Mode, Auction Mode, Daily Mode or Weekly Mode, the Registrar has been provided, no later than three days before the Mode Change Date, with a Favorable Opinion of Bond Counsel with respect to the conversion;

(C) no change in Mode will become effective unless all conditions precedent thereto have been met and all such Series 2006C Bonds have been remarketed;

(D) no conversion to a New Mode, other than the Fixed Mode or Auction Mode, shall be made if an Interest Period for the converted Series 2006C Bonds will extend beyond the Expiration Date of any Credit Facility or Liquidity Facility for such Series 2006C Bonds;

(E) in the case of any Mode Change to the Auction Mode, prior to the Mode Change Date the State shall have appointed an Auction Agent, a Market Agent and one or more Broker-Dealers and there shall have been executed and delivered an Auction Agent Agreement and one or more Broker-Dealer Agreements;

(F) in the case of any Mode Change to the Daily Mode, Weekly Mode, Commercial Paper Mode or Long Term Mode, prior to the Mode Change Date the State shall have appointed a Remarketing Agent and there shall have been executed and delivered a Remarketing Agreement; and

(G) except in the case of conversions between the Weekly Mode and the Daily Mode, the State shall have received the prior written consent of the Series 2006 Insurer (so long as any Outstanding Series 2006 Bonds are insured by the Series 2006 Bond Insurer).

(5) *Failure to Satisfy Conditions Precedent to Mode Change.* If fewer than all of the then Outstanding Series 2006C Bonds to be converted have been remarketed or if any of the foregoing conditions have not been satisfied by the Mode Change Date, the New Mode shall not take effect and the Series 2006C Bonds to have been converted shall be changed to a Weekly Mode on the Mode Change Date; *provided*, however, that if the Series 2006C Bonds were in Auction Mode immediately prior to the proposed Mode Change, then such Bonds shall remain in Auction Mode and shall bear interest at the Auction Maximum Rate for the immediately ensuing Auction Interest Period.

(g) *Interest Rate on Bank Bonds.* The rate of interest on any Bank Bond shall be the Bank Interest Rate for each day from and including the date such Series 2006C Bond becomes a

Bank Bond to, but not including, the date such Series 2006C Bond is paid in full or is remarketed. Any Reimbursement Bond shall bear interest and have such other terms as set forth in the Reimbursement Agreement.

(h) *Determinations of Remarketing Agent Conclusive.* The interest rates determined by the Remarketing Agent, if any, in accordance with Section 23.02(4), and the determination by the Remarketing Agent of Interest Periods for Commercial Paper Bonds and Series 2006C Bonds in the Long Term Mode in accordance herewith, absent manifest error, shall be conclusive and binding upon the State, the Remarketing Agent, the Registrar, the Credit Facility Issuer, if any, the Liquidity Facility Issuer, if any, and the Registered Owners and Beneficial Owners of the Series 2006C Bonds. The determination by the Auction Agent of the Auction Rate, Index, Auction Maximum Rate, All-Hold Rate and Non-Payment Rate shall (in the absence of manifest error) be final and binding upon all Auction Beneficial Owners and all other parties.

(i) *Maximum Rate for Series 2006C Bonds.* Except as provided in Section 23.02(d)(1)(A) with respect to Series 2006C Bonds in the Commercial Paper Mode, no Series 2006C Bonds other than Bank Bonds shall bear interest at an interest rate higher than the Maximum Rate or, in the case of Series 2006C Bonds in the Auction Mode, the Auction Maximum Rate. No 2006C Bond shall bear interest at a rate higher than permitted by applicable law.

(j) *Description of the Series 2006D Bonds.* The Series 2006D Bonds shall be designated as "State of Alaska International Airports System Revenue Refunding Bonds, Series 2006D (Non-AMT)," shall be registered as to both principal and interest and shall be numbered separately in the manner and with any additional designation as the Registrar deems necessary for purposes of identification, shall be dated as of the date of their original delivery, shall be in the denomination of \$5,000 each or any integral multiple of \$5,000 (provided that no Series 2006D Bond shall represent more than one maturity), and shall bear interest from their date, payable on October 1, 2006, and semiannually thereafter on the first days of each April and October and shall mature on October 1 in the years and principal amounts set forth and shall bear interest at the rates set forth as follows:

Year (October 1)	Principal Amount	Interest Rate
2007	\$ 130,000	3.500%
2008	135,000	3.500
2009	140,000	3.500
2010	145,000	3.500
2011	150,000	3.625
2012	155,000	3.625
2013	160,000	3.750
2014	170,000	4.000
2015	2,300,000	4.000
2015	1,965,000	4.750
2016	600,000	4.000
2016	5,915,000	4.750
2017	825,000	4.000
2017	5,990,000	5.000
2018	200,000	4.000
2018	6,950,000	5.000
2019	550,000	4.125
2019	6,955,000	5.000
2020	7,875,000	5.000
2021	8,270,000	5.000
2022	150,000	4.200
2022	8,530,000	5.000
2023	9,110,000	5.000
2024	9,570,000	5.000
2025	8,860,000	5.000
2026	250,000	4.250
2026	9,050,000	5.000
2027	9,760,000	5.000

(k) *Series 2006 Bonds a Special Fund Obligation.* The Series 2006 Bonds are not general obligations of the State, and no tax revenues of the State may be used to pay the principal of, premium, if any, and interest on the Series 2006 Bonds.

The Series 2006 Bonds shall be obligations only of the Bond Fund and shall be payable and secured as provided herein. The Series 2006 Bonds do not constitute an indebtedness of the State within the meaning of the constitutional provisions and limitations of the State of Alaska.

Section 23.03. Redemption and Purchase.

(a) Terms of Redemption for Series 2006 Bonds

(1) Series 2006A - Optional Redemption. The Series 2006A Bonds maturing on and prior to October 1, 2016 are not subject to optional redemption in advance of their scheduled maturity. The Series 2006A Bonds maturing on and after October 1, 2017 are subject to redemption at the option of the State on and after October 1, 2016 in whole or in part (and if in part, with maturities to be selected by the State) on any date at a price of par plus accrued interest to the date fixed for redemption.

(2) Series 2006B - Optional Redemption. The Series 2006B Bonds maturing on and prior to October 1, 2016 are not subject to optional redemption in advance of their scheduled maturity. The Series 2006B Bonds maturing on and after October 1, 2017 are subject to redemption at the option of the State on and after October 1, 2016 in whole or in part (and if in part, with maturities to be selected by the State) on any date at a price of par plus accrued interest to the date fixed for redemption.

(3) Series 2006C Bonds.

(A) Mandatory Sinking Fund Redemption. The Series 2006C Bonds are subject to mandatory sinking fund redemption at a price of par plus accrued interest to the date of redemption on October 1 of the following years in the following principal amounts:

Redemption Years	Redemption Amounts
2027	\$ 2,600,000
2028	15,200,000
2029	15,800,000
2030*	16,400,000

* Maturity.

The Maturity Date of the Series 2006C Bonds (other than Bank Bonds) may be converted in whole or in part to Serial Maturity Dates and/or Term Maturity Dates upon delivery of a Favorable Opinion of Bond Counsel prior to the commencement of a Long Term Mode or Fixed Mode for such Series 2006C Bonds and if, so converted to Term Bonds shall be subject to mandatory sinking fund redemption as determined by the State on the Rate Determination Date for such Series 2006C Bonds.

(B) Optional Redemption During Commercial Paper Mode. Series 2006C Bonds in the Commercial Paper Mode are not subject to optional redemption prior to their respective Purchase Dates.

any one time fewer than all of the Series 2006 Bonds having the same maturity date, the particular Series 2006 Bonds or portions of Series 2006 Bonds of maturity to be redeemed shall be selected by lot (or in such other manner determined by the Registrar) in increments of \$5,000. In the case of a Series 2006 Bond of a denomination greater than \$5,000, the State and Registrar shall treat each Series 2006 Bond as representing such number of separate Series 2006 Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such Series 2006 Bond by \$5,000 provided, that there shall be no partial redemption of less than \$25,000 for any Series 2006C Bonds which are Series 2006C Bonds in the Auction Mode. In the event that only a portion of the principal sum of a Series 2006 Bond is redeemed, upon surrender of the such Series 2006 Bond at the principal office of the Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof or, at the option of the Registered Owner, a Series 2006 Bond of like series, maturity and interest rate in any of the denominations herein authorized. Notwithstanding the foregoing, Bank Bonds shall in all cases be redeemed first among the redemption of the Series 2006C Bonds.

(c) Notice of Redemption.

(i) Official Notice. Unless waived by any owner of the Series 2006 Bonds to be redeemed, official notice of any such redemption (which notice, in the case of an optional redemption, may be a conditional notice and shall state that redemption is conditioned by the Registrar on the receipt of sufficient funds for redemption) shall be given by the Registrar on behalf of the State by mailing a copy of an official redemption notice by first class mail at least 15 days (30 days in the Long Term Mode or Fixed Mode) prior to the date fixed for redemption to the Registered Owner of the Series 2006 Bonds to be redeemed at the address shown on the Register or at such other address as is furnished in writing by such Registered Owner to the Registrar. Fund received by the Registrar pursuant to a conditional notice of redemption described above shall be held uninvested until the date fixed for redemption.

All official notices of redemption shall be dated and shall state:

- (A) the redemption date,
- (B) the redemption price,

(C) if fewer than all Outstanding Series 2006 Bonds are to be redeemed, the identification by series and maturity (and, in the case of partial redemption, the respective principal amounts) of the Series 2006 Bonds to be redeemed,

(D) that on the date fixed for redemption, provided that in the case of optional redemption the full amount of the redemption price is on deposit therefor, the redemption price will become due and payable upon each such Series 2006 Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and

(C) Optional Redemption of Series 2006C Bonds in the Daily Mode or the Weekly Mode. Series 2006C Bonds in the Daily Mode or the Weekly Mode shall be subject to redemption at the option of the State, in whole or in part in principal amounts which permit all remaining Outstanding Series 2006C Bonds to continue in Authorized Denominations, on any Interest Payment Date for those Series 2006C Bonds at a redemption price equal to 100% of the principal amount thereof.

(D) Optional Redemption of Series 2006C Bonds in the Long Term Mode and Fixed Mode. Series 2006C Bonds in a Long Term Mode or Fixed Mode shall be subject to redemption at the option of the State, in whole or in part in Authorized Denominations at a price of par plus accrued interest to the date fixed for redemption on such dates as determined by the State for such Series 2006C Bonds on the Rate Determination Date.

(E) Mandatory and Optional Redemption of Bank Bonds. Outstanding Bank Bonds shall be subject to redemption at the option of the State, in whole or in part, in principal amounts that permit the remaining Outstanding Series 2006C Bonds to continue in Authorized Denominations, at any time, upon payment by the State to the Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, of an amount equal to 100% of the principal amount of the Bank Bonds held by such Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, to be redeemed, plus any accrued interest paid by such Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, as part of the Purchase Price thereof and not theretofore repaid to such Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, plus accrued interest thereon at the Bank Interest Rate to the Redemption Date. In addition, Bank Bonds shall be subject to mandatory redemption on each Bank Bond Redemption Date in the amounts and otherwise as set forth in the Credit Facility or Liquidity Facility, as applicable.

(F) Optional Redemption of Series 2006C Bonds in the Auction Mode. The Series 2006C Bonds in the Auction Mode are subject to redemption at the option of the State, on any Auction Interest Payment Date for such Series 2006C Bonds, as a whole or in part in an Authorized Denomination, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued but unpaid interest to the date fixed for redemption, without premium.

(4) Series 2006D - Optional Redemption. The Series 2006D Bonds maturing on and prior to October 1, 2016 are not subject to optional redemption in advance of their scheduled maturity. The Series 2006D Bonds maturing on and after October 1, 2017 are subject to redemption at the option of the State on and after October 1, 2016 in whole or in part (and if in part, with maturities to be selected by the State) on any date at a price of par plus accrued interest to the date fixed for redemption.

(b) Selection of the Series 2006 Bonds for Redemption. The maturities and series to be redeemed shall be selected by the State and, within a maturity, as long as the Series 2006 Bonds are held in book-entry only form, the selection of the Series 2006 Bonds to be redeemed shall be made in accordance with the operational arrangements in effect at DTC. If the Series 2006 Bonds are no longer held in uncertificated form, the selection of such Series 2006 Bonds to be redeemed shall be made as provided in this subsection (b). If the State redeems at

(E) the place where such Series 2006 Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Registrar.

Unless the State has revoked the notice of redemption in the case of an optional redemption, on or prior to any redemption date, the State shall deposit with the Registrar an amount of money sufficient to pay the redemption price of all the Series 2006 Bonds or portions of the Series 2006 Bonds which are to be redeemed on that date.

Failure to give notice as to redemption of any Series 2006 Bond or any defect in such notice shall not invalidate redemption of any other Series 2006 Bond.

Notwithstanding the foregoing, if the Series 2006 Bonds are then held in book-entry only form, notice of redemption shall be given only in accordance with the operational arrangements then effect at DTC (or the applicable Securities Depository); provided, however, that the Series 2006 Insurer and the Credit Facility Issuer, if any, or Liquidity Facility Issuer, if any, shall be given prior written notice of any proposed redemption of Series 2006 Bonds. In any event, notice of redemption shall be given by the State to the Registrar who shall give notice to DTC (or the applicable Securities Depository) at least 30 days prior to the proposed date of redemption of the Series 2006A Bonds, the Series 2006B Bonds, the Series 2006D Bonds and the Series 2006C Bonds during the Long Term Mode and the Fixed Mode and with respect to the Series 2006C Bonds, at least 15 days for all other Modes. If any Series 2006C Bonds in the Auction Mode are to be redeemed and those Bonds in the Auction Mode are held by the Securities Depository, the State shall include in the notice of the call for redemption delivered to the Securities Depository: (i) under an item entitled "Publication Date for Securities Depository Purposes", the Interest Payment Date prior to the redemption date; and (ii) an instruction to the Securities Depository to (x) determine on such Publication Date after the Auction held on the immediately preceding Auction Date has settled, the DTC Participants whose Securities Depository positions will be redeemed and the principal amount of such Auction to be redeemed from each such position (the "Securities Depository Redemption Information"); and (y) notify the Auction Agent immediately after such determination of the positions of the Securities Depository participants in such Bonds in the Auction Mode immediately prior to such Auction settlement, the positions of the Securities Depository participants in such Auction immediately following such Auction settlement, and the Securities Depository Redemption Information. A copy of any notice of redemption shall be simultaneously sent to the Auction Agent.

(2) Effect of Notice; Series 2006 Bonds Due. If notice of redemption has been duly given and, in the case of an optional redemption, money for the payment of the Redemption Price or portions thereof to be redeemed is held by the Registrar, then on the Redemption Date the Series 2006 Bonds or portions thereof so called for redemption shall become payable at the Redemption Price specified in such notice; and from and after the Redemption Date, interest thereon or on portions thereof so called for redemption shall cease to accrue, such Series 2006 Bonds or portions thereof shall cease to be Outstanding and to be entitled to any benefit, protection or security hereunder and the Owners of such Series 2006 Bonds or portions thereof shall have no rights in respect thereof except to receive payment of the Redemption Price upon delivery of such Series 2006 Bonds to the Registrar. Notwithstanding the foregoing, any Bank

Bonds shall remain Outstanding until the Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, is paid all amounts due in connection with such Bonds or portions thereof to be redeemed on the Redemption Date. After payment to the Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, of all amounts due on Bank Bonds such Credit Facility Issuer or Liquidity Facility Issuer shall surrender such Series 2006C Bonds to the Registrar for cancellation. Upon surrender for any partial redemption of any Series 2006 Bond, there shall be prepared for the Registered Owner a new Series 2006 Bond of the same maturity and Series in the aggregate amount of the unpaid principal. All Series 2006 Bonds which have been redeemed shall be canceled and destroyed by the Registrar and shall not be reissued.

(3) *Additional Notice.* In addition to the foregoing notice, further notice shall be given by the State as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (A) the CUSIP numbers of all Series 2006 Bonds being redeemed; (B) the date of issue of the Series 2006 Bonds as originally issued; (C) the rate of interest borne by each Series 2006 Bond being redeemed; (D) the maturity date of each Series 2006 Bond being redeemed; and (E) any other descriptive information needed to identify accurately the Series 2006 Bonds being redeemed. Each further notice of redemption may be sent at least 35 days before the redemption date to each party entitled to receive a notice of redemption pursuant to Section 23.14, and to the Underwriters or to their business successors, if any, and to such persons (including securities repositories who customarily at the time receive notices of redemption in accordance with rules promulgated by the SEC) and with such additional information as the Registrar deem appropriate, but such mailings shall not be a condition precedent to the redemption of such Series 2006 Bonds.

(4) *Use of CUSIP Numbers.* Upon the payment of the redemption price of the Series 2006 Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by maturity, the Series 2006 Bonds being redeemed with the proceeds of such check or other transfer.

(5) *Amendment of Notice Provisions.* The foregoing notice provisions of this Section 23.03, including but not limited to the information to be included in redemption notices and the persons designated to receive notices, may be amended without the consent of any owners of the Series 2006 Bonds by additions, deletions and changes in order to maintain compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

(d) *Tenders for Purchase of Series 2006C Bonds (other than Auction Rate Bonds).* As provided in Section 23.05, and notwithstanding anything to the contrary in this Section 23.03(b), tenders and purchase of Series 2006C Bonds shall be made pursuant to DTC's rules and procedures so long as any Series 2006C Bond is registered in the name of Cede & Co., as nominee of DTC. Whenever in the context of this Fourth Supplemental Resolution, a Registered Owner or Beneficial Owner is offered or required the opportunity to tender a Bond for purchase, the tender shall be accomplished by the making of or the irrevocable authorization

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(e) *Mandatory Tenders for Purchase of Series 2006C Bonds.* The payment of the Purchase Price for tendered Series 2006C Bonds under this Section 23.03(e) shall be made solely from remarketing proceeds and/or (in the case of tendered Series 2006C Bonds payable pursuant to a Credit Facility or Liquidity Facility) from the proceeds of drawing on such Credit Facility or Liquidity Facility and shall not constitute an obligation of the State in the event of an insufficiency of funds from the foregoing to pay the entire Purchase Price of tendered Series 2006C Bonds.

(1) *Commercial Paper Mode.* Each Series 2006C Bond in the Commercial Paper Mode shall be subject to mandatory tender for purchase on the Business Day after the last day of each Interest Period applicable to such Series 2006C Bond, at a Purchase Price equal to 100% of the principal amount thereof. The Registered Owner of any Series 2006C Bond in the Commercial Paper Mode and tendered for purchase as provided in this Section 23.03(e) shall provide the Registrar with payment instructions for the Purchase Price of its Series 2006C Bond on or before the Mandatory Purchase Date.

(2) *Conversions between Modes and on First Day of each Interest Period in Long Term Mode.* Series 2006C Bonds to be converted from one Mode to a different Mode (except for conversions between the Daily and Weekly Modes) and Bonds in the Long Term Mode are subject to mandatory tender for purchase on the Mode Change Date for such Series 2006C Bonds and on the first day of each succeeding Interest Period, respectively, at a Purchase Price equal to the principal amount thereof plus accrued interest, if any. Owners shall be required to tender their Series 2006C Bonds to the Registrar at or prior to 11:00 a.m., New York City time, on the Mandatory Purchase Date for purchase.

(3) *Mandatory Purchase Upon Substitution or Expiration of Credit Facility or Liquidity Facility.* On or prior to (i) the Substitution Tender Date, or (ii) the Expiration Tender Date, if the State has failed to deliver to the Registrar an alternate credit facility and/or an alternate liquidity facility (unless the State has elected to convert such Series 2006C Bonds to a Fixed Mode or the Auction Mode on or prior to the Expiration Date), then the Registrar shall give notice to the Registered Owners and the other Notice Parties stating:

(A) in the case of a Substitution Tender Date, (i) that the Credit Facility or Liquidity Facility is being replaced by an alternate Credit Facility (other than a bond insurance policy) and/or an alternate Liquidity Facility (specifying the identity of the issuer of the alternate Credit Facility and/or an alternate Liquidity Facility, as the case may be, and the Substitution Date); (ii) the expected rating or ratings on the Series 2006C Bonds as of the Substitution Date and whether such rating(s) are expected to or may (as applicable) be reduced, increased, withdrawn or suspended; and (iii) that the Series 2006C Bonds are required to be tendered for purchase (specifying the Substitution Tender Date and the procedures for tender, and stating that if not so tendered Series 2006C Bonds will be deemed tendered and interest thereon will cease to accrue on the Substitution Tender Date) from remarketing proceeds or from proceeds of the Credit Facility or Liquidity Facility being replaced and that is available to be drawn upon for such purpose; or

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to make appropriate entries on the books of DTC or any DTC Participant. The payment of the Purchase Price for tendered Series 2006C Bonds under this Section 23.03(d) shall be made solely from remarketing proceeds and/or (in the case of tendered Bonds payable pursuant to a Credit Facility or Liquidity Facility) from the proceeds of drawing on such Credit Facility or Liquidity Facility and shall not constitute an obligation of the State in the event of an insufficiency of funds from the foregoing to pay the entire Purchase Price of tendered Series 2006C Bonds.

(1) *Optional Tender Purchase Dates.* The Beneficial Owners of Series 2006C Bonds in the Daily Mode or Weekly Mode may elect to have their Bonds (or portions thereof in amounts equal to any Authorized Denomination, provided that the remaining Bonds held by such Beneficial Owner will continue to be in Authorized Denominations) purchased at the Purchase Price on the Purchase Date as follows:

(A) Bonds in the Daily Mode may be tendered for purchase upon delivery of a notice of tender by Electronic Means or telephone to the Registrar and the Remarketing Agent, directly or through the Beneficial Owner's DTC Participant, not later than 11:00 a.m., New York City time, on any Business Day.

(B) Bonds in the Weekly Mode may be tendered for purchase upon delivery of a notice of tender by Electronic Means to the Registrar and the Remarketing Agent, directly or through the Beneficial Owner's DTC Participant, not later than 4:00 p.m., New York City time, on a Business Day not less than seven days prior to the Purchase Date.

(2) *Notice of Tender.* Each notice of tender:

(A) shall be delivered to the Registrar at its principal corporate trust office and be in form satisfactory to the Registrar;

(B) shall state (i) CUSIP number, bond number, and the principal amount of the Series 2006C Bond to which the notice relates, (ii) that the Registered Owner irrevocably demands purchase of such Series 2006C Bond or a specified portion thereof in an amount equal to an Authorized Denomination, so long as the remaining portion thereof is in an Authorized Denomination, (iii) the date on which such Series 2006C Bond or portion is to be purchased, and (iv) payment instructions with respect to the Purchase Price; and

(C) shall automatically constitute an irrevocable offer to sell the Series 2006C Bond (or portion thereof) to which the notice relates on the Purchase Date. The determination of the Registrar as to whether a notice of tender has been properly delivered pursuant to the foregoing shall be conclusive and binding upon the Registered Owner.

(3) *Bonds to be Remarketed.* Not later than 11:00 a.m., New York City time, on the Business Day immediately following the date of receipt of any notice of tender (or immediately upon such receipt, in the case of Series 2006C Bonds in the Daily Mode), the Registrar shall notify, by telephone, promptly confirmed in writing, the State and the Remarketing Agent of the principal amount of Series 2006C Bonds (or portions thereof) to be purchased and the Purchase Date.

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(B) in the case of an Expiration Tender Date, that (i) the Credit Facility or Liquidity Facility is scheduled to expire (specifying the Expiration Date); (ii) as of the notice date, the State has not arranged for the extension of the Credit Facility or Liquidity Facility or an alternate credit facility and/or an alternate liquidity facility has not been delivered; and (iii) the Series 2006C Bonds are required to be tendered for purchase (specifying the Expiration Tender Date and the procedures for tender, and stating that if not so tendered Series 2006C Bonds will be deemed tendered and interest thereon will cease to accrue on the Expiration Tender Date).

The failure to mail such notice pursuant to clauses (A) and (B) above with respect to any Series 2006C Bond shall not affect the validity of the mandatory purchase of any other Series 2006C Bond with respect to which notice was so mailed. Any notice mailed shall be conclusively presumed to have been given, whether or not actually received by any Registered Owner.

Payment of the Purchase Price of such Series 2006C Bonds shall be made by wire transfer in immediately available funds by the Registrar by the close of business on such Mandatory Purchase Date.

(4) *Mandatory Purchase Upon Event of Default Under Reimbursement Agreement or Purchase Agreement.* Series 2006C Bonds in a Daily Mode, Weekly Mode, Commercial Paper Mode or Long Term Mode (but not Series 2006C Bonds in the Auction Mode) that are payable from a Credit Facility or Liquidity Facility are subject to mandatory purchase at the Purchase Price on the Default Tender Date. Written notice shall be given by the Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, to the Registrar who shall, immediately upon receipt thereof, transmit a copy of such notice to all Notice Parties. No later than the third day next preceding the Mandatory Purchase Date, the Registrar shall give notice to the Registered Owners stating that the Series 2006C Bonds are required to be tendered for purchase (specifying the Mandatory Purchase Date and the procedures for tender and stating that if not so tendered Series 2006C Bonds shall be deemed tendered and interest thereon shall cease to accrue on the Mandatory Purchase Date). The failure to mail such notice with respect to any Series 2006C Bond shall not affect the validity of the mandatory purchase of any other Series 2006C Bond with respect to which notice was so mailed. Any notice mailed shall be conclusively presumed to have been given, whether or not actually received by any owner. Payment of the Purchase Price shall be made by wire transfer to accounts designated by the Registered Owners in immediately available funds by the Registrar by the close of business on the Mandatory Purchase Date.

(5) *Mandatory Purchase on Resolution Tender Date.* If the State proposes to amend this Fourth Supplemental Resolution, and if this Fourth Supplemental Resolution, by its terms, requires Registered Owner consent for such amendment, the State may elect to effect a mandatory purchase of Series 2006C Bonds on a specified Resolution Tender Date. The State shall provide at least 10 days' written notice to the Registrar, the Remarketing Agent that the Series 2006C Bonds shall be subject to mandatory purchase on the Resolution Tender Date. Any such notice shall be accompanied by a Favorable Opinion of Bond Counsel to the effect that such amendments are authorized or permitted by this Fourth Supplemental Resolution and will not cause the interest on the Series 2006C Bonds to become includable in gross income for federal

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income tax purposes. No later than the third day next preceding the Resolution Tender Date, the Registrar shall give notice to the Registered Owners stating that the Series 2006C Bonds are required to be tendered for purchase (specifying the Mandatory Purchase Date and the procedures for tender and stating that if not so tendered Bonds shall be deemed tendered and interest thereon shall cease to accrue on the Mandatory Purchase Date). The failure to mail such notice with respect to any Series 2006C Bond shall not affect the validity of the mandatory purchase of any other Series 2006C Bond with respect to which notice was so mailed. Any notice mailed shall be conclusively presumed to have been given, whether or not actually received by any owner. Payment of the Purchase Price shall be made by wire transfer to accounts designated by the Registered Owners in immediately available funds by the Registrar by the close of business on the Mandatory Purchase Date.

(f) *Remarketing and Purchase of Series 2006C Bonds.*

(1) *Remarketing of Tendered Series 2006C Bonds.* Unless otherwise instructed by the State, the Remarketing Agent shall use best efforts to remarket Series 2006C Bonds or portions thereof for which notice of tender has been received pursuant to Section 23.03(d)(2) or which are subject to mandatory tender on a Mandatory Purchase Date (other than a Default Tender Date). The terms of any remarketing by the Remarketing Agent shall provide for the payment of the full Purchase Price for tendered Series 2006C Bonds by the purchaser to the appropriate DTC Participant in immediately available funds at or before 12:00 noon, New York City time, on the Purchase Date. The Remarketing Agent shall not remarket any Series 2006C Bonds to the State. The Remarketing Agent shall not sell any Series 2006C Bond as to which a notice of Mode Change Date or notice of redemption has been given by the Registrar unless the Remarketing Agent has notified the Person to whom the sale is made of the conversion or redemption. Bank Bonds may not be remarketed (delivered to new purchasers) unless the Registrar has received written confirmation by Electronic Means from the Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, to the effect that the "Principal Portion" and the "Interest Portion" as defined in the Liquidity Facility or Credit Facility have been fully reinstated with respect to such Bank Bonds or will be upon the remarketing of the Series 2006C Bonds.

(2) *Purchase of Tendered Series 2006C Bonds.*

(A) *Notice.* Not later than 12:00 p.m., New York City time, on any Purchase Date or Mandatory Purchase Date, as the case may be, the Remarketing Agent shall give notice by telephone or Electronic Means to the Registrar of the principal amount of tendered Series 2006C Bonds that were remarketed and those that were not remarketed, if any. Not later than 12:15 p.m., New York City time, on the Purchase Date or the Mandatory Purchase Date, the Registrar shall give notice to the State and any direct pay Credit Facility Issuer or the Liquidity Facility Issuer, as the case may be, by telephone or Electronic Means, specifying the principal amount of tendered Series 2006C Bonds payable from such Credit Facility or Liquidity Facility, as applicable, and as to which the Remarketing Agent has not remarketed. Not later than 12:30 p.m. New York City time the Remarketing Agent shall transfer remarketing proceeds, if any, to the Registrar. Not later than 1:00 p.m., New York City time, on the Purchase Date or the Mandatory Purchase Date, the Remarketing Agent shall give notice to the Registrar by telephone

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Account shall consist of two sub-accounts to be designated respectively the "Remarketing Subaccount" and the "Bank Purchase Subaccount."

If by the terms of the remarketing, the Registrar receives any moneys from the remarketing of Series 2006C Bonds (including Bank Bonds), the Registrar shall deposit or cause to be deposited into the Remarketing Subaccount, if and when received, all moneys delivered to the Registrar as and for the Purchase Price of remarketed Series 2006C Bonds, such money to be used to pay the Purchase Price of remarketed Series 2006C Bonds (including Bank Bonds).

The Registrar shall deposit or cause to be deposited into the Bank Purchase Account, when and as received, all moneys delivered to the Registrar, if any, from proceeds of a drawing on such direct pay Credit Facility or Liquidity Facility, as applicable, pursuant to such Credit Facility or Liquidity Facility, as applicable, such money to be used to purchase unremarketed Series 2006C Bonds, which Series 2006C Bonds shall thereafter be registered in the name of such Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, and considered Bank Bonds.

Amounts held in the Bank Purchase Subaccount and the Remarketing Subaccount by the Registrar shall be held uninvested and separate and apart from all other funds, accounts and subaccounts.

On the date of purchase, the Registrar shall register and deliver (or hold) or cancel all Series 2006C Bonds purchased on any purchase date as follows: (1) Series 2006C Bonds purchased or remarketed by the Remarketing Agent shall be registered and made available to the Remarketing Agent by 2:15 p.m., New York City time, in accordance with the instructions of the Remarketing Agent; (2) Series 2006C Bonds purchased with proceeds of a drawing on a direct pay Credit Facility or Liquidity Facility, as applicable, shall be held as Bank Bonds and shall be held in trust by the Registrar on behalf of such Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, and shall not be released from such trust unless the Registrar shall have received written instructions from such Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, and, unless the Series 2006C Bonds are to be cancelled, written confirmation by Electronic Means that such Credit Facility or Liquidity Facility, as applicable, has been reinstated. Notwithstanding anything herein to the contrary, so long as the Series 2006C Bonds are held under the book-entry only system in accordance with Section 23.05 hereof, Series 2006C Bonds will not be delivered as set forth above; rather, transfers of beneficial ownership of the Series 2006C Bonds to the person indicated above will be effected on the registration books of DTC pursuant to its rules and procedures.

Series 2006C Bonds purchased with proceeds of a drawing on a direct pay Credit Facility or Liquidity Facility, as applicable, pursuant to this Section shall constitute "Bank Bonds" and shall be held by the Registrar as agent for the Credit Facility Issuer or the Liquidity Facility Issuer, as applicable, pursuant to the Reimbursement Agreement or Purchase Agreement, as the case may be (and shall be shown as such on the registration books maintained by the Registrar) unless and until (i)(A) the Registrar has written confirmation by Electronic Means from such Credit Facility Issuer or the Liquidity Facility Issuer, as the case may be, to the extent contemplated by the terms of the applicable Credit Facility or Liquidity Facility that such Credit

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(promptly confirmed in writing or by Electronic Means) of the names, addresses and taxpayer identification numbers of the purchasers, the denominations of Series 2006C Bonds to be delivered to each purchaser and, if available, payment instructions for regularly scheduled interest payments, or of any changes in any such information previously communicated.

(B) *Sources of Payments.* The Remarketing Agent shall pay on the Purchase Date all amounts representing proceeds of the remarketing of such Series 2006C Bonds, such payments to be made in the manner and at the time specified in subsection 23.05(d)(1) above. If such amounts are not sufficient to pay the Purchase Price, the Registrar shall immediately notify the State and any direct pay Credit Facility Issuer or the Liquidity Facility Issuer, as the case may be, of any deficiency with respect to tendered Series 2006C Bonds payable pursuant to such Credit Facility or Liquidity Facility, as applicable (but no later than 12:30 p.m., New York City time). Pursuant to such direct pay Credit Facility or Liquidity Facility, the Credit Facility Issuer or the Liquidity Facility Issuer, as the case may be, shall, following receipt of purchase notices and transfer instructions from the Registrar in the name of the Credit Facility Issuer or the Liquidity Facility Issuer, as the case may be, on the Purchase Date, purchase such tendered Series 2006C Bonds (except for any Bank Bond or Series 2006C Bond owned by or on behalf of or is held for the account or for the benefit of the State) by delivering to (or at the direction of) the Registrar for the tendered Series 2006C Bonds the Purchase Price therefor in immediately available funds in an amount equal to such deficiency prior to 2:30 p.m., New York City time, on the Purchase Date or the Mandatory Purchase Date. If money is received by the Registrar as remarketing proceeds or (in the case of tendered Series 2006C Bonds payable pursuant to a direct pay Credit Facility or Liquidity Facility, as applicable) proceeds of a drawing on such Credit Facility or Liquidity Facility, as applicable, any such amounts shall be deposited by the Registrar in the Purchase Account to be used solely for the payment of the Purchase Price of tendered Series 2006C Bonds and shall not be commingled with other funds held by the Registrar. All Series 2006C Bonds so purchased by such Credit Facility Issuer or Liquidity Facility Issuer shall be registered in the name of such Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, on the Purchase Date, shall be held in trust by the Registrar on behalf of such Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, and shall not be released from such trust unless the Registrar shall have received written instructions from such Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, and notice that such Credit Facility or Liquidity Facility, as applicable, has been reinstated.

(C) *Payments of the Purchase Price.* Not later than 3:00 p.m., New York City time, on the Purchase Date and upon receipt by the Registrar of 100% of the aggregate Purchase Price of the tendered Series 2006C Bonds, the Purchase Price of such Series 2006C Bonds shall be paid to the Registered Owners thereof. Such payments shall be made by wire transfer of immediately available funds. Such payments shall be made first from the proceeds of the remarketing of such Series 2006C Bonds, and second (in the case of tendered Series 2006C Bonds payable pursuant to a direct pay Credit Facility or Liquidity Facility), from the proceeds of a drawing on such Credit Facility or Liquidity Facility.

(g) *Purchase Account.* There is hereby authorized to be created, as necessary, with the Registrar a segregated trust fund to be designated the "Purchase Account." The Purchase

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Facility or Liquidity Facility, as the case may be, has been reinstated with respect to such drawing and (B) the Credit Facility Issuer or the Liquidity Facility Issuer, as the case may be, has notified the Registrar by facsimile (hereafter promptly confirmed in writing by U.S. Mail) that such Series 2006C Bonds have been released pursuant to the Reimbursement Agreement or Purchase Agreement, as the case may be, and are no longer Bank Bonds or (ii) the Bank Bonds have been purchased by the State and surrendered for cancellation. Pending reinstatement of the Credit Facility or the Liquidity Facility, as the case may be, and release of such Bank Bonds, as aforesaid, the Credit Facility Issuer or the Liquidity Facility Issuer, as the case may be, or their respective designee may assign them to an affiliate and shall be entitled to receive all payments of principal of and interest on Bank Bonds and such Series 2006C Bonds shall not be transferable or deliverable to any party (including the State) except the Credit Facility Issuer or the Liquidity Facility Issuer, as the case may be, pursuant to the Reimbursement Agreement or the Purchase Agreement. Unless a Default has occurred or if the State otherwise instructs and subject to the terms of the Reimbursement Agreement or Purchase Agreement, the Remarketing Agent shall continue to use its best efforts to arrange for the sale of any Bank Bonds, subject to full reinstatement of the Credit Facility or Liquidity Facility, as applicable, with respect to the drawings with which such Series 2006C Bonds were purchased, at a Purchase Price equal to the principal amount thereof plus accrued interest (not including interest owed to such Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, at the Bank Interest Rate).

Notwithstanding anything to the contrary in this subsection, if and for so long as the Series 2006C Bonds are to be registered in accordance with Section 23.05 hereof, the registration requirements under this Section 4.04 shall be deemed satisfied if Bank Bonds are (1) registered in the name of the Securities Depository or its nominee in accordance with Section 23.05 hereof, and (2)(i) credited on the books of the Securities Depository to the account of the Registrar (or its nominee) and further credited on the books of the Registrar (or such nominee) to the account of the Credit Facility Issuer or Liquidity Facility Issuer, as the case may be (or its designee) or (2) credited on the books of the Securities Depository to the account of the Credit Facility Issuer or the Liquidity Facility Issuer or their respective nominee.

All Series 2006C Bonds to be purchased on any date shall be required to be delivered to the principal office of the Registrar at or before 1:00 p.m., New York City time, on the purchase date in the case of Series 2006C Bonds accruing interest at Commercial Paper or Daily Rates; or 12:00 noon, New York City time, on the purchase date in the case of Series 2006C Bonds accruing interest at Weekly Rates or Long-Term Rate. If the Owner of any Series 2006C Bond (or portion thereof) in certificated form that is subject to optional or mandatory purchase pursuant to this Article fails to deliver such Series 2006C Bond to the Registrar for purchase on the purchase date, and if the Registrar is in receipt of the Purchase Price therefor, such Series 2006C Bond (or portion thereof) shall nevertheless be deemed purchased on the day fixed for purchase thereof and ownership of such Series 2006C Bond (or portion thereof) shall be transferred to the purchaser thereof as provided above. Any Owner who fails to deliver such Series 2006C Bond for purchase shall have no further rights thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of said Series 2006C Bond to the Registrar. The Registrar shall, as to any tendered Series 2006C Bonds which have not been delivered to it (A) promptly notify the Remarketing Agent of such nondelivery and (B) place a stop transfer against an appropriate amount of Series 2006C Bonds registered in the name of

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such Registered Owner(s) on the bond registration books. The Registrar shall place such stop(s) commencing with the lowest serial number Series 2006C Bond registered in the name of such Registered Owner(s) until stop transfers have been placed against an appropriate amount of Series 2006C Bonds until the appropriate tendered Series 2006C Bonds are delivered to the Registrar. Upon such delivery, the Registrar shall make any necessary adjustments to the bond registration books.

(h) *Credit Facility.* During any Mode (other than the Fixed Mode or the Auction Mode), while a direct pay Credit Facility or Liquidity Facility, as applicable, is in effect with respect to the Series 2006C Bonds, on each Purchase Date or Mandatory Purchase Date, the Registrar, by telecopied demand given before 12:30 p.m., New York time, shall notify the direct pay Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, of its need for funds to pay the interest (not including any interest owed to such Credit Facility Issuer or Liquidity Facility Issuer at the Bank Interest Rate) on and/or principal of and/or the Purchase Price of tendered Series 2006C Bonds (payable pursuant to such direct pay Credit Facility or Liquidity Facility, as applicable) in accordance with the terms of the Credit Facility or Liquidity Facility, as applicable, so as to receive thereunder by 2:30 p.m., New York City time, on such date an amount, in immediately available funds, sufficient (together with the proceeds of the remarketing of Series 2006C Bonds (received and available to the Registrar prior to the time of drawing or demand under the Credit Facility or Liquidity Facility, as the case may be) in connection with a purchase drawing if the Series 2006C Bonds are then being remarketed) on such date, to pay the Purchase Price in connection therewith. The Registrar shall deposit amounts received from the Credit Facility Issuer or the Liquidity Facility Issuer, as the case may be, to pay the Purchase Price of tendered Series 2006C Bonds (payable pursuant to such Credit Facility or Liquidity Facility, as applicable) in the Bank Purchase Subaccount pursuant to Section 4.04 hereof.

During any Mode (other than the Fixed Mode or the Auction Mode), while a direct pay Credit Facility is in effect, on the Business Day prior to any Interest Payment Date and/or the Business Day prior to any other date on which a payment of principal with respect to the Series 2006C Bonds is due, whether by maturity or redemption in advance of maturity, as the case may be, the Registrar, by telecopied demand given before 3:00 p.m., New York time, shall notify the Credit Facility Issuer of its need for funds to pay interest on and/or principal of the Series 2006C Bonds that are secured by such Credit Facility in accordance with the terms of the Credit Facility so as to receive thereunder by 1:00 p.m., New York time, on such Interest Payment Date or date on which a payment of principal with respect to the Series 2006C Bonds is due an amount, in immediately available funds, sufficient to pay such interest (not including interest owed to the Credit Facility Issuer or Liquidity Facility Issuer at the Bank Interest Rate) and/or principal. The Registrar shall hold such funds separate and apart in trust for the benefit of Registered Owners, and such funds shall not be commingled with any other funds for any other purpose. No drawing on the Credit Facility may be made for Bank Bonds, or Series 2006C Bonds held by the State.

The obligations of the State relating to the Series 2006C Bonds under the Reimbursement Agreement, if any, will be evidenced by a "Reimbursement Bond". Each "Reimbursement Bond" is also secured by the Bond Fund (but not by moneys in the Purchase Account or by moneys drawn under a Credit Facility or Liquidity Facility), all in accordance with the Reimbursement Agreement.

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transfer to a bank within the continental United States or deposited to a designated account if such account is maintained with the Registrar as directed by the Registered Owner in writing or as otherwise directed in writing by the Registered Owner prior to the time of payment with respect to Series 2006C Bonds during a Commercial Paper Mode or five Business Days prior to the Interest Payment Date with respect to Series 2006C Bonds during a Daily Mode or Weekly Mode.

(b) *Accrual of Interest.*

(1) *Series 2006A, Series 2006B and Series 2006D.* Interest on the Series 2006 Bonds (other than the Series 2006C Bonds) shall be calculated on the basis of a 360-day year (twelve 30-day months).

(2) *Series 2006C.* Subject to the further provisions of Section 23.02(c), each Series 2006C Bond shall accrue interest and be payable as to interest as follows:

(A) On each Interest Payment Date, the Registered Owner of each Series 2006C Bond as of the Record Date shall be paid the amount of unpaid interest that accrues during the Interest Accrual Period. If and to the extent, however, that the State fails to make payment or provision for payment of interest on any Series 2006C Bond on any Interest Payment Date, interest shall continue to accrue thereon, and shall be payable to the Registered Owner of that Series 2006C Bond as of the Special Record Date. The Special Record Date for Series 2006C Bonds in the Auction Mode shall be established pursuant to Section 23.02(e)(1)(D)(ii). The Registrar shall establish the Special Record Date for other Series 2006C Bonds when moneys become available for payment of interest on the Series 2006C Bonds, and shall be a date that is not more than 15 nor fewer than 10 days prior to the date of the proposed payment. The Registrar shall give notice by first-class mail of the proposed payment and of the Special Record Date to each Registered Owner not fewer than 10 days prior to the Special Record Date and, thereafter, such interest shall be payable to the Registered Owner of such Series 2006C Bonds as of the Special Record Date.

(B) The interest due on any Series 2006C Bond on any Interest Payment Date shall be paid to the Registered Owner of such Series 2006C Bond as shown on the Bond Register as of the Record Date. The amount of interest so payable on any Interest Payment Date shall be computed (A) on the basis of a 365- or 366-day year for the number of days actually elapsed based on the calendar year for Series 2006C Bonds in the Daily Mode, Commercial Paper Mode or Weekly Mode, and (B) on the basis of a 360-day year of twelve 30-day months during a Long Term Mode or a Fixed Mode, and (C) on the basis of a 360-day year for the actual number of days elapsed, for Series 2006C Bonds in the Auction Mode as provided in Section 23.02(e)(1)(B).

(3) *Bank Bonds.* In the case of Bank Bonds, interest shall accrue and be payable in accordance with Section 23.02(f) hereof and the Reimbursement Agreement or Purchase Agreement, as applicable, and principal and interest shall be paid by wire transfer of immediately available funds to an account in the United States specified in the applicable

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(i) *Purchase of the Series 2006 Bonds for Retirement.* The State reserves the right to use at any time any Revenue on deposit in the Revenue Fund available after providing for the payments authorized by Section 3.02(c)(1) through (3) of the Resolution to purchase for retirement any of the Series 2006 Bonds offered to the State at any price deemed reasonable to the State's Debt Manager.

(j) *Effect of Optional Redemption/Purchase.* To the extent that the State shall have optionally redeemed or purchased any Term Bonds since the last scheduled mandatory redemption of such Term Bonds, the State may reduce the principal amount of the Term Bonds of the same Series and maturity to be redeemed in like aggregate principal amount. Such reduction may be applied in the year specified by the Designated Representative. Notwithstanding the foregoing, any Bank Bonds shall remain Outstanding until the Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, is paid all amounts due in connection with such Series 2006C Bonds or portions thereof to be redeemed on the Redemption Date. After payment to the Credit Facility Issuer or Liquidity Facility Issuer, as the case may be, of all amounts due on Bank Bonds such Credit Facility Issuer or Liquidity Facility Issuer shall surrender such Series 2006C Bonds to the Registrar for cancellation.

Section 23.04. Place and Medium of Payment.

(a) *Payment.* The payments of principal, interest, redemption price and Purchase Price of the Series 2006 Bonds shall be payable in lawful money of the United States of America. For so long as all Series 2006 Bonds are in fully immobilized form, such payments of principal and interest thereon shall be made as provided in the operational arrangements of DTC as referred to in the Letter of Representations. In the event that the Series 2006A Bonds, Series 2006B Bonds and Series 2006D Bonds are no longer in fully immobilized form, interest on such Series 2006 Bonds shall be paid by check or draft mailed (or by wire transfer, without transfer fee, to a Registered Owner of such Series 2006 Bonds in aggregate principal amount of \$1,000,000 or more who so requests) to the Registered Owners of the Series 2006 Bonds at the addresses for such Registered Owners appearing on the Series 2006 Bond Register on the 15th day of the month preceding the interest payment date. Principal and premium, if any, of the Series 2006A Bonds, Series 2006B Bonds and Series 2006D Bonds shall be payable upon presentation and surrender of such Series 2006 Bonds by the Registered Owners at the principal office of the Registrar.

If the Series 2006C Bonds are no longer held by a Securities Depository, during a Long Term Mode or a Fixed Mode, the interest, principal or Redemption Price of the Series 2006C Bonds shall be payable by check, provided that any Registered Owner of \$1,000,000 or more in aggregate principal amount of the Series 2006C Bonds, upon written request given to the Registrar at least five Business Days prior to the Interest Payment Date, Maturity Date or Redemption Date designating an account in a domestic bank, may be paid by wire transfer of immediately available funds. If the Series 2006C Bonds are no longer held by a Securities Depository, all payments of interest, principal or the Redemption Price on the Series 2006C Bonds during the Auction Rate Mode, Commercial Paper Mode, Daily Mode or Weekly Mode shall be paid to the Registered Owners entitled thereto in immediately available funds by wire

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Reimbursement Agreement or Purchase Agreement or as otherwise specified by the Credit Facility Issuer or Liquidity Facility Issuer holding such Bank Bonds in a written notice delivered to the Registrar.

Any account specified pursuant to paragraph (3) hereof shall remain in effect until revoked or revised by the Registered Owner or the Credit Facility Issuer or Liquidity Facility Issuer, as applicable, by an instrument in writing delivered to the Registrar.

Section 23.05. Registration.

(a) *Registrar/Series 2006 Bond Register.* So long as any Series 2006 Bonds remain Outstanding, the Registrar shall make all necessary provisions to permit the exchange and registration of transfer of the Series 2006 Bonds at its principal corporate trust office. The Registrar may be removed at any time as provided in Section 5.01 of the Resolution upon prior notice to the applicable Series 2006 Insurer, as the case may be, DTC and a successor Registrar appointed by the Committee. No resignation or removal of the Registrar shall be effective until a successor shall have been appointed and until the successor Registrar shall have accepted the duties of the Registrar hereunder. Upon its resignation or removal, the Registrar shall transfer any Credit Facility or Liquidity Facility to the successor Registrar. The Registrar is authorized, on behalf of the State, to authenticate and deliver the Series 2006 Bonds transferred or exchanged in accordance with the provisions of such Series 2006 Bonds and this Fourth Supplemental Resolution and to carry out all of the Registrar's powers and duties under this Fourth Supplemental Resolution. The Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Series 2006 Bonds.

(b) *Registered Ownership.* Payment of any such Series 2006 Bond shall be made only as described in Section 23.04 hereof, but such Series 2006 Bond may be transferred as herein provided. All such payments made as described in Section 23.04 shall be valid and shall satisfy and discharge the liability of the State upon such Series 2006 Bond to the extent of the amount or amounts so paid.

Except as provided in Sections 23.14, 5.09 and 7.08, the Registrar and the State may treat the Registered Owner of a Series 2006 Bond as the absolute owner thereof for all purposes, whether or not such Series 2006 Bond shall be overdue, and the Registrar and the State shall not be affected by any knowledge or notice to the contrary, and payment of the principal of and premium, if any, and interest on such Series 2006 Bond shall be made only to such Registered Owner, which payments shall satisfy and discharge the liability of the State with respect to such Bond to the extent of the sum or sums so paid.

With respect to Bank Bonds, the Credit Facility Issuer shall be entitled to and, where necessary, deemed to have been assigned, all rights and privileges as if such Credit Facility Issuer were the Registered Owner of those Bank Bonds, except to the extent such rights and privileges conflict with the Reimbursement Agreement, in which case the terms of the Reimbursement Agreement shall prevail.

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(c) *DTC Acceptance/Letter of Representations.* To induce DTC to accept the Series 2006 Bonds as eligible for deposit at DTC, the State has executed and delivered to DTC the Letter of Representations.

Neither the State nor the Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Series 2006 Bonds in respect of the accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal or redemption price of or interest on the Series 2006 Bonds, any notice which is permitted or required to be given to Registered Owners under this Fourth Supplemental Resolution (except such notices as shall be required to be given by the State to the Registrar or to DTC), the selection by DTC or any DTC participant of any person to receive payment in the event of a partial redemption of the Series 2006 Bonds or any consent given or other action taken by DTC as the Registered Owner.

(d) *Use of DTC/Book-Entry System.*

(1) *Series 2006 Bonds Registered in the Name Designated by DTC.* The Series 2006 Bonds shall be registered initially in the name of "CEDE & Co." as nominee of DTC, (or such other name as may be requested by an authorized representative of DTC) with one Series 2006 Bond maturing on the Maturity Date in a denomination corresponding to the total principal therein designated to mature on such date. Registered ownership of such immobilized Series 2006 Bonds, or any portions thereof, may not thereafter be transferred except (A) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any substitute Securities Depository appointed by the Designated Representative pursuant to subsection (2) below or such substitute Securities Depository's successor; or (C) to any person as provided in paragraph (4) below.

(2) *Substitute Depository.* Upon the resignation of DTC or its successor (or any substitute Securities Depository or its successor) from its functions as Securities Depository or a determination by the Designated Representative that it is no longer in the best interest of Beneficial Owners to continue the system of book entry transfers through DTC or its successor (or any substitute Securities Depository or its successor), the Designated Representative may hereafter appoint a substitute Securities Depository. Any such substitute Securities Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(3) *Issuance of New Series 2006 Bonds to Successor/Substitute Depository.* In the case of any transfer pursuant to clause (A) or (B) of paragraph (d)(1) above, the Registrar shall, upon receipt of all outstanding Series 2006 Bonds, together with a written request on behalf of the Designated Representative, issue a single new Series 2006 Bond for each maturity of such Series 2006 Bonds then Outstanding, registered in the name of such successor or such substitute Securities Depository, or their nominees, as the case may be, all as specified in such written request of the Designated Representative.

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Section 23.06. Application of Proceeds of the Series 2006 Bonds. Upon receipt of payment for any of the Series 2006 Bonds when the same shall have been sold by the State, the State shall forthwith deposit the proceeds received from such sale in the following respective funds, in each case as specified in the closing memorandum prepared and delivered in connection with the delivery of each Series:

(a) *Interest Account.* The State shall deposit with the Registrar in the Interest Account established pursuant to Section 3.02 of the Resolution the accrued interest to the date of payment of the purchase price of the Series 2006 Bonds received upon the sale thereof.

(b) *Insurance Premium; Surety Bond.* The State shall transfer or the Underwriters shall transfer directly the necessary amount of proceeds to pay the insurance premium for the Series 2006 Bond Insurance Policy and one or more Surety Bonds to the Series 2006 Insurer.

(c) *Series 2006 Capitalized Interest Account.* The State shall set aside the necessary amount of proceeds for deposit into a special account within the Construction Fund to be designated as the Series 2006 Capitalized Interest Account.

(d) *Refunding Account.* The State shall transfer the necessary amount of proceeds of the Series 2006D Bonds to the Escrow Agent to refund the Refunded Bonds under the terms of the Escrow Agreement.

(e) *Construction Fund.* The State shall deposit the remainder of such proceeds (the "Net Proceeds") in the Construction Fund to pay the costs of the Series 2006A-C Components (with respect to the proceeds of the Series 2006A Bonds and the Series 2006C Bonds), the costs of the Series 2006B Components (with respect to the Series 2006B Bonds and the costs of issuance of the Series 2006A Bonds, the Series 2006B Bonds, the Series 2006C Bonds and the Series 2006D Bonds, respectively).

Section 23.07. Construction Funds and Reserve Account.

(a) *Construction Fund.* The Net Proceeds of the Series 2006 Bonds shall be deposited in the Construction Fund maintained in the State Treasury. However, the net proceeds of the Series 2006 Bonds shall be segregated for purposes of accounting for expenditures. Separate accounts are authorized to be maintained in the State Treasury's Construction Fund, for the Series 2006B Bond proceeds and the Series 2006C Bond proceeds and the interest and investment earnings (proceeds of the sale and reinvestment) thereon. Disbursements shall be made from the proceeds of the Series 2006A Bonds, the Series 2006B Bonds and the Series 2006C Bonds to pay or reimburse the State for its payment of the costs of the Series 2006A-C Components and the Series 2006B Components, respectively, and to pay the allocable costs of issuance of the Series 2006 Bonds.

The proceeds of the Series 2006A Bonds deposited in the Series 2006 Capitalized Interest Account, together with interest earnings thereon, may be used at the direction of the Authorized AIAS Representative to pay interest on the Series 2006A Bonds pending completion of the Series 2006A-C Components. In the alternative, money in the Series 2006 Capitalized Interest

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(4) *Termination of Book-Entry System.* In the event that (A) DTC or its successor (or substitute Securities Depository or its successor) resigns from its functions as Securities Depository, and no substitute Securities Depository can be obtained, or (B) the Designated Representative determines that it is in the best interest of the Beneficial Owners of the Series 2006 Bonds that they be able to obtain Series 2006 Bond certificates, the ownership of Series 2006 Bonds may then be transferred to any person or entity as herein provided, and the Series 2006 Bonds shall no longer be held in fully immobilized form. The Designated Representative shall deliver a written request to the Registrar, together with a supply of definitive Series 2006 Bonds, to issue Series 2006 Bonds as herein provided in any Authorized Denomination. Upon receipt of all then Outstanding Series 2006 Bonds by the Registrar together with a written request on behalf of the Designated Representative to the Registrar, new Series 2006 Bonds shall be issued in such Authorized Denominations and registered in the names of such persons as are requested in such written request.

(e) *Transfer or Exchange of Registered Ownership; Change in Denominations.* If the Series 2006 Bonds are no longer held in immobilized, book-entry form, the transfer of ownership of any Series 2006 Bond may be registered and such Series 2006 Bonds may be exchanged, but no transfer of any Series 2006 Bond shall be valid unless it is surrendered to the Registrar with the assignment form appearing on such Series 2006 Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Registrar. Upon such surrender, the Registrar shall cancel the surrendered Series 2006 Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Series 2006 Bond (or Series 2006 Bonds at the option of the new Registered Owner) of the same date, designation, if any, Maturity Date and Interest Rate and for the same aggregate principal amount in any Authorized Denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Series 2006 Bond, in exchange for such surrendered and canceled Series 2006 Bond. Any Series 2006 Bond may be surrendered to the Registrar and exchanged, without charge, for an equal aggregate principal amount of Series 2006 Bonds of the same date, series, maturity date, Mode and interest rate, in any Authorized Denomination. Other than in connection with an optional or mandatory tender for purchase, the Registrar shall not be obligated to transfer or exchange any Series 2006 Bond during the five-day period prior to the selection of Series 2006 Bonds for redemption or the Maturity Date or following any mailing of notice of redemption. No charge shall be imposed upon Registered Owners in connection with any transfer or exchange, except for taxes or governmental charges related thereto.

(f) *Registrar's Ownership of the Series 2006 Bonds.* The Registrar may become the Registered Owner of any Series 2006 Bond with the same rights it would have if it were not the Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as member of, or in any other capacity with respect to, any committee formed to protect the right of the Registered Owners of Series 2006 Bonds.

(g) *Registration Covenant.* The State covenants that, until all Series 2006 Bonds have been surrendered and canceled, it will maintain a system for recording the ownership of each Series 2006 Bond that complies with the provisions of Section 149 of the Code.

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Account may be used to pay costs of the Series 2006A-C Components at the direction of the Commissioner of Transportation and Public Facilities, to the extent permitted within the then current appropriation available for the Series 2006A-C Components.

The proceeds of the Series 2006B Bonds deposited in the Series 2006 Capitalized Interest Account, together with interest earnings thereon, may be used at the direction of the Authorized AIAS Representative to pay interest on the Series 2006B Bonds pending completion of the Series 2006B Components. In the alternative, money in the Series 2006 Capitalized Interest Account may be used to pay costs of the Series 2006B Components at the direction of the Commissioner of Transportation and Public Facilities, to the extent permitted within the then current appropriation available for the Series 2006B Components.

Money in the Construction Fund pursuant to Section 8.07(a) and this Section 23.07(a) may be invested in those obligations identified as "Permitted Investments". In addition, such proceeds may be invested in any of the investment pools operated by the Department of Revenue. Earnings on such investments shall accrue to the benefit of the respective account and subaccount for each Series of the Series 2006 Bonds except as may be required to be used to pay the Rebutable Arbitrage pursuant to this Fourth Supplemental Resolution. The allocation of interest earnings and investment earnings of the Series 2006 Bonds will be made utilizing the State's accounting system and cooperation through the Department of Transportation and Public Facilities, the Department of Administration, Division of Finance and the Department of Revenue, Treasury Division. Any balance remaining with respect to each Series of the Series 2006 Bonds after the completion of the Series 1999A Components, the Series 1999B Components, the Series 1999C Components, the Series 2002 Components, the Series 2003 Components, the Series 2006A-C Components, the Series 2006B Components and after all the costs thereof have been paid, shall be transferred to the Bond Fund.

(b) *Reserve Account.* There is hereby authorized to be created in the Reserve Account a subaccount for the Series 2006 Bonds. The State hereby covenants and agrees that on the date of issuance of each Series of the Series 2006 Bonds, it will deposit funds into the Reserve Account in the amount necessary to satisfy the Reserve Account Requirement attributable to the Series 2006 Bonds (then being issued), or purchase one or more Surety Bonds therefor, which with the remaining balance on hand in the Reserve Account (currently in the form of a surety bond and cash reserve) to be equal to the Reserve Account Requirement.

The Designated Representative may decide to utilize one or more Surety Bonds to satisfy the Reserve Account Requirement; provided that each Surety Bond meets the qualifications for Qualified Insurance. Upon such election, the Designated Representative is hereby authorized to execute and deliver one or more Surety Bond Agreements with one or more Surety Bond Issuers to effect the delivery of the Surety Bond(s).

So long as any Series 2006 Bonds insured by the Series 2006 Insurer remain Outstanding, the term of any investment of amounts in the Reserve Account shall not exceed five years except as approved by the Series 2006 Insurer; any Qualified Insurance shall be rated in the highest Rating Category by Moody's and S&P; any Qualified Letter of Credit shall be provided by a bank approved by the Series 2006 Insurer; and the Series 2006 Insurer shall have the right to

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periodically review the provider of the Qualified Letter of Credit and, if such provider is unacceptable to the Series 2006 Insurer, to require that an alternate Qualified Letter of Credit provider be substituted within 45 days, to require that the State draw on the Qualified Letter of Credit to fund the Reserve Account with cash, or to require that the State replace the Qualified Letter of Credit with cash over a time period approved by the Series 2006 Insurer.

Section 23.08. Defeasance. If money and/or noncallable Government Obligations maturing at such time(s) and bearing such interest to be earned thereon (without any reinvestment thereof) as will provide a series of payments which shall be sufficient together with any money initially deposited, to provide for the payment of the principal of, premium, if any, and interest (if the rate of interest is not fixed to the date of maturity, redemption or mandatory purchase, at the Maximum Rate) on all or a designated portion of the Series 2006 Bonds when due (whether at maturity or upon earlier redemption in accordance with their respective terms) or on the first date on which such Series 2006 Bonds must or could be tendered for purchase are set aside in a special fund (hereinafter called the "trust account") to effect such payment and are pledged irrevocably in accordance with a refunding or defeasance plan adopted by the State for the purpose of effecting such payment, then no further payments need be made in the Bond Fund for the payment of the principal of, interest or redemption premium on such Series 2006 Bonds, the Registered Owners thereof shall cease to be entitled to any lien, benefit or security of this resolution, except the right to receive payment of the principal of, premium, if any, and interest on such Series 2006 Bonds when due in accordance with their respective terms from the money and the principal and interest proceeds on the Government Obligations set aside in the trust account, and such Series 2006 Bonds shall no longer be deemed to be Outstanding hereunder, or under any resolution authorizing the issuance of bonds or other indebtedness of the State. Notwithstanding the foregoing, no defeasance of Series 2006C Bonds then in the Commercial Paper Mode, Auction Mode, the Daily Mode or the Weekly Mode may be made unless the State shall have received written notice from each Rating Agency then maintaining a rating on the Series 2006C Bonds to the effect that the rating then in effect with respect to such Series 2006C Bonds will not be withdrawn, reduced or suspended as a result of the proposed defeasance.

Within 45 days of any defeasance of the Series 2006 Bonds, the State shall provide notice of defeasance of the Series 2006 Bonds to Registered Owners of the Series 2006 Bonds being defeased, to the Series 2006 Insurer, as applicable, and to each party entitled to receive notice in accordance with Section 23.14. Notice of any advance refunding of the Series 2006 Bonds shall be provided to the Series 2006 Insurer at least 15 Business Days prior to the date fixed for redemption. A copy of the verification report with respect to the sufficiency of the amounts deposited to the trust account shall be provided to the Series 2006 Insurer.

Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on Series 2006 Bonds shall be paid by the Series 2006 Insurer pursuant to the Series 2006 Bond Insurance Policy, the insured Series 2006 Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Series 2006 Insurer, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Series 2006 Insurer to the Registered Owners shall continue to exist and shall run to the benefit of the Series 2006 Insurer, and the Series 2006 Insurer shall be subrogated to the rights of such Registered Owners.

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then, (i) any Private Person Use of the Series 2006B Components described in subsection (3) hereof or Private Person Use payments described in subsection (4) hereof that is in excess of the five percent limitations described in such subsections (3) or (4) will be for a Private Person Use that is related to the state or local governmental use of the Series 2006B Components, and (ii) any Private Person Use will not exceed the amount of Net Proceeds of the Series 2006B Bonds used for the state or local governmental use portion of the Series 2006B Components to which the Private Person Use of such portion of the Series 2006B Components relates. The State further covenants that it will comply with any limitations on the use of the Series 2006B Components by other than state and local governmental users that are necessary, in the opinion of its bond counsel, to preserve the tax exemption of the interest on the Series 2006B Bonds. The covenants of this Section 23.09(c) are specified solely to assure the continued exemption from federal income taxation of the interest on the Series 2006B Bonds.

(c) *Use of Proceeds of the Series 2006A Bonds and the Series 2006C Bonds.* The Series 2006A-C Components include only facilities that are directly related and essential to:

- (1) servicing aircraft or enabling aircraft to take off and land or
- (2) transferring passengers or cargo to or from aircraft or functionally related and subordinate to such airport facilities,

The State will, at all times while the Series 2006A Bonds and the Series 2006C Bonds are Outstanding be the owner of all elements of the Series 2006A-C Components being financed with such Series 2006A-C Bonds. If any portion of the Series 2006A-C Components is the subject of a lease or management contract with an entity other than a governmental unit, then the lease or management contract must meet the requirements of Section 142(b)(1)(B) of the Code.

The Series 2006A-C Components funded with the proceeds of the Series 2006A Bonds and the Series 2006C Bonds shall not include any:

- (A) lodging facility,
- (B) retail facility (including food and beverage facilities) in excess of a size necessary to serve passengers and employees,
- (C) retail facility (other than parking) for passengers or the general public located outside the airport,
- (D) office building for persons who are not employees of a governmental unit or the State, or
- (E) industrial park or manufacturing facility, that is to be used for any private business use (within the meaning of Section 141(b)(6) of the Code).

Any element of any Series 2006A-C Components that is an office must be located at the airport and no more than a de minimis amount of the functions performed at such office may not

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Section 23.09. Tax Covenants. The State covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the exemption from federal income taxation of the interest on the Series 2006 Bonds and will take or require to be taken such acts as may reasonably be within its ability and as may from time to time be required under applicable law to continue the exemption from federal income taxation of the interest on the Series 2006 Bonds.

(a) *Arbitrage Covenant.* Without limiting the generality of the foregoing, the State covenants that it will not take any action or fail to take any action with respect to the proceeds of sale of the Series 2006 Bonds or any other funds of the State which may be deemed to be proceeds of the Series 2006 Bonds pursuant to Section 148 of the Code and the regulations promulgated thereunder which, if such use had been reasonably expected on the dates of delivery of the Series 2006 Bonds to the initial purchasers thereof, would have caused the Series 2006 Bonds to be "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code. The State will comply with the requirements of Section 148 of the Code and the applicable regulations thereunder throughout the term of the Series 2006 Bonds.

(b) *Private Person Use Limitation for Series 2006B Bonds.* The State covenants that for as long as the Series 2006B Bonds are outstanding, it will not permit:

- (1) More than 10% of the Net Proceeds of the Series 2006B Bonds to be allocated to any Private Person Use (but in no event more than \$15 million); and
- (2) More than 10% of the principal or interest payments on the Series 2006B Bonds in a Bond Year to be directly or indirectly: (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (B) derived from payments (whether or not made to the State) in respect of property, or borrowed money, used or to be used for any Private Person Use.

The State further covenants that, if:

- (3) More than five percent of the Net Proceeds of the Series 2006B Bonds are allocable to any Private Person Use; and
- (4) More than five percent of the principal or interest payments on the Series 2006B Bonds in a Bond Year are (under the terms of this Fourth Supplemental Resolution or any underlying arrangement) directly or indirectly:
 - (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or
 - (B) derived from payments (whether or not made to the State) in respect of property, or borrowed money, used or to be used for any Private Person Use,

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be directly related to day-to-day operations of the airport. Any storage or training facilities included in any project must be located at the airport and must be of a character and size commensurate with the character and size of the airport.

All elements of the Series 2006A-C Components need to be located at or in close proximity to the take-off and landing area in order to perform their functions.

Any land acquired by the State as a part of the Series 2006A-C Components will be (i) acquired solely to mitigate damages attributable to airport noise or (ii) land that is adjacent to the airport, impaired by a significant level of airport noise and (I) in the case of improved land, use of the land and improvements before acquisition is incompatible with the airport noise level, use after acquisition is compatible with the airport noise level and the post-acquisition use is essentially different from the pre-acquisition use or (II) in the case of unimproved land (including agricultural land), use of the land after its acquisition will not be incompatible with the level of airport noise.

(d) *Arbitrage Rebate.* If the State does not qualify for an exception to the requirements of Section 148(f) of the Code relating to the required rebate to the United States, the State will take all necessary steps to comply with the requirement that certain amounts earned by the State on the investment of the "gross proceeds" of the Bonds (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the State will (i) maintain records regarding the investment of the gross proceeds of the Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of the Bonds separately from records of amounts on deposit in the funds and accounts of the State allocable to other bond issues of the State or moneys which do not represent gross proceeds of any bonds of the State, (ii) calculate at such times as are required by applicable regulations, the amount earned from the investment of the gross proceeds of the Bonds which is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Bonds or on such other dates as may be permitted under applicable regulations, all amounts required to be rebated to the federal government. Further, the State will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.

(e) *Modification of Tax Covenants.* The covenants of this section are specified solely to assure the continued exemption from federal income taxation of the interest on the Series 2006 Bonds. To that end, the provisions of this section may be modified or eliminated without any requirement for formal amendment thereof (and without the consent of the Series 2006 Insurer, the Registrar or any Registered Owner) upon receipt of an opinion of the State's Bond Counsel that such modification or elimination will not adversely affect the tax exemption of interest on any Series 2006 Bonds.

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Section 23.10. Lost, Stolen, Mutilated or Destroyed Series 2006 Bonds. In case any Series 2006 Bond or Series 2006 Bonds shall be lost, stolen, mutilated or destroyed, the Registrar may execute and deliver a new Series 2006 Bond or Series 2006 Bonds of like Series, date, number and tenor to the Registered Owner thereof upon the owner's paying the expenses and charges of the State in connection therewith and upon his filing with the State evidence satisfactory to the State that such Series 2006 Bond was actually lost, stolen or destroyed (including the presentation of a mutilated Series 2006 Bond) and of his ownership thereof, and upon furnishing the State with indemnity satisfactory to the State.

Section 23.11. Form of the Series 2006 Bonds and Registration Certificate.

(a) Required Recital. Each Series 2006 Bond shall include a recital to the effect that it is issued under AS 37.15.410 - 37.15.550.

(b) Series 2006A Bonds. The Series 2006A Bonds shall be in substantially the following form:

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at J.P. Morgan Trust Company, National Association, Seattle, Washington

The Insurer, in consideration of the payment of the premium and subject to the terms of the policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the State of Alaska (the "Issuer") to J.P. Morgan Trust Company, National Association or its successor (the "Paying Agent"), of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancelable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

MBIA Insurance Corporation

NO _____ UNITED STATES OF AMERICA S _____
STATE OF ALASKA
INTERNATIONAL AIRPORTS SYSTEM REVENUE BOND, SERIES 2006A (AMT)
MATURITY DATE: _____ CUSIP NO. _____
INTEREST RATE:
REGISTERED OWNER:
PRINCIPAL AMOUNT:

THE STATE OF ALASKA (the "State"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the special fund of the State known as the "International Airports Revenue Bond Redemption Fund" (the "Bond Fund") the Principal Amount indicated above and to pay interest thereon from the Bond Fund from March 14, 2006, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the interest rate set forth above, payable semiannually on the first days of each April and October, beginning on October 1, 2006. The principal of, premium, if any, and interest on this bond are payable in lawful money of the United States of America. Interest shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the State to The Depository Trust Company ("DTC"). Principal shall be paid as provided in the Letter of Representations to the Registered Owner or assigns upon presentation and surrender of this bond at the principal office of J.P. Morgan Trust Company, National Association, acting through its agency office in Seattle, Washington (the "Registrar"). Capitalized terms used in this bond which are not specifically defined have the meanings given such terms in the Bond Resolution.

This bond is one of a series of bonds of the State in the aggregate principal amount of \$118,975,000 of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued under AS 37.15.410 - 37.15.550 and pursuant to Resolution No. 99-01 as supplemented by Supplemental Resolution No. 2006-01 of the State Bond Committee (collectively, the "Bond Resolution") to pay part of the costs of making capital improvements to the Alaska International Airports System.

The bonds of this issue maturing on and after October 1, 2017 shall be subject to optional redemption in advance of their scheduled maturity on or after October 1, 2016 in whole or in part at any time, with maturities to be selected by the State, at a price of par, plus accrued interest, if any, to the date of redemption.

The bonds of this series are private activity bonds. The bonds of this series are not "qualified tax exempt obligations" eligible for investment by financial institutions within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

So long as this bond is held by DTC or its nominee, the manner of selection of bonds of this issue within a maturity for redemption and transfer of bonds and the provision of notice of redemption shall be governed by the Letter of Representations and DTC's operational arrangements. The State and Registrar shall deem the person in whose name this bond is registered to be the absolute owner hereof for the purpose of receiving payment of the principal of, premium, if any, and interest on the bond and for any and all other purposes whatsoever.

The State hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Resolution.

The State does hereby pledge and bind itself to set aside from Revenues and to pay into the Bond Fund the various amounts required by the Bond Resolution to be paid into and maintained in said Fund, all within the times provided by said Bond Resolution.

Said amounts so pledged to be paid out of Revenues into the Bond Fund are hereby declared to be a first and prior lien and charge upon the Revenues, if any, equal in rank to the lien and charge upon such Revenues of the amounts required to pay and secure the payment of the Outstanding Parity Bonds and any revenue bonds of the State hereafter issued on a parity with the bonds of this issue.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Registrar.

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Alaska and resolutions of the State and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the State of Alaska has caused this bond to be executed by the manual or facsimile signatures of the Governor and attested by the Lieutenant Governor, and the seal of the State to be impressed or a facsimile thereof imprinted hereon as of the 14th day of March, 2006.

STATE OF ALASKA

By _____ /s/ _____
Governor

ATTEST:

_____/s/ _____
Lieutenant Governor

CERTIFICATE OF AUTHENTICATION

\$70,760,000
STATE OF ALASKA
INTERNATIONAL AIRPORTS SYSTEM
REVENUE BONDS, SERIES 2006B (NON-AMT)

Date of Authentication: _____

This bond is one of the bonds described in the within mentioned Bond Resolution and is one of the State of Alaska International Airports System Revenue Bonds, Series 2006A (AMT) of the State of Alaska, dated March 14, 2006.

J.P. Morgan Trust Company, National Association, Registrar

By _____ Authorized Signer

(c) Series 2006B Bonds. The Series 2006B Bonds shall be in substantially the following form:

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at J.P. Morgan Trust Company, National Association, Seattle, Washington

The Insurer, in consideration of the payment of the premium and subject to the terms of the policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the State of Alaska (the "Issuer") to J.P. Morgan Trust Company, National Association, or its successor (the "Paying Agent"), of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancelable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

MBIA Insurance Corporation

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NO. _____ UNITED STATES OF AMERICA \$ _____
STATE OF ALASKA
INTERNATIONAL AIRPORTS SYSTEM REVENUE BOND, SERIES 2006B (Non-AMT)
MATURITY DATE: _____ CUSIP NO. _____
INTEREST RATE: _____
REGISTERED OWNER: _____
PRINCIPAL AMOUNT: _____

THE STATE OF ALASKA (the "State"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the special fund of the State known as the "International Airports Revenue Bond Redemption Fund" (the "Bond Fund") the Principal Amount indicated above and to pay interest thereon from the Bond Fund from March 14, 2006, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the Interest Rate set forth above, payable semiannually on the first days of each April and October, beginning on October 1, 2006. The principal of, premium, if any, and interest on this bond are payable in lawful money of the United States of America. Interest shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the State to The Depository Trust Company ("DTC"). Principal shall be paid as provided in the Letter of Representations to the Registered Owner or assigns upon presentation and surrender of this bond at the principal office of J.P. Morgan Trust Company, National Association acting through its agency office in Seattle, Washington (the "Registrar"). Capitalized terms used in this bond which are not specifically defined have the meanings given such terms in the Bond Resolution.

This bond is one of a series of bonds of the State in the aggregate principal amount of \$70,760,000 of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued under AS 37.15.410-37.15.550 and pursuant to Resolution No. 99-01 as supplemented by Supplemental Resolution No. 2006-01 of the State Bond Committee (collectively, the "Bond Resolution") to pay part of the costs of making capital improvements to the Alaska International Airports System.

The bonds of this issue maturing on and after October 1, 2017 shall be subject to optional redemption in advance of their scheduled maturity on or after October 1, 2016 in whole or in part at any time, with maturities to be selected by the State, at a price of par, plus accrued interest, if any, to the date of redemption.

The bonds of this series are not private activity bonds. The bonds of this series are not "qualified tax exempt obligations" eligible for investment by financial institutions within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

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So long as this bond is held by DTC or its nominee, the manner of selection of bonds of this issue within a maturity for redemption and transfer of bonds and the provision of notice of redemption shall be governed by the Letter of Representations and DTC's operational arrangements. The State and Registrar shall deem the person in whose name this bond is registered to be the absolute owner hereof for the purpose of receiving payment of the principal of, premium, if any, and interest on the bond and for any and all other purposes whatsoever.

The State hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Resolution.

The State does hereby pledge and bind itself to set aside from Revenues and to pay into the Bond Fund the various amounts required by the Bond Resolution to be paid into and maintained in said Fund, all within the times provided by said Bond Resolution.

Said amounts so pledged to be paid out of Revenues into the Bond Fund are hereby declared to be a first and prior lien and charge upon the Revenues, if any, equal in rank to the lien and charge upon such Revenues of the amounts required to pay and secure the payment of the Outstanding Parity Bonds and any revenue bonds of the State hereafter issued on a parity with the bonds of this issue.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Registrar.

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Alaska and resolutions of the State and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the State of Alaska has caused this bond to be executed by the manual or facsimile signatures of the Governor and attested by the Lieutenant Governor, and the seal of the State to be impressed or a facsimile thereof imprinted hereon as of the 14th day of March, 2006.

STATE OF ALASKA

By _____ /s/ Governor

ATTEST:

_____/s/ Lieutenant Governor

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CERTIFICATE OF AUTHENTICATION

\$50,000,000
STATE OF ALASKA
INTERNATIONAL AIRPORTS SYSTEM
VARIABLE RATE REVENUE BONDS, SERIES 2006C (AMT)

Date of Authentication: _____

This bond is one of the bonds described in the within mentioned Bond Resolution and is one of the State of Alaska International Airports System Revenue Bonds, Series 2006B (Non-AMT) of the State of Alaska, dated March 14, 2006.

J.P. Morgan Trust Company, National Association, Registrar

By _____ Authorized Signer

(d) Series 2006C Bonds. The Series 2006C Bonds shall be in substantially the following form:

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at J.P. Morgan Trust Company, National Association, Seattle, Washington

The Insurer, in consideration of the payment of the premium and subject to the terms of the policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the State of Alaska (the "Issuer") to J.P. Morgan Trust Company, National Association, or its successor (the "Paying Agent"), of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancelable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

MBIA Insurance Corporation

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NO. _____ UNITED STATES OF AMERICA \$ _____
STATE OF ALASKA
INTERNATIONAL AIRPORTS SYSTEM VARIABLE RATE REVENUE BOND, SERIES 2006C (AMT)
MATURITY DATE: _____ CUSIP NO. _____
INTEREST RATE: _____
REGISTERED OWNER: _____
PRINCIPAL AMOUNT: _____

THE STATE OF ALASKA (the "State"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the special fund of the State known as the "International Airports Revenue Bond Redemption Fund" (the "Bond Fund") the Principal Amount indicated above and to pay interest thereon from the Bond Fund from March 14, 2006, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the Interest Rate set forth above, payable on Interest Payment Dates. The principal of, premium, if any, and interest on this bond are payable in lawful money of the United States of America. Interest shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the State to The Depository Trust Company ("DTC"). Principal shall be paid as provided in the Letter of Representations to the Registered Owner or assigns upon presentation and surrender of this bond at the principal office of J.P. Morgan Trust Company, National Association acting through its agency office in Seattle, Washington (the "Registrar"). Capitalized terms used in this bond which are not specifically defined have the meanings given such terms in the Bond Resolution.

This bond is one of a series of bonds of the State in the aggregate principal amount of \$50,000,000 of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued under AS 37.15.410 - 37.15.550 and pursuant to Resolution No. 99-01 as supplemented by Supplemental Resolution No. 2006-01 of the State Bond Committee (collectively, the "Bond Resolution") to pay part of the costs of making capital improvements to the Alaska International Airports System.

The bonds of this issue are subject to redemption as stated in the Bond Resolution.

The bonds of this series are private activity bonds. The bonds of this series are not "qualified tax exempt obligations" eligible for investment by financial institutions within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

So long as this bond is held by DTC or its nominee, the manner of selection of bonds of this issue within a maturity for redemption and transfer of bonds and the provision of notice of redemption shall be governed by the Letter of Representations and DTC's operational arrangements. The State and Registrar shall deem the person in whose name this bond is

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registered to be the absolute owner hereof for the purpose of receiving payment of the principal of, premium, if any, and interest on the bond and for any and all other purposes whatsoever.

The State hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Resolution.

The State does hereby pledge and bind itself to set aside from Revenues and to pay into the Bond Fund the various amounts required by the Bond Resolution to be paid into and maintained in said Fund, all within the times provided by said Bond Resolution.

Said amounts so pledged to be paid out of Revenues into the Bond Fund are hereby declared to be a first and prior lien and charge upon the Revenues, if any, equal in rank to the lien and charge upon such Revenues of the amounts required to pay and secure the payment of the Outstanding Parity Bonds and any revenue bonds of the State hereafter issued on a parity with the bonds of this issue.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Registrar.

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Alaska and resolutions of the State and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the State of Alaska has caused this bond to be executed by the manual or facsimile signatures of the Governor and attested by the Lieutenant Governor, and the seal of the State to be impressed or a facsimile thereof impressed hereon as of the 14th day of March, 2006.

STATE OF ALASKA

By _____ /s/ Governor

ATTEST: _____ /s/ Lieutenant Governor

CERTIFICATE OF AUTHENTICATION

\$104,860,000
STATE OF ALASKA
INTERNATIONAL AIRPORTS SYSTEM
REVENUE REFUNDING BONDS, SERIES 2006D (NON-AMT)

Date of Authentication: _____

This bond is one of the bonds described in the within mentioned Bond Resolution and is one of the State of Alaska International Airports System Revenue Bonds, Series 2006C (AMT) of the State of Alaska, dated March 14, 2006.

J.P. Morgan Trust Company, National Association, Registrar

By _____ Authorized Signer

(e) Series 2006D Bonds. The Series 2006D Bonds shall be in substantially the following form:

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at J.P. Morgan Trust Company, National Association, Seattle, Washington

The Insurer, in consideration of the payment of the premium and subject to the terms of the policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the State of Alaska (the "Issuer") to J.P. Morgan Trust Company, National Association, or its successor (the "Paying Agent"), of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of the Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancelable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

MBIA Insurance Corporation

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NO. _____ UNITED STATES OF AMERICA \$ _____
STATE OF ALASKA
INTERNATIONAL AIRPORTS SYSTEM REVENUE REFUNDING BOND, SERIES 2006D (NON-AMT)
MATURITY DATE: _____ CUSIP NO. _____
INTEREST RATE: _____
REGISTERED OWNER: _____
PRINCIPAL AMOUNT: _____

THE STATE OF ALASKA (the "State"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the special fund of the State known as the "International Airports Revenue Bond Redemption Fund" (the "Bond Fund") the Principal Amount indicated above and to pay interest thereon from the Bond Fund from March 14, 2006, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the Interest Rate set forth above, payable semiannually on the first days of each April and October, beginning on October 1, 2006. The principal of, premium, if any, and interest on this bond are payable in lawful money of the United States of America. Interest shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the State to The Depository Trust Company ("DTC"). Principal shall be paid as provided in the Letter of Representations to the Registered Owner or assigns upon presentation and surrender of this bond at the principal office of J.P. Morgan Trust Company, National Association, acting through its agency office in Seattle, Washington (the "Registrar"). Capitalized terms used in this bond which are not specifically defined have the meanings given such terms in the Bond Resolution.

This bond is one of a series of bonds of the State in the aggregate principal amount of \$104,860,000 of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued under AS 37.15.410 - 37.15.550 and pursuant to Resolution No. 99-01 as supplemented by Supplemental Resolution No. 2006-01 of the State Bond Committee (collectively, the "Bond Resolution") to refund certain outstanding airport revenue bonds of the State.

The bonds of this issue maturing on and after October 1, 2017 shall be subject to optional redemption in advance of their scheduled maturity on or after October 1, 2016 in whole or in part at any time, with maturities to be selected by the State, at a price of par, plus accrued interest, if any, to the date of redemption.

The bonds of this series are not private activity bonds. The bonds of this series are not "qualified tax exempt obligations" eligible for investment by financial institutions within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

So long as this bond is held by DTC or its nominee, the manner of selection of bonds of this issue within a maturity for redemption and transfer of bonds and the provision of notice of redemption shall be governed by the Letter of Representations and DTC's operational arrangements. The State and Registrar shall deem the person in whose name this bond is registered to be the absolute owner hereof for the purpose of receiving payment of the principal of, premium, if any, and interest on the bond and for any and all other purposes whatsoever.

The State hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Resolution.

The State does hereby pledge and bind itself to set aside from Revenues and to pay into the Bond Fund the various amounts required by the Bond Resolution to be paid into and maintained in said Fund, all within the times provided by said Bond Resolution.

Said amounts so pledged to be paid out of Revenues into the Bond Fund are hereby declared to be a first and prior lien and charge upon the Revenues, if any, equal in rank to the lien and charge upon such Revenues of the amounts required to pay and secure the payment of the Outstanding Parity Bonds and any revenue bonds of the State hereafter issued on a parity with the bonds of this issue.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Registrar.

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Alaska and resolutions of the State and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the State of Alaska has caused this bond to be executed by the manual or facsimile signatures of the Governor and attested by the Lieutenant Governor, and the seal of the State to be impressed or a facsimile thereof imprinted hereon as of the 14th day of March, 2006.

STATE OF ALASKA

By _____ /s/ Governor

ATTEST:

_____/s/ Lieutenant Governor

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

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This bond is one of the bonds described in the within mentioned Bond Resolution and is one of the State of Alaska International Airports System Revenue Refunding Bonds, Series 2006D of the State of Alaska, dated March 14, 2006.

J.P. Morgan Trust Company, National
Association, Registrar

By _____
Authorized Signer

In the event any Series 2006 Bonds are no longer in fully immobilized form, the form of such Series 2006 Bonds may be modified to conform to printing requirements and the terms of this Fourth Supplemental Resolution.

Section 23.12. Execution. The Series 2006 Bonds shall be executed on behalf of the State with the manual or facsimile signature of the Governor, shall be attested by the manual or facsimile signature of the Lieutenant Governor and shall have the seal of the State impressed or a facsimile thereof imprinted thereon.

Only such Series 2006 Bonds as shall bear thereon a Certificate of Authentication in the form hereinbefore recited, manually executed by the Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Fourth Supplemental Resolution. Such Certificate of Authentication shall be conclusive evidence that the Series 2006 Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Fourth Supplemental Resolution.

In case either of the officers of the State who shall have executed the Series 2006 Bonds shall cease to be such officer or officers of the State before the Series 2006 Bonds so signed shall have been authenticated or delivered by the Registrar, or issued by the State, such Series 2006 Bonds may nevertheless be authenticated, delivered and issued and upon such authentication, delivery and issuance, shall be as binding upon the State as though those who signed the same had continued to be such officers of the State. Any Series 2006 Bond may also be signed and attested on behalf of the State by such persons as at the actual date of execution of such Series 2006 Bond shall be the proper officers of the State although at the original date of such Series 2006 Bond any such person shall not have been such officer.

Section 23.13. Sale of the Series 2006 Bonds. The Series 2006 Bonds shall be sold at negotiated sale to the Underwriters pursuant to the terms of a Bond Purchase Contract for each series.

Upon the passage and approval of this Fourth Supplemental Resolution, the proper officials of the State including the Designated Representative, are authorized and directed to undertake all action necessary for the prompt execution and delivery of the Series 2006 Bonds to the Underwriters thereof to purchase the Series 2006 Bond Insurance Policy and further to execute Bond Purchase Contracts and all closing certificates and documents required to effect

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(3) In addition, if the Registrar has notice that any bondowner has been required to disgorge payments of principal or interest on the Series 2006 Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such bondowner within the meaning of any applicable bankruptcy laws, then the Registrar shall notify the Series 2006 Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(4) The Registrar is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for owners of the Series 2006 Bonds as follows:

a. If and to the extent there is a deficiency in amounts required to pay interest on the Series 2006 Bonds, the Registrar shall (i) execute and deliver to U.S. Bank Trust National Association, or its successors under the Series 2006 Bond Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Series 2006 Insurer as agent for such owners in any legal proceeding related to the payment of such interest and an assignment to the Series 2006 Insurer of the claims for interest to which such deficiency relates and which are paid by the Series 2006 Insurer, (ii) receive as designee of the respective owners (and not as Registrar) in accordance with the tenor of the Series 2006 Bond Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (iii) disburse the same to such respective owners; and

b. If and to the extent of a deficiency in amounts required to pay principal of the Series 2006 Bonds, the Registrar shall (i) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Series 2006 Insurer as agent for such owner in any legal proceeding relating to the payment of such principal and an assignment to the Series 2006 Insurer of any of the Series 2006 Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Registrar and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (ii) receive as designee of the respective owners (and not as Registrar) in accordance with the tenor of the Series 2006 Bond Insurance Policy payment therefor from the Insurance Paying Agent, and (iii) disburse the same to such owner.

(5) Payments with respect to claims for interest on and principal of Series 2006 Bonds disbursed by the Registrar from proceeds of the Series 2006 Bond Insurance Policy shall not be considered to discharge the obligation of the State with respect to such Series 2006 Bonds, and the Series 2006 Insurer shall become the owner of such unpaid Series 2006 Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(6) Irrespective of whether any such assignment is executed and delivered, the State and the Registrar hereby agree for the benefit of the Series 2006 Insurer that:

a. They recognize that to the extent the Series 2006 Insurer makes payments, directly or indirectly (as by paying through the Registrar), on account of principal of

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the closing and delivery of the Series 2006 Bonds in accordance with the terms of the respective Bond Purchase Contract.

The Designated Representative is authorized to ratify and to approve for purposes of the Rule, on behalf of the State, the Official Statement(s) (and any Preliminary Official Statement) (both as defined in the respective Bond Purchase Contract) relating to the issuance and sale of the Series 2006 Bonds and the distribution of the Official Statement pursuant thereto with such changes, if any, as may be deemed by him/her to be appropriate.

The Designated Representative is hereby authorized to deem final the preliminary Official Statement relating to each Series of Series 2006 Bonds for the purposes of the Rule.

As a condition precedent to the issuance of the Series 2006 Bonds, the State shall comply with the provisions of Sections 2.02 and 2.03 of the Resolution, so that the Series 2006 Bonds may be issued as Parity Bonds.

Section 23.14. Undertaking to Provide Ongoing Disclosure. The Committee hereby authorizes the Debt Manager to enter into agreements for ongoing disclosure, substantially in the form attached to the Preliminary Official Statement for each Series of the Series 2006 Bonds for the benefit of the Beneficial Owners of the Series 2006 Bonds in order to assist the Underwriters in complying with Section (b)(5) of the Rule.

Section 23.15. Series 2006 Bond Insurance Policy: Provisions Relating to the Series 2006 Insurer.

(a) **Acceptance of Insurance.** The Committee hereby approves the commitments of the Series 2006 Insurer to provide bond insurance policies guaranteeing the payment when due of principal and of interest on each series of the Series 2006 Bonds (the "Series 2006 Bond Insurance Policy"). The Committee further authorizes and directs all proper officers, agents, attorneys and employees of the State to cooperate with the Series 2006 Insurer in preparing such additional agreements, certificates, and other documentation on behalf of the State as shall be necessary or advisable in providing for the Series 2006 Bond Insurance Policy and for the Surety Bond(s).

(b) **Payments Under the Series 2006 Bond Insurance Policy.**

(1) In the event that, on the second business day, and again on the business day, prior to the payment date on the Series 2006 Bonds, the Registrar has not received sufficient money to pay all principal of and interest on the Series 2006 Bonds due on the second following or following, as the case may be, business day, the Registrar shall immediately notify the Series 2006 Insurer or its designee on the same business day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(2) If the deficiency is made up in whole or in part prior to or on the payment date, the Registrar shall so notify the Series 2006 Insurer or its designee.

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or interest on the Series 2006 Bonds, the Series 2006 Insurer will be subrogated to the rights of such owners to receive the amount of such principal and interest from the State, with interest thereon as provided and solely from the sources stated in this Resolution and the Series 2006 Bonds; and

b. They will accordingly pay to the Series 2006 Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Series 2006 Bond Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in this Resolution and the Series 2006 Bonds, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Series 2006 Bonds to owners, and will otherwise treat the Series 2006 Insurer as the owner of such rights to the amount of such principal and interest.

(c) **Rights of Series 2006 Insurer.**

(1) In connection with the issuance of Parity Bonds, the State shall deliver to the Series 2006 Insurer a copy of the disclosure document, if any, circulated with respect to such Parity Bonds.

(2) The Series 2006 Insurer shall receive copies of the State's audited financial statements and annual budget.

(3) Copies of any amendments made to the documents executed in connection with the issuance of the Series 2006 Bonds which are consented to by the Series 2006 Insurer shall be sent to Standard & Poor's Corporation.

(4) The Series 2006 Insurer shall receive notice of the resignation of the Registrar and the appointment of a successor.

(5) Any notices required to be given by any party under this Resolution shall also be given to the Series 2006 Insurer and sent by registered or certified mail addressed to: MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504, Attention: Surveillance.

(6) The State agrees to reimburse the Series 2006 Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including reasonable attorneys' fees and expenses, incurred by the Series 2006 Insurer in connection with (i) enforcement by the Series 2006 Insurer of the State's obligations, or the preservation or defense of any rights of the Series 2006 Insurer, under this Resolution and any other document executed in connection with the issuance of the Series 2006 Bonds, and (ii) any consent, amendment, waiver or other action with respect to this Resolution or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the Series 2006 Insurer

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reserves the right to charge a reasonable fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

(7) The State agrees not to use the Series 2006 Insurer's name in any published document including, without limitation, a press release or presentation, announcement or forum without the Series 2006 Insurer's prior consent; provided that the State may use the Series 2006 Insurer's name in any general or particular factual statement to the effect that the Series 2006 Insurer insures certain outstanding State bonds. In the event that the State is advised by counsel that it has a legal obligation to disclose the Series 2006 Insurer's name in any press release, public announcement or other published document, the State shall provide the Series 2006 Insurer with at least three (3) business days' prior written notice of its intent to use the Series 2006 Insurer's name together with a copy of the proposed use of the Series 2006 Insurer's name and of any description of a transaction with the Series 2006 Insurer and shall obtain the Series 2006 Insurer's prior consent as to the form and substance of the proposed use of the Series 2006 Insurer's name and any such description. The foregoing shall not apply to any request for public records duly received by the State; and the State shall not be obligated to notify the Series 2006 Insurer of its intent to comply with any public disclosure request.

(8) The State shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which Series 2006 Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such Series 2006 Bonds without the prior consent of the Series 2006 Insurer.

(9) The Series 2006 Insurer shall be recognized as the Registered Owner of each Series 2006 Bond that it insures for the purposes of exercising all rights and privileges available to Series 2006 Bondholders and, accordingly, the Series 2006 Insurer, acting alone, shall have the right to direct all remedies in an event of Default with respect to the Series 2006 Bonds.

The provisions of this section and other provisions herein with respect to the Series 2006 Insurer shall be in effect only so long as the Series 2006 Bond Insurance Policy is in full force and effect. The Series 2006 Insurer shall not be substituted with another Credit Facility Issuer nor shall the Series 2006 Bond Insurance Policy be surrendered, cancelled, terminated, or amended or modified in any material respects without (i) the prior written consent of the Liquidity Facility Issuer, and (ii) a Rating Confirmation Notice.

Section 23.16. Refunding Account. There is hereby authorized to be created an account known as the "Refunding Account" which account is to be drawn upon for the sole purpose of paying the interest on the Refunded Bonds until their date of redemption, paying the redemption price of the Refunded Bonds on the date of redemption of the Refunded Bonds and paying costs related to the refunding of the Refunded Bonds.

The proceeds of sale of the Series 2006D Bonds (exclusive of accrued interest thereon, which shall be paid into the Interest Account) shall be credited to the Refunding Account.

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Account. All moneys and Acquired Obligations deposited with said Escrow Agent and any income therefrom shall be held, invested (but only at the direction of the Designated Representative) and applied in accordance with the provisions of the Escrow Agreement.

The State will take such actions as are found necessary to see that all necessary and proper fees, compensation and expenses of the Escrow Agent for the Refunded Bonds shall be paid when due.

In order to carry out the purposes of Section 23.16 of this Fourth Supplemental Resolution and of this section, the Designated Representative is authorized and directed to execute and deliver to the Escrow Agent a copy of the Escrow Agreement.

ARTICLE XXIV COMPLIANCE WITH PARITY CONDITIONS

Section 24.01. Requirements of Supplemental Resolution. In connection with Section 2.02 of the Resolution the State hereby finds that this Fourth Supplemental Resolution specifies and provides for the following:

- (a) the authorized principal amount and designation of the Series 2006 Bonds;
- (b) the general purpose or purposes for which the Series 2006 Bonds are being issued, and the deposit, disbursement and application of the proceeds of the sale of the Parity Bonds;
- (c) the date or dates, and the maturity date or dates, of the Series 2006 Bonds, and the principal amount maturing on each maturity date;
- (d) the interest rate or rates on the Series 2006 Bonds (which may be a rate of zero) and the interest payment date or dates therefor, and whether such interest rate or rates shall be fixed, variable or a combination of both and, if necessary, the manner of determining such rate or rates;
- (e) the circumstances, if any, under which the Series 2006 Bonds will be deemed to be no longer Outstanding;
- (f) the currency or currencies in which the Series 2006 Bonds are payable;
- (g) the denominations of, and the manner of dating, numbering, and, if necessary, authenticating, the Series 2006 Bonds;
- (h) the place or places of payment of the principal, redemption price, if any, or purchase price, if any, of and interest on, the Series 2006 Bonds;
- (i) the tender agent or tender agents, if any, for the Series 2006 Bonds and the duties and obligations thereof;

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Money in the Refunding Account shall be used immediately upon receipt thereof to defease the Refunded Bonds as authorized by the Resolution and the Second Supplemental Resolution and pay costs of issuance allocable to the Series 2006D Bonds. The State shall defease the Refunded Bonds and discharge such obligations by the use of money in the Refunding Account to purchase certain Government Obligations, bearing such interest and maturing as to principal and interest in such amounts and at such times which, together with any necessary beginning cash balance, will provide for the payment of interest on the Bonds through their respective call dates and the redemption price of the Refunded Bonds being redeemed on April 1, 2009 and October 1, 2012, respectively.

A beginning cash balance, if any, and Acquired Obligations shall be deposited irrevocably with the Escrow Agent in an amount sufficient to defease the Refunded Bonds. The proceeds of the Series 2006D Bonds remaining in the Refunding Account after acquisition of the Acquired Obligations and provision for the necessary beginning cash balance shall be utilized to pay expenses of the acquisition and safekeeping of the Acquired Obligations and expenses of the issuance of the Series 2006D Bonds.

Section 23.17. Call for Redemption of the Refunded Bonds. The State hereby irrevocably sets aside sufficient funds out of the purchase of Acquired Obligations from proceeds of the Series 2006D Bonds to make the payments described in Section 23.16 of this Fourth Supplemental Resolution.

The State hereby irrevocably calls the Series 1999B Refunded Bonds for redemption on April 1, 2009 and the Series 2002B Refunded Bonds for redemption on October 1, 2012 in accordance with the provisions of the Resolution and the Second Supplemental Resolution authorizing the redemption and retirement of the Series 1999B Bonds and Series 2002B Bonds, respectively, prior to their fixed maturity.

Said defeasance and call for redemption of the Refunded Bonds shall be irrevocable after the final establishment of the escrow account and delivery of the Acquired Obligations to the Escrow Agent.

The Escrow Agent is hereby authorized and directed to provide for the timely giving of notice of the redemption of the Refunded Bonds in accordance with the applicable provisions of the Resolution and the Second Supplemental Resolution. The Designated Representative is authorized and requested to provide whatever assistance is necessary to accomplish such redemption and the giving of notice therefor. The costs of publication of such notice shall be an expense of the State.

The Escrow Agent is hereby authorized and directed to pay to the Designated Representative, or, at the direction of the Designated Representative, to the paying agent for the Refunded Bonds, sums sufficient to pay, when due, the payments specified in of Section 23.16 of this Fourth Supplemental Resolution. All such sums shall be paid from the moneys and Acquired Obligations deposited with said Escrow Agent pursuant to Section 23.16 of this Fourth Supplemental Resolution and the income therefrom and proceeds thereof. All such sums so paid to or at the direction of said Designated Representative shall be credited to the Refunding

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(j) the remarketing agent or remarketing agents, if any, for the Series 2006 Bonds and the duties and obligations thereof;

(k) the registrar or trustee, if any, for the Series 2006 Bonds and the duties and obligations thereof;

(l) the form or forms of the Series 2006 Bonds and any coupons attached thereto, which may include but shall not be limited to, registered form, bearer form with or without coupons, and book-entry form, and the methods, if necessary, for the registration, transfer and exchange of the Series 2006 Bonds;

(m) the terms and conditions, if any, for the redemption of the Series 2006 Bonds prior to maturity, including the redemption date or dates, the redemption price or prices and other applicable redemption terms;

(n) the terms and conditions, if any, for the purchase of the Series 2006 Bonds upon any optional or mandatory tender for purchase prior to maturity, including the tender date or dates, the purchase date or dates, the purchase price or prices and other applicable terms;

(o) the manner of sale of the Series 2006 Bonds, with or without a premium or a discount;

(p) if so determined by the State, the authorization of and any terms and conditions with respect to credit or liquidity support for the Series 2006 Bonds and the pledge or provision of moneys, assets or security other than Revenues to or for the payment of the Series 2006 Bonds or any portion thereof;

(q) a subaccount within the Reserve Account for the Series 2006 Bonds and the application of moneys or securities therein; and

(r) any other provisions which the State deems necessary or desirable in connection with the Series 2006 Bonds.

Section 24.02. General Compliance with Parity Conditions.

The State hereby finds and determines, as required by Section 2.03 of the Resolution, as follows:

First: The issuance of the Series 2006 Bonds has been authorized by legislation amending or supplementing the Act.

Second: The Series 2006A Bonds, the Series 2006B Bonds and the Series 2006C Bonds have been authorized to pay the costs of acquiring, equipping, constructing or installing additions and improvements to and extensions of the AIAS, facilities for the landing, parking, loading, storing, repairing, safety or utility of aircraft at the AIAS or passenger, freight or terminal facilities, including safety equipment and devices, at the AIAS, found to be necessary by the

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Commissioner of Transportation and Public Facilities and constituting a project authorized by the Act.

Third: The State is currently and upon issuance of the Series 2006 Bonds will be in compliance with all covenants set forth in the Resolution.

Fourth: There shall have been filed prior to the issuance of the Series 2006 Bonds a certificate of a Consultant (prepared as described in subsection (d) of Section 2.03) demonstrating fulfillment of the Coverage Requirement.

The conditions set forth in Sections 2.03 and Section 2.04 of the Resolution having been complied with or assured prior to the issuance of the Series 2006 Bonds, the payments into the Bond Fund for the payment of the principal of and interest on the Series 2006 Bonds and the payments required by this Fourth Supplemental Resolution to be made into the Reserve Account shall constitute a lien and charge upon the money in the Revenue Fund equal in rank with the lien and charge on the money in such fund for the payments required to be made into the Bond Fund and into the Reserve Account to pay and secure the payment of the principal of and interest on the Outstanding Parity Bonds.

Said certificates having been obtained, the Series 2006 Bonds shall be Parity Bonds, having an equal lien and charge upon Revenue of the System required to be paid into the Bond Fund and the Reserve Account therein to pay and secure the payment of the principal of and interest on the Outstanding Parity Bonds.

ARTICLE XXV
MISCELLANEOUS

Section 25.01. Liability of State Limited to Revenues. Notwithstanding anything contained in this Fourth Supplemental Resolution, the State shall not be required to advance any moneys derived from the proceeds of any taxes, or from any source of income other than the Revenues, for the payment of the principal of or interest on the Parity Bonds, for the maintenance and operation of the airports or for the performance of any covenants herein contained. Nevertheless, the State may, but shall not be required to, advance for any of the purposes hereof any moneys which the Legislature may hereafter authorize.

The Parity Bonds shall be revenue bonds, secured exclusively by the Revenues as in the Resolution provided. The Parity Bonds are not a general obligation of the State, and the general fund of the State is not liable, and the credit or taxing power of the State is not pledged, for the payment of the Parity Bonds or their interest. The owners of the Parity Bonds, or the coupons thereto appertaining, shall never have the right to compel the exercise of the taxing power by the State or the forfeiture of any property of the State.

Section 25.02. Benefits of Resolution Limited to Parties. Nothing in this Fourth Supplemental Resolution, expressed or implied, is intended to give to any person other than the State, the Registrar, the Paying Agents, the Liquidity Facility Provider and the owners of the Parity Bonds and coupons, any right, remedy or claim under or by reason of the Resolution or

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Section 25.05. Execution of Documents by Parity Bondowners. Any request, consent or other instrument which the Resolution may require or permit to be executed by Parity Bondowners may be in one or more instruments of substantially similar tenor, and shall be executed by Parity Bondowners in person or by their attorneys appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Parity Bondowner or his attorney of any such request, consent or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request, consent or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

Except as otherwise herein expressly provided, the amount of Parity Bonds transferable by delivery held by any person executing any such request, consent or other instrument or writing as a Parity Bondowner, the numbers of the Parity Bonds held by such person, and the date of his holding such Parity Bonds, may be proved by a certificate, which need not be acknowledged or verified, satisfactory to the Registrar, executed by a trust company, bank, banker or other depository wherever situated, showing that at the date therein mentioned such person had on deposit with such depository, or exhibited to it, the Parity Bonds described in such certificate. The Registrar and the State may conclusively assume that such ownership continues until written notice to the contrary is served upon the Registrar. The fact and the date of execution of any request, consent or other instrument and the amount and distinguishing numbers of Parity Bonds held by the person so executing such request, consent or other instrument may also be proved in any other manner which the Registrar may deem sufficient. The Registrar may nevertheless, in its discretion, require further or other proof in cases where it deems the same desirable. The ownership of registered Parity Bonds and the amount, maturity, number and date of holding the same shall be proved by the registry books.

Any request, consent or other instrument or writing of the owner of any Parity Bond shall bind all future owners of such Parity Bond in respect of anything done or suffered to be done by the Registrar or the State in good faith and in accordance therewith.

Section 25.06. Waiver of Personal Liability. No member of the Committee and no officer, agent or employee of the State, or of any department or agency thereof, shall be individually or personally liable for the payment of the principal of or interest on the Parity Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Section 25.07. Publication for Successive Weeks. Any publication to be made under the provisions of the Bond Resolution in successive weeks may be made in each instance upon any business day of the week and need not be made on the same day of any succeeding week or in the same newspaper for any or all of the successive publications, but may be made in different newspapers.

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this Fourth Supplemental Resolution. Any covenants, stipulations, promises or agreements in the Resolution or this Fourth Supplemental Resolution contained by and on behalf of the State shall be for the sole and exclusive benefit of the owners of the Parity Bonds and coupons, the Registrar.

Section 25.03. Successor Is Deemed Included in All References to Predecessor. Whenever, in this Fourth Supplemental Resolution, the Committee, any officer of the State or the Registrar is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements contained in the Resolution by or on behalf of the Committee, any officer of the State or the Registrar shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 25.04. Discharge of Resolution, Supplement to Resolution No. 99-01.

If ---

(i) all of the outstanding Parity Bonds shall have matured, or if notice of redemption of all of the outstanding Parity Bonds prior to maturity shall have been given, or provision satisfactory to the Registrar shall have been irrevocably made for the giving of such notice, and if the State shall have deposited with the Registrar, in trust, funds pursuant to the Resolution sufficient to pay and available for the payment of all amounts then due and thereafter to become due on all Parity Bonds, including all principal, interest and redemption premiums, or

(ii) all of the outstanding Parity Bonds are to be refunded, and the conditions set forth in Section 2.04 of the Resolution have been satisfied with respect to such Parity Bonds,

then, at the election of the State, and notwithstanding that any Parity Bonds or interest coupons shall not have been surrendered for payment, the pledge of the Revenues provided for in the Resolution and all other obligations of the State under the Resolution shall cease and terminate, except only the obligation of the State to pay or cause to be paid to the owners of the Parity Bonds and interest coupons not so surrendered and paid all sums due thereon. Notice of such election shall be filed with the Registrar.

Notwithstanding anything herein to the contrary, this Fourth Supplemental Resolution shall not be terminated until all obligations and amounts due and owing to any Credit Facility Issuer, including but not limited to the Bond Insurer have been paid and satisfied in full.

Any funds held by any Registrar, at the time of receipt by the Registrar of such notice from the State, which are not required for the purpose above mentioned, shall be paid over to the Registrar. Any funds thereafter held by the Registrar, which are not required for said purpose, shall be paid over to the State.

This Fourth Supplemental Resolution is intended to supplement Resolution No. 99-01 of the Committee.

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Section 25.08. Partial Invalidity. If any one or more of the covenants or agreements, or portions thereof, provided in this Fourth Supplemental Resolution on the part of the State (or of the Registrar) to be performed should be contrary to law, then such covenant or covenants, such agreement or agreements, or such portions thereof, shall be null and void and shall be deemed separable from the remaining covenants and agreements or portions thereof and shall in no way affect the validity of this Fourth Supplemental Resolution or of the Parity Bonds; but the Parity Bondowners shall retain all the rights and benefits accorded to them under the Act or any other applicable provisions of law.

Section 25.09. Appointment of Bank and Remarketing Agent. UBS Securities LLC is hereby appointed as Remarketing Agent for the Series 2006C Bonds. At all times when Series 2006C Bonds are in the Weekly Mode, Daily Mode, Commercial Paper Mode or Long Term Mode there shall be a Remarketing Agent hereunder. The Remarketing Agent shall remarket such Weekly Mode, Daily Mode, Commercial Paper Mode and Long Term Mode Bonds pursuant to this resolution, and keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the State, the Credit Facility Issuer, the Liquidity Facility Issuer and the Registrar at all reasonable times.

The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by this resolution by giving the notice set forth in the Remarketing Agreement. The Remarketing Agent may be removed upon notice set forth in the Remarketing Agreement at the direction of the State, by written notice to the other Notice Parties. Any successor Remarketing Agent shall be a member of the National Association of Securities Dealers, Inc. (or successor to its functions), shall have a minimum capitalization of \$15,000,000, and shall be authorized by law to perform all the duties set forth in this resolution. So long as the Series 2006C Bonds are insured by the Series 2006 Insurer, the appointment of any successor Remarketing Agent shall be subject to the consent of the Series 2006 Insurer.

After conversion to the Fixed Mode of the Series 2006C Bonds, there shall be no Remarketing Agent for the Series 2006C Bonds, and all references herein to the Remarketing Agent, Auction Agent, Market Agent and Broker-Dealer shall thereafter be of no effect.

The Committee authorizes the Designated Representative to select the Bank, and to negotiate and execute the Standby Bond Purchase Agreement and other contracts with the Bank in connection with the issuance of the Liquidity Facility.

Section 25.10. Successor Remarketing Agent by Merger. If the Remarketing Agent (or any co-Remarketing Agent) consolidates with, merges or converts into, or transfers all or substantially all of its assets to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Remarketing Agent (or co-Remarketing Agent).

Section 25.11. Specific Authorizations. The Designated Representative may, in his or her discretion, without further action by the Committee, (a) effect changes in Mode of the Series 2006C Bonds from one Mode to another, and, in the event of a failure to establish a New Mode, to effect a change to the Commercial Paper Mode as provided in this resolution, (b) negotiate

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terms of any Credit Facility or Liquidity Facility and any extensions of the Expiration Date, and execute the applicable Reimbursement Agreement or Purchase Agreement or other necessary documents in this regard, and (c) effect such Mode Changes, and execute documents necessary to effect such changes and (d) execute a Continuing Disclosure Certificate providing for an undertaking by the State to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission.

Section 25.12. Appointment of Successors to Remarketing Agent. The Committee authorizes the Designated Representative to appoint successor(s) to any Remarketing Agent (with the prior written consent of the Series 2006C Bond Insurer and any other Credit Facility Issuer for the Series 2006C Bonds, if any, which consent will not be unreasonably withheld), upon receipt of notice of resignation from the Remarketing Agent. The Committee additionally authorizes the Designated Representative to remove the Remarketing Agent when, in the sole discretion of the Designated Representative, such removal is deemed necessary or beneficial to the State. In the event of such resignation or removal, the Designated Representative may negotiate a contract with, or issue a request for proposals for, a successor Remarketing Agent, as appropriate, and execute a contract with the successor so selected; provided, however, that no successor may be appointed by the Designated Representative if the appointment of such successor would result in the withdrawal, suspension or downgrade in the ratings of the Series 2006C Bonds by any Rating Agency.

Section 25.13. References to Credit Facility Issuer or Liquidity Facility Issuer. Notwithstanding any provisions contained herein to the contrary, so long as a Credit Facility or Liquidity Facility is not in effect (and no obligations are owed to the Credit Facility Issuer or Liquidity Facility Issuer pursuant to any applicable Reimbursement Agreement or Purchase Agreement), all references to the Credit Facility Issuer or Liquidity Facility Issuer and the Credit Facility or Liquidity Facility contained herein shall be null and void and of no force and effect. The Registrar shall not have any lien on moneys received under the Credit Facility or the Liquidity Facility or received as remarketing proceeds for payment of its fees and expenses, and the Registrar shall not seek indemnity as a condition to making a drawing under the Credit Facility or Liquidity Facility, making payments to Owners of Series 2006C Bonds or implementing a Mandatory Purchase Date.

For so long as the Liquidity Facility is in full force and effect, the Liquidity Facility Issuer shall have the right to consent to amendments that require Bondowner consent and to receive notices under the Resolution and to be deemed a third party beneficiary of the Resolution as provided to owners of the Series 2006C Bonds under the Resolution.

Section 25.14. Payments Due on Holidays. Subject to Article II, if an Interest Payment Date is not a Business Day then payment shall be made on the next Business Day and no interest shall accrue for the intervening period.

Section 25.15. Notices to Rating Agencies. The State shall give immediate notice to each Rating Agency and Auction Rating Agency then maintaining a rating on the Series 2006 Bonds in the event:

- (a) The Remarketing Agent, Market Agent, Auction Agent, Broker-Dealer or the Registrar resigns or is replaced;
- (b) This resolution is amended or supplemented;
- (c) A Credit Facility or Liquidity Facility is substituted, terminated or extended;
- (d) Series 2006C Bonds are changed from one Mode to another Mode (specifying the length of the new Interest Period(s));
- (e) There has been a redemption or defeasance of the Series 2006 Bonds;
- (f) A Mandatory Purchase Date has occurred as a result of the expiration of the Credit Facility, if any; or Liquidity Facility, if any or
- (g) The Auction Agent Agreement, Market Agent Agreement, Broker-Dealer Agreement, Remarketing Agreement, the Reimbursement Agreement, the Purchase Agreement or the Credit Facility or Liquidity Facility is amended, supplemented, extended, terminated or expired or replaced.

Section 25.16. Amendments to Auction Provisions. Notwithstanding any other provision of this resolution, the provisions of this resolution relating to the Auction Mode, including without limitation the mandatory tender provisions and the definitions of terms used in Section 23.02(f) (including without limitation the definitions of "AA" Financial Commercial Rate, Applicable Auction Rate, Applicable Percentage, All-Hold Rate, Auction Maximum Rate and Non-Payment Rate) may be amended by the State, (i) upon obtaining an opinion of Bond Counsel that the same does not materially adversely affect the rights of the Auction Beneficial Owners or (ii) by obtaining the consent of a majority of the Auction Beneficial Owners and the Bond Insurer. In the case of clause (ii) above, the State shall direct the Registrar to mail notice of such amendment to the Bond Insurer and the Auction Beneficial Owners of which it has knowledge, and if, on the first Auction Date occurring at least 30 days after the date on which the Registrar mailed such notice, Sufficient Clearing Bids have been received or all of the Auction are subject to Submitted Hold Orders, the proposed amendment shall be deemed to have been consented to by the Auction Beneficial Owners (but Series 2006 Insurer consent shall not be deemed to be given, without the Series 2006 Insurer's express consent). As an additional condition precedent to any such amendment pursuant to the provisions of this Section, there shall be delivered to the State and the Series 2006 Insurer an opinion of Bond Counsel to the effect that such amendment will not adversely affect the validity of the Bonds in the Auction Mode or the exclusion of interest on any of the Series 2006C Bonds in the Auction Mode from gross income for federal income tax purposes. Written notice of each such amendment shall be delivered by the State to the other Notice Parties.

Section 25.17. Effective Date. This Fourth Supplemental Resolution shall become effective immediately upon its adoption.

ADOPTED AND APPROVED by the State Bond Committee of the State of Alaska, the 23rd day of February, 2006.

WILLIAM NOLL
Commissioner, Department of Commerce
Community and Economic Development
Chair and Member
Alaska State Bond Committee

WILLIAM CORBUS
Commissioner, Department of Revenue
Secretary and Member
Alaska State Bond Committee

SCOTT NORDSTRAND
Commissioner, Department of Administration
Member
Alaska State Bond Committee

Approved as to form:

Attorney General of the State of Alaska

EXHIBIT A

SERIES 2006A-C COMPONENTS

Improvements to the Anchorage International Airport including but not limited to the following:

- Concourse A and B Retrofit Project
- Energy and Terminal Systems Upgrades
- Terminal Rehabilitation
- Department of Homeland Security Renovations

Improvements to the Fairbanks International Airport including but not limited to the following:

- Terminal Area Redevelopment

EXHIBIT B

SERIES 2006B COMPONENTS

Improvements to the Anchorage International Airport including but not limited to the following:

- Consolidated Facilities Center
- Airfield Pavement Maintenance
- Roads/Utilities/Grounds Construction and Upgrades
- Snow Storage Facilities
- Land Acquisition and Mitigation Equipment
- Noise Abatement Program
- Information Technology Improvements
- GA Parking and Taxiway Relocation Master Plan
- Advanced Project Design
- First LOI
- Second LOI
- ARFF Building Rehabilitation

Improvements to the Fairbanks International Airport including but not limited to the following:

- Terminal Area Redevelopment
- Runway Reconstruction
- Equipment

Exhibit B

EXHIBIT C

FORM OF NOTICE OF CURE OF AUCTION PAYMENT DEFAULT

State of Alaska
International Airports System Variable Rate Revenue Bonds,
Series 2006C (AMT)

NOTICE IS HEREBY GIVEN that the Auction Payment Default with respect to the Bonds identified above has been waived or cured. The next Auction Interest Payment Date is _____ and the next scheduled Auction Date is _____.

Dated: _____

By: _____

Exhibit C

CERTIFICATE

I, the undersigned, Secretary of the State Bond Committee of the State of Alaska (herein called the "Committee") DO HEREBY CERTIFY:

1. That the attached Supplemental Resolution numbered 2006-01 (herein called the "Resolution") is a true and correct copy of a resolution of the Committee as adopted at a meeting held on February 23, 2006, and duly recorded in my office.
2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a legal quorum was present throughout the meeting and a legally sufficient number of members of the Committee voted in the proper manner for the adoption of the Resolution; that all other requirements and proceedings incident to the proper adoption of the Resolution have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

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IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of _____, 2006.

Secretary

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APPENDIX E

PROPOSED FORM OF OPINIONS OF BOND COUNSEL

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March 14, 2006

State of Alaska
Department of Revenue
Juneau, Alaska

UBS Securities LLC
San Francisco, California

Citigroup Global Markets Inc.
New York, New York

Merrill Lynch and Co.
Los Angeles, California

Morgan Stanley
New York, New York

Re: State of Alaska International Airports System Revenue Bonds,
Series 2006A (AMT) - \$118,975,000

Ladies and Gentlemen:

We have acted as bond counsel to the State of Alaska (the "State") and have examined a certified transcript of the proceedings taken in the matter of the issuance by the State of its Alaska International Airports System Revenue Bonds, Series 2006A, dated March 14, 2006, in the aggregate principal amount of \$118,975,000 (the "Series 2006A Bonds"), issued pursuant to Resolution No. 99-01 adopted by the State Bond Committee on January 28, 1999 as most recently amended by the Fourth Supplemental Resolution No. 2006-01 adopted on February 23, 2006 (together, the "Bond Resolution"), for the purpose of financing improvements to the Alaska International Airports System and to pay the costs of issuance of the Series 2006A Bonds. Capitalized terms not otherwise defined herein shall have the meanings given such terms in the Bond Resolution.

The Series 2006A Bonds are subject to optional redemption prior to maturity as provided in the Bond Resolution.

As to questions of fact material to our opinion, we have relied upon representations and assumed compliance with covenants of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

From such examination, as of this date and under existing law, we express the following opinions.

1. The Series 2006A Bonds have been legally issued and constitute valid special obligations of the State, both principal thereof and interest thereon being payable solely out of a special fund of the State known as the "International Airports Revenue Bond Redemption Fund" (the "Bond Fund"), except to the extent that the enforcement of the rights and remedies of such owners of the Series 2006A Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The State has irrevocably bound itself to set aside and pay into the Bond Fund and the reserve account (the "Reserve Account") therein out of Revenues of the Anchorage International Airport and the Fairbanks

International Airport (the "System"), amounts necessary to pay the principal of and interest on the Series 2006A Bonds as the same become due.

3. The State has pledged that the payments to be made into the Bond Fund and the Reserve Account out of Revenues shall be a lien and charge thereon equal in rank to the lien and charge upon the revenue of the amounts required to pay and secure the payment of the State's International Airports System Revenue Bonds, Series 1999A, the State's International Airports System Revenue Bonds, Series 1999B, the State's International Airports System Revenue Bonds, Series 1999C, the State's International Airports System Revenue Bonds, Series 2002A, the State's International Airports System Revenue Bonds, Series 2002B, the State's International Airports System Revenue and Refunding Bonds, Series 2003A, the State's International Airports System Revenue Bonds, Series 2003B, the State's International Airports System Revenue Bonds, Series 2006B, the State's International Airports System Variable Rate Revenue Bonds, Series 2006C and the State's International Airports System Revenue Refunding Bonds, Series 2006D and any other revenue bonds of the State hereafter issued on a parity with the Series 2006A Bonds and superior to all other liens and charges, but subject to the payment of the Maintenance and Operations Costs of the System to the extent permitted by the Act. The State has reserved the right to issue future parity bonds on the terms set forth in the Bond Resolution.

4. Interest on the Series 2006A Bonds is excluded from gross income for federal income tax purposes under existing law, except for any Series 2006A Bond with respect to any period during which such Series 2006A Bond is held by a "substantial user" of the facilities being financed or refinanced by the Series 2006A Bonds or a "related person" to such "substantial user" within the meaning of Section 147 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2006A Bonds is a preference item for purposes of determining the alternative minimum tax imposed on individuals and corporations. Interest on a Series 2006A Bond owned by a corporation (other than a S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate owner.

Except as stated herein, we express no opinion regarding any federal, state or local tax consequences arising with respect to ownership of the Series 2006A Bonds.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Series 2006A Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the State to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PRESTON GATES & ELLIS LLP

By
Cynthia M. Weed

March 14, 2006

State of Alaska
Department of Revenue
Juneau, Alaska

UBS Securities LLC
San Francisco, California

Citigroup Global Markets Inc.
New York, New York

Merrill Lynch and Co.
Los Angeles, California

Morgan Stanley
New York, New York

Re: State of Alaska International Airports System Revenue Bonds,
Series 2006B (Non-AMT) - \$70,760,000

Ladies and Gentlemen:

We have acted as bond counsel to the State of Alaska (the "State") and have examined a certified transcript of the proceedings taken in the matter of the issuance by the State of its Alaska International Airports System Revenue Bonds, Series 2006B, dated March 14, 2006, in the aggregate principal amount of \$70,760,000 (the "Series 2006B Bonds"), issued pursuant to Resolution No. 99-01 adopted by the State Bond Committee on January 28, 1999 as most recently amended by the Fourth Supplemental Resolution No. 2006-01 adopted on February 23, 2006 (together, the "Bond Resolution"), for the purpose of financing improvements to the Alaska International Airports System and to pay the costs of issuance of the Series 2006B Bonds. Capitalized terms not otherwise defined herein shall have the meanings given such terms in the Bond Resolution.

The Series 2006B Bonds are subject to optional redemption prior to maturity as provided in the Bond Resolution.

As to questions of fact material to our opinion, we have relied upon representations and assumed compliance with covenants of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

From such examination, as of this date and under existing law, we express the following opinions.

1. The Series 2006B Bonds have been legally issued and constitute valid special obligations of the State, both principal thereof and interest thereon being payable solely out of a special fund of the State known as the "International Airports Revenue Bond Redemption Fund" (the "Bond Fund"), except to the extent that the enforcement of the rights and remedies of such owners of the Series 2006B Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The State has irrevocably bound itself to set aside and pay into the Bond Fund and the reserve account (the "Reserve Account") therein out of Revenues of the Anchorage International Airport and the Fairbanks International Airport (the "System"), amounts necessary to pay the principal of and interest on the Series 2006B Bonds as the same become due.

3. The State has pledged that the payments to be made into the Bond Fund and the Reserve Account out of Revenues shall be a lien and charge thereon equal in rank to the lien and charge upon the revenue of the amounts required to pay and secure the payment of the State's International Airports System Revenue Bonds, Series 1999A, the State's International Airports System Revenue Bonds, Series 1999B, the State's International Airports System Revenue Bonds, Series 1999C, the State's International Airports System Revenue Bonds, Series 2002A, the State's International Airports System Revenue Bonds, Series 2002B, the State's International Airports System Revenue and Refunding Bonds, Series 2003A, the State's International Airports System Revenue Bonds, Series 2003B, the State's International Airports System Revenue Bonds, Series 2006A, the State's International Airports System Variable Rate Revenue Bonds, Series 2006C and the State's International Airports System Revenue Refunding Bonds, Series 2006D and any other revenue bonds of the State hereafter issued on a parity with the Series 2006B Bonds and superior to all other liens and charges, but subject to the payment of the Maintenance and Operations Costs of the System to the extent permitted by the Act. The State has reserved the right to issue future parity bonds on the terms set forth in the Bond Resolution.

4. Interest on the Series 2006B Bonds is excluded from gross income for federal income tax purposes under existing law. Interest on the Series 2006B Bonds is not an item of tax preference under the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of determining the alternative minimum tax imposed on individuals and corporations. Interest on a Series 2006B Bond owned by a corporation (other than a S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate owner.

Except as stated herein, we express no opinion regarding any federal, state or local tax consequences arising with respect to ownership of the Series 2006B Bonds.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Series 2006B Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the State to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PRESTON GATES & ELLIS LLP

By
Cynthia M. Weed

March 14, 2006

State of Alaska
Department of Revenue
Juneau, Alaska

UBS Securities LLC
San Francisco, California

Lloyds TSB Bank PLC
New York, New York

Re: State of Alaska International Airports System Variable Rate Revenue Bonds,
Series 2006C (AMT) - \$50,000,000

Ladies and Gentlemen:

We have acted as bond counsel to the State of Alaska (the "State") and have examined a certified transcript of the proceedings taken in the matter of the issuance by the State of its Alaska International Airports System Variable Rate Revenue Bonds, Series 2006C, dated March 14, 2006, in the aggregate principal amount of \$50,000,000 (the "Series 2006C Bonds"), issued pursuant to Resolution No. 99-01 adopted by the State Bond Committee on January 28, 1999 as most recently amended by the Fourth Supplemental Resolution No. 2006-01 adopted on February 23, 2006 (together, the "Bond Resolution"), for the purpose of financing improvements to the Alaska International Airports System and to pay the costs of issuance of the Series 2006C Bonds. Capitalized terms not otherwise defined herein shall have the meanings given such terms in the Bond Resolution.

The Series 2006C Bonds are subject to optional and mandatory redemption prior to maturity as provided in the Bond Resolution.

As to questions of fact material to our opinion, we have relied upon representations and assumed compliance with covenants of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

From such examination, as of this date and under existing law, we express the following opinions.

1. The Series 2006C Bonds have been legally issued and constitute valid special obligations of the State, both principal thereof and interest thereon being payable solely out of a special fund of the State known as the "International Airports Revenue Bond Redemption Fund" (the "Bond Fund"), except to the extent that the enforcement of the rights and remedies of such owners of the Series 2006C Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The State has irrevocably bound itself to set aside and pay into the Bond Fund and the reserve account (the "Reserve Account") therein out of Revenues of the Anchorage International Airport and the Fairbanks International Airport (the "System"), amounts necessary to pay the principal of and interest on the Series 2006C Bonds as the same become due.

3. The State has pledged that the payments to be made into the Bond Fund and the Reserve Account out of Revenues shall be a lien and charge thereon equal in rank to the lien and charge upon the revenue of the amounts required to pay and secure the payment of the State's International Airports System Revenue Bonds, Series

1999A, the State's International Airports System Revenue Bonds, Series 1999B, the State's International Airports System Revenue Bonds, Series 1999C, the State's International Airports System Revenue Bonds, Series 2002A, the State's International Airports System Revenue Bonds, Series 2002B, the State's International Airports System Revenue and Refunding Bonds, Series 2003A, the State's International Airports System Revenue Bonds, Series 2003B, the State's International Airports System Revenue Bonds, Series 2006A, the State's International Airports System Revenue Bonds, Series 2006B and the State's International Airports System Revenue Refunding Bonds, Series 2006D and any other revenue bonds of the State hereafter issued on a parity with the Series 2006C Bonds and superior to all other liens and charges, but subject to the payment of the Maintenance and Operations Costs of the System to the extent permitted by the Act. The State has reserved the right to issue future parity bonds on the terms set forth in the Bond Resolution.

4. Interest on the Series 2006C Bonds is excluded from gross income for federal income tax purposes under existing law, except for any Series 2006C Bond with respect to any period during which such Series 2006C Bond is held by a "substantial user" of the facilities being financed or refinanced by the Series 2006C Bonds or a "related person" to such "substantial user" within the meaning of Section 147 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2006C Bonds is a preference item for purposes of determining the alternative minimum tax imposed on individuals and corporations. Interest on a Series 2006C Bond owned by a corporation (other than a S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate owner.

Except as stated herein, we express no opinion regarding any federal, state or local tax consequences arising with respect to ownership of the Series 2006C Bonds.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Series 2006C Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the State to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PRESTON GATES & ELLIS LLP

By
Cynthia M. Weed

March 14, 2006

State of Alaska
Department of Revenue
Juneau, Alaska

UBS Securities LLC
San Francisco, California

Citigroup Global Markets Inc.
New York, New York

Merrill Lynch and Co.
Los Angeles, California

Morgan Stanley
New York, New York

Re: State of Alaska International Airports System Revenue Refunding Bonds,
Series 2006D (Non-AMT) - \$104,860,000

Ladies and Gentlemen:

We have acted as bond counsel to the State of Alaska (the "State") and have examined a certified transcript of the proceedings taken in the matter of the issuance by the State of its Alaska International Airports System Revenue Refunding Bonds, Series 2006D, dated March 14, 2006, in the aggregate principal amount of \$104,860,000 (the "Series 2006D Bonds"), issued pursuant to Resolution No. 99-01 adopted by the State Bond Committee on January 28, 1999 as most recently amended by the Fourth Supplemental Resolution No. 2006-01 adopted on February 23, 2006 (together, the "Bond Resolution"), for the purpose of financing improvements to the Alaska International Airports System, refunding certain outstanding bonds and to pay the costs of issuance of the Series 2006D Bonds. Capitalized terms not otherwise defined herein shall have the meanings given such terms in the Bond Resolution.

The Series 2006D Bonds are subject to optional redemption prior to maturity as provided in the Bond Resolution.

As to questions of fact material to our opinion, we have relied upon representations and assumed compliance with covenants of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

From such examination, as of this date and under existing law, we express the following opinions.

1. The Series 2006D Bonds have been legally issued and constitute valid special obligations of the State, both principal thereof and interest thereon being payable solely out of a special fund of the State known as the "International Airports Revenue Bond Redemption Fund" (the "Bond Fund"), except to the extent that the enforcement of the rights and remedies of such owners of the Series 2006D Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The State has irrevocably bound itself to set aside and pay into the Bond Fund and the reserve account (the "Reserve Account") therein out of Revenues of the Anchorage International Airport and the Fairbanks International Airport (the "System"), amounts necessary to pay the principal of and interest on the Series 2006D Bonds as the same become due.

3. The State has pledged that the payments to be made into the Bond Fund and the Reserve Account out of Revenues shall be a lien and charge thereon equal in rank to the lien and charge upon the revenue of the amounts required to pay and secure the payment of the State's International Airports System Revenue Bonds, Series 1999A, the State's International Airports System Revenue Bonds, Series 1999B, the State's International Airports System Revenue Bonds, Series 1999C, the State's International Airports System Revenue Bonds, Series 2002A, the State's International Airports System Revenue Bonds, Series 2002B, the State's International Airports System Revenue and Refunding Bonds, Series 2003A, the State's International Airports System Revenue Bonds, Series 2003B, the State's International Airports System Revenue Bonds, Series 2006A, the State's International Airports System Revenue Bonds, Series 2006B and the State's International Airports System Variable Rate Revenue Bonds, Series 2006C and any other revenue bonds of the State hereafter issued on a parity with the Series 2006D Bonds and superior to all other liens and charges, but subject to the payment of the Maintenance and Operations Costs of the System to the extent permitted by the Act. The State has reserved the right to issue future parity bonds on the terms set forth in the Bond Resolution.

4. Interest on the Series 2006D Bonds is excluded from gross income for federal income tax purposes under existing law. Interest on the Series 2006D Bonds is not an item of tax preference under the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of determining the alternative minimum tax imposed on individuals and corporations. Interest on a Series 2006D Bond owned by a corporation (other than a S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate owner.

Except as stated herein, we express no opinion regarding any federal, state or local tax consequences arising with respect to ownership of the Series 2006D Bonds.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Series 2006D Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the State to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PRESTON GATES & ELLIS LLP

By
Cynthia M. Weed

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE UNDERTAKING

(a) This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed by the State of Alaska (the “State”) in connection with the issuance of \$118,975,000 International Airports System Revenue Bonds, Series 2006A (AMT), \$70,760,000 International Airports System Revenue Bonds, Series 2006B (Non-AMT) and \$104,860,000 International Airports System Revenue Refunding Bonds, Series 2006D (Non-AMT) (collectively, the “Bonds”) dated March 14, 2006. The Bonds are being issued pursuant to a Bond Resolution of the State entitled “A Resolution of the State Bond Committee of the State of Alaska amending and re-stating Resolution No. 68-4; authorizing the issuance and sale of revenue bonds of the Alaska International Airports System in Series from time to time; approving certain protective covenants; authorizing the issuance of two Series of revenue bonds for the purpose of financing improvements; approving an agreement for ongoing disclosure and approving a bond purchase contract” and approved on January 28, 1999, a Supplemental Resolution No. 2002-01 of the State approved March 7, 2002, a Supplemental Resolution No. 2003-10 of the State approved December 3, 2003 and a Supplemental Resolution No. 2006-01 of the State approved February 23, 2006 (together, the “Resolution”).

In Section 23.14 of the Resolution, the State undertook to enter into an undertaking in accordance with Section (b)(5) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12) (the “Rule”), for the benefit of the beneficial owners or holders of the Bonds.

(b) *Definitions.* Capitalized terms used herein which are not otherwise defined shall have the meanings given such terms in the Resolution. In addition, the following terms shall have the following meanings.

Annual Disclosure Report shall mean any Annual Disclosure Report provided by the State pursuant to, and as described in, subsection (c) of this Disclosure Certificate.

Audited Financial Statements means the State of Alaska International Airports System’s annual financial statements, prepared in accordance with Governmental Accounting Standards Board, which financial statements shall have been audited by a firm of independent certified public accountants.

Beneficial Owner shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of 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.

Disclosure Representative means the Debt Manager of the State or his or her designee or such other officer or employee as the State shall designate in writing from time to time.

Fiscal Year means any 12-month period ending on June 30 or such other date as is authorized by statute and/or selected by AIAS.

NRMSIR means any Nationally Recognized Municipal Securities Information Repository, as recognized from time to time by the Securities and Exchange Commission for the purposes referred to in the Rule.

Obligated Person means the State and each airline or other entity at any time using the System (i) that is obligated under an airport use agreement, lease or other agreement having a term of more than one year with rates calculated to pay a portion of the debt service on the Bonds, and (ii) has paid amounts equal to at least 20 percent of the Revenues of the System for each of the prior two fiscal years of the System or such other meaning as may be defined or clarified under the Rule.

Repository shall mean (a)(1) DisclosureUSA (for as long as it continues to be a recognized repository by the Securities and Exchange Commission) or (2) each NRMSIR, and (b) each SID.

Rule shall mean Rule 15c2-12(b)(5)(i) 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 Alaska.

SID shall mean any public or private repository or entity designated by the State of Alaska as a state depository for the purpose of the Rule. As of this date, there is no SID.

System shall mean the Alaska International Airports System.

(c) *Financial Statements/Operating Data.*

(1) *Annual Disclosure Report.* The State covenants and agrees that not later than seven months after the end of each Fiscal Year (the "Submission Date"), commencing January 31, 2007 for the fiscal year ending June 30, 2006, the State shall provide or cause to be provided to each NRMSIR and to the SID, if any, an annual report (the "Annual Disclosure Report") that is consistent with the requirements of part (2) of subsection (c). The Annual Disclosure 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 part (2) of subsection (c); provided that any audited annual financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such audited financial statements are not available by the Submission Date. If the State's Fiscal Year changes, the State shall give notice of such change in a timely manner to the Repository, and if for any Fiscal Year the State does not furnish an Annual Disclosure Report to the Repository by the Submission Date, the State shall send to the Repository notice of its failure to furnish such report pursuant to subsection (d).

(2) *Content of Annual Disclosure Reports.* The State's Annual Disclosure Report shall contain or include by reference (without duplication) the following:

(A) Audited Financial Statements;

(B) Updated versions of the type of information contained in the final Official Statement, as follows:

(i) AVIATION ACTIVITIES AND ACTIVITY LEVELS – Anchorage International Airport: Annual Passenger Activity (Table 5);

(ii) AVIATION ACTIVITIES AND ACTIVITY LEVELS – Anchorage International Airport: Annual Passenger Enplanements (Table 6);

(iii) AVIATION ACTIVITIES AND ACTIVITY LEVELS – Fairbanks International Airport: Annual Passenger Activity (Table 7);

(iv) AVIATION ACTIVITIES AND ACTIVITY LEVELS - Fairbanks International Airport: Annual Passenger Enplanements (Table 8);

(v) AVIATION ACTIVITIES AND ACTIVITY LEVELS – Anchorage International Airport: Annual All-Cargo Aircraft Landings (Table 9);

(vi) AVIATION ACTIVITIES AND ACTIVITY LEVELS – Anchorage International Airport: Annual All-Cargo Aircraft Certified Maximum Gross Takeoff Weight (Table 10);

(vii) AVIATION ACTIVITIES AND ACTIVITY LEVELS – Fairbanks International Airport: Annual All-Cargo Aircraft Landings (Table 11);

(viii) AVIATION ACTIVITIES AND ACTIVITY LEVELS - Fairbanks International Airport: Annual All-Cargo Aircraft Certified Maximum Gross Takeoff Weight (Table 12);

(ix) Aggregate principal amount of airport revenue bonds outstanding and any change in the aggregate principal amount of authorized airport revenue bonds;

- (x) Any material change in the methodology described in “SYSTEM FINANCIAL OPERATIONS” -- System Operating Revenue -- Airline Operations.

Any or all of the listed items may be included by specific reference to other documents, including official statements of debt issues of the State, or of any related entity, that have been submitted to the Repository and the SID, if any, or to the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The State shall identify clearly each document so included by reference.

In addition, the State agrees to annually determine whether any users of the System are “Obligated Persons” as such term is defined in this Certificate. If the State determines that any such user is an Obligated Person, the State will request that such Obligated Person provide to the same parties who receive the State’s net Annual Disclosure Report either (a) a copy of the most recently prepared financial statements (audited, if available) of such user or (b) if such user files a Form 10K or Form 10Q with the SEC, a cross-reference to such filing. The State agrees to include in the terms of any written operating agreement or similar contract, if any is entered into in the future with the users of the System provisions requiring such users to provide the information described in the preceding sentence to the State if the State makes the determination that such user is an Obligated Person.

(d) *Material Events.* The State agrees to provide or cause to be provided, in a timely manner, to the Repository notice of the occurrence of any of the following events with respect to the Bonds, if material:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- Modifications to rights of owners;
- Optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856;
- Defeasances;
- Release, substitution or sale of property securing the repayment of the Bonds; and
- Rating changes with respect to the Bonds.

(e) *Notice Upon Failure to Provide Financial Data.* The State agrees to provide or cause to be provided, in a timely manner, to the Repository, if any, notice of its failure to provide the annual financial information described in subsection (c) above on or prior to the Submission Date.

(f) *Termination/Modification.* The State’s obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance (if notice of such defeasance is given as provided above) or payment in full of all of the Bonds. The undertaking shall be null and void if the State (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the undertaking, or any such provision, have been repealed retroactively or otherwise do not apply to the Bonds; and (2) notifies the Repository of such opinion and the cancellation of the State’s undertaking. Notwithstanding any other provision of the Resolution, the State may amend its undertaking (including the items in the closing certificate referenced above) and any provision of its undertaking may be waived, in accordance with the Rule; provided that (A) if the amendment or waiver relates to the provisions of subsections (c)(1), (c)(2) or (d) above, it may only be 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 an obligated person with respect to the Bonds, or the type of business conducted; (B) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (C) the amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the beneficial owners of the Bonds.

In the event of any amendment of or waiver of a provision of its undertaking, the State shall describe such amendment in the next Annual Disclosure 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 State. 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 a timely manner to each Repository, and (ii) the Annual Disclosure 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.

(g) *Registered Owner's and Beneficial Owners' Remedies Under the State's Undertaking.* A Registered Owner's and the Beneficial Owners' right to enforce the provisions of the State's undertaking shall be limited to a right to obtain specific enforcement of the State's obligations under the undertaking, and any failure by the State to comply with the provisions of the State's undertaking shall not be an event of default under the Resolution.

(h) *Additional Information.* Nothing in the State's undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in the State's undertaking or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a material event, in addition to that which is required by the State's undertaking. If the State chooses to include any information in any Annual Disclosure Report or notice of the occurrence of a material event in addition to that specifically required by the State's undertaking, the State shall have no obligation under the Resolution to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a material event.

DATED as of March 14, 2006

STATE OF ALASKA

By _____
Disclosure Representative

APPENDIX G

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [INSERT NAME OF PAYING AGENT] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

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APPENDIX H

DTC AND BOOK-ENTRY ONLY SYSTEM

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SCHEDULE A

SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

(Prepared by DTC--bracketed material may apply only to certain issues)

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities 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 Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, 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.

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

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants

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

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

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

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC[nor its nominee], Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, 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.

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

10. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

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

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

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