

*In the opinion of Bond Counsel, which is based on existing law and assumes continuing compliance by the Authority with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the 2010 Bonds will not be includable in the gross income of the owners thereof for purposes of federal income taxation (except for any owner of a 2010A Bond who is a "substantial user" of the facilities refinanced with the proceeds of the 2010A Bonds or a "related person" of a "substantial user" (as such terms are defined in the Code)) and will not be treated as a specific preference item for purposes of the federal alternative minimum tax imposed by the Code on corporations and other taxpayers, including individuals. In the opinion of Bond Counsel, which is based on existing law, interest on the 2010 Bonds will be exempt from all State of North Carolina income taxes. See "TAX TREATMENT" herein.*

**RALEIGH-DURHAM AIRPORT AUTHORITY  
(NORTH CAROLINA)**

**\$242,365,000**  
**AIRPORT REVENUE REFUNDING BONDS**  
**SERIES 2010A (Non-AMT)**

**\$94,080,000**  
**AIRPORT REVENUE REFUNDING BONDS**  
**SERIES 2010B (Non-AMT)**

**Dated:** Date of Delivery

**Due:** As shown on the inside cover

The Bonds offered hereby (collectively, the "2010 Bonds") will be special obligations of the Raleigh-Durham Airport Authority (the "Authority"), secured by and payable from the Net Revenues (as defined herein) of the Authority's Airport System (as defined herein) and, under certain circumstances, the proceeds of the 2010 Bonds, investment earnings and certain other funds and accounts described herein. The Airport Revenue Refunding Bonds, Series 2010A (Non-AMT) (the "2010A Bonds") are being issued and used, together with other available funds of the Authority, to currently refund prior obligations of the Authority, to pay the termination payment on interest rate swap agreements related to such prior obligations, to fund a deposit to the Parity Reserve Fund and to pay costs incurred in connection with the issuance of the 2010A Bonds, as further described in this Official Statement. The Airport Revenue Refunding Bonds, Series 2010B (Non-AMT) (the "2010B Bonds") are being issued and used, together with other available funds of the Authority, to advance refund prior obligations of the Authority and to pay costs incurred in connection with the issuance of the 2010B Bonds, as further described in this Official Statement. THE 2010 BONDS WILL BE SPECIAL OBLIGATIONS OF THE AUTHORITY, SECURED BY AND PAYABLE FROM THE NET REVENUES OF THE AUTHORITY AND CERTAIN OTHER FUNDS AVAILABLE THEREFOR AS DESCRIBED IN THIS OFFICIAL STATEMENT. THE AUTHORITY HAS NO TAXING POWER.

The 2010 Bonds will be issued only as fully registered bonds, without coupons, and when delivered will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as the initial securities depository for the 2010 Bonds. Individual purchases of the 2010 Bonds by the beneficial owners will be made in book-entry form only in denominations of \$5,000 or integral multiples thereof. See "THE 2010 BONDS--BOOK-ENTRY-ONLY SYSTEM" herein.

Interest on the 2010 Bonds will be payable on May 1 and November 1, beginning November 1, 2010. The 2010 Bonds are subject to optional redemption and mandatory sinking fund redemption as described herein.

The 2010 Bonds are offered subject to prior sale, when, as and if issued and accepted by the Underwriters subject to the approval of their validity and certain other matters by Womble Carlyle Sandridge & Rice, PLLC, Bond Counsel. Certain legal matters will be passed upon for the Authority by Moore & Van Allen, PLLC, counsel to the Authority, and for the Underwriters by Parker Poe Adams & Bernstein LLP, counsel to the Underwriters. Jefferies & Company, Inc. has served as Financial Advisor to the Authority. It is expected that delivery of the 2010 Bonds will be made through the facilities of DTC in New York, New York on or about September 2, 2010.

**Barclays Capital**

**BofA Merrill Lynch**  
**Morgan Keegan & Company, Inc.**  
**Siebert Brandford Shank & Co., LLC**  
**Wells Fargo Securities**

**Citi**  
**Piper Jaffray & Co.**  
**SunTrust Robinson Humphrey**

**MATURITY SCHEDULE**

**\$242,365,000  
Airport Revenue Refunding Bonds  
Series 2010A (Non-AMT)**

**\$157,135,000 2010A Serial Bonds**

<u>DUE</u> <u>(MAY 1)</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>YIELD</u>	<u>DUE</u> <u>(MAY 1)</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>YIELD</u>
2011	\$5,040,000	2.00%	0.29%	2021	\$7,710,000	5.00%	3.30%*
2012	5,165,000	3.00	0.59	2022	8,105,000	5.00	3.45*
2013	5,320,000	3.00	0.94	2023	8,520,000	5.00	3.57*
2014	5,510,000	4.00	1.23	2024	8,955,000	5.00	3.67*
2015	5,740,000	4.00	1.79	2025	9,415,000	5.00	3.78*
2016	6,005,000	5.00	2.20	2026	9,900,000	5.00	3.88*
2017	6,310,000	5.00	2.50	2027	10,355,000	4.00	4.08
2018	6,635,000	5.00	2.71	2028	10,835,000	5.00	4.08*
2019	6,975,000	5.00	2.91	2029	11,385,000	5.00	4.16*
2020	7,330,000	5.00	3.10	2030	11,925,000	4.25	4.32

\$25,620,000 5.00% 2010A Term Bonds due May 1, 2032, Yield: 4.30%\*

\$59,610,000 5.00% 2010A Term Bonds due May 1, 2036, Yield: 4.37%\*

**\$94,080,000  
Airport Revenue Refunding Bonds  
Series 2010B (Non-AMT)**

<u>DUE</u> <u>(NOVEMBER 1)</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>YIELD</u>	<u>DUE</u> <u>(NOVEMBER 1)</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>YIELD</u>
2011	\$3,960,000	3.00%	0.33%	2020	\$5,630,000	3.00%	3.17%
2012	4,075,000	3.00	0.66	2021	5,805,000	5.00	3.30*
2013	4,200,000	4.00	0.99	2022	6,090,000	5.00	3.45*
2014	4,370,000	4.00	1.33	2023	6,395,000	5.00	3.57*
2015	4,540,000	4.00	1.87	2024	6,715,000	5.00	3.67*
2016	4,725,000	3.00	2.29	2025	7,055,000	5.00	3.78*
2017	4,865,000	5.00	2.58	2026	7,405,000	5.00	3.88*
2018	5,110,000	5.00	2.79	2027	7,775,000	5.00	3.98*
2019	5,365,000	5.00	2.99				

\* Priced to the May 1, 2020 call date at par.

# RALEIGH-DURHAM AIRPORT AUTHORITY

## SPONSORING GOVERNMENTS

City of Raleigh, North Carolina  
City of Durham, North Carolina  
County of Durham, North Carolina  
County of Wake, North Carolina

## AUTHORITY MEMBERS

NAME	TITLE	APPOINTING GOVERNMENT
Robert D. Teer, Jr.	Chairman	City of Durham
Terry K. Yeargan	Vice Chairman	Wake County
Kim Frazier	Secretary	City of Raleigh
Tanita R. Lipscomb	Treasurer	City of Durham
Geoff Elting	Board Member	City of Raleigh
Tommy Hunt	Board Member	Durham County
Craigie D. Sanders	Board Member	Durham County
Michael A. Weeks	Board Member	Wake County

## ADMINISTRATION

Airport Director	John C. Brantley
Deputy Airport Director – Finance, Business and Administration	Joe D. Styres, CPA
Deputy Airport Director – Operations	Michael J. McElvaney
Deputy Airport Director – Facilities Engineering and Maintenance	Steven M. Pittman, P.E.
Director – Major Capital Improvements Program	David R. Powell, P.E.
Director of Marketing, Customer Service and Organizational Support	Teresa A. Damiano
Director of Finance	Thomas D. Barritt, CPA

## CONSULTANTS AND ADVISORS

Bond Counsel	Womble Carlyle Sandridge & Rice, PLLC
Authority Counsel	Moore & Van Allen, PLLC
Financial Advisor	Jefferies & Company, Inc.
Airport Consultant	Jacobs Consultancy

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement in connection with the offering described herein and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the 2010 Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the 2010 Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the 2010 Bonds implies that the information herein is correct as of any date subsequent to the date thereof.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the 2010 Bonds or passed upon the adequacy or accuracy of this Official Statement. Any representation to the contrary is a criminal offense.

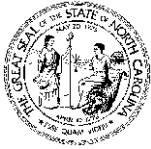
The information contained herein has been obtained from the Authority and other sources believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, 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 or completeness of such information. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2010 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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*State of North Carolina*  
*Department of State Treasurer*

JANET COWELL  
TREASURER

*State and Local Government Finance Division*  
*and the Local Government Commission*

T. VANCE HOLLOMAN  
DEPUTY TREASURER

**OFFICIAL STATEMENT  
OF THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION  
CONCERNING**

***RALEIGH-DURHAM AIRPORT AUTHORITY***  
***(NORTH CAROLINA)***

***\$242,365,000***  
***Airport Revenue Refunding Bonds, Series***  
***2010A (Non-AMT)***

***\$94,080,000***  
***Airport Revenue Refunding Bonds, Series***  
***2010B (Non-AMT)***

**INTRODUCTION**

The purpose of this Official Statement, which includes the appendices, is to provide certain information in connection with the issuance by the Raleigh-Durham Airport Authority (the "Authority") of \$242,365,000 Airport Revenue Refunding Bonds, Series 2010A (Non-AMT) (the "2010A Bonds") and \$94,080,000 Airport Revenue Refunding Bonds, Series 2010B (Non-AMT) (the "2010B Bonds," and together with the 2010A Bonds, the "2010 Bonds"). The 2010 Bonds are being issued pursuant to The State and Local Government Revenue Bond Act, Article 5 of Chapter 159 of the General Statutes of North Carolina, as amended (the "Act"), a bond order to be adopted by the Authority on August 3, 2010 (the "Order"), a Master Trust Indenture, dated as of February 1, 2001, as amended (the "Master Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), and an Eleventh Supplemental Trust Indenture, dated as of August 1, 2010 (the "Eleventh Supplemental Indenture"), between the Authority and the Trustee. The Trustee is also serving as the Registrar and Paying Agent for the 2010 Bonds.

This introduction provides certain limited information to serve as a guide to the Official Statement and is expressly qualified by the Official Statement as a whole. Investors should make a full review of the entire Official Statement and the documents summarized or described herein.

For the definition of certain terms used herein and a summary of certain provisions of the Master Indenture and the Eleventh Supplemental Indenture, see **Appendix C**. Capitalized terms used herein and not otherwise defined have the same meanings given such terms in the Master Indenture and the Eleventh Supplemental Indenture unless otherwise indicated.

**The Authority.** The Authority is a special joint agency of the Cities of Raleigh and Durham, North Carolina and the Counties of Wake and Durham, North Carolina. The Authority was created and exists pursuant to a special act enacted by the General Assembly of North Carolina in 1939, as amended, and by action taken by the sponsoring governmental units pursuant to that act. The Authority is governed

by an eight member governing board appointed by the sponsoring governmental units. See “**THE AUTHORITY**” herein for additional information regarding the Authority and its organization.

***The Airport and Airport System.*** The “*Airport System*” consists of all airports, airport sites, and equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce under the jurisdiction and control of the Authority, including the Raleigh-Durham International Airport (the “*Airport*”). The Airport System currently consists solely of the Airport. The Airport is located in Wake County, approximately 11 miles from the downtown areas of each of the Cities of Raleigh and Durham. The airfield for the Airport includes two major runways and aircraft parking ramps and taxiways. Passenger terminal facilities at the Airport are located in two separate buildings known as Terminal 1 (previously known as Terminal A) and Terminal 2 (which replaced Terminal C). See “**THE AIRPORT SYSTEM**” herein for additional information regarding the Airport System and its operation.

***Authorization.*** The 2010 Bonds are being issued pursuant to the authority granted by the Act, the Order, the Master Indenture and the Eleventh Supplemental Indenture.

***Security.*** The 2010 Bonds will be special obligations of the Authority, secured by and payable from the Net Revenues (hereinafter defined) of the Airport System and, under certain circumstances, the proceeds of the 2010 Bonds, investment earnings and certain other funds and accounts described in this Official Statement. The 2010 Bonds will be additionally secured by certain funds and accounts held by the Trustee under the Master Indenture and the Eleventh Supplemental Indenture. The 2010 Bonds will be secured by a pledge, charge and lien upon the Net Revenues on a parity with any other Bonds currently Outstanding and hereafter issued by the Authority under the Master Indenture. The 2010 Bonds also will be secured by the Parity Reserve Fund. See “**SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS**” herein.

The Authority has committed or will irrevocably commit, to the extent received, specific amounts of Passenger Facility Charges (“*PFCs*”) through March 31, 2016, up to a maximum amount in each Fiscal Year, to pay a portion of the debt service on Bonds that are related to projects eligible to be paid from PFCs. See “**SECURITY AND SOURCES OF PAYMENT FOR THE 2010A BONDS—PASSENGER FACILITY CHARGES**” herein.

***Purpose.*** The 2010A Bonds are being issued for the purpose of providing funds, together with other available funds, to (a) refund all of the outstanding Raleigh-Durham Airport Authority Variable Rate Airport Revenue Refunding Bonds, Series 2008A (AMT) (the “*2008A Bonds*”) and Raleigh-Durham Airport Authority Variable Rate Airport Revenue Refunding Bonds, Series 2008B (AMT) (the “*2008B Bonds*” and together with the 2008A Bonds, the “*2008A/B Bonds*”), (b) pay the termination payment on interest rate swap agreements entered into in connection with the 2008A/B Bonds, (c) fund a deposit to the Parity Reserve Fund, and (d) pay the costs incurred in connection with the issuance of the 2010A Bonds.

The 2008A/B Bonds are currently outstanding in the aggregate principal amount of \$216,870,000. The 2008A/B Bonds are variable rate demand obligations, with credit and liquidity support provided by standby bond purchase agreements or letters of credit issued by financial institutions. In addition, the Authority has entered into interest rate swap agreements with respect to the 2008A/B Bonds that have aggregate notional amounts that correspond to the aggregate principal amount of the 2008A/B Bonds (with the notional amounts decreasing as the aggregate principal amount of the 2008A/B Bonds decreases). Under the terms of the interest rate swap agreements, the Authority receives interest rate payments designed to approximate the variable rate interest payments the Authority pays on the 2008A/B Bonds, and pays fixed rate payments. This arrangement results in a synthetic fixed rate for the 2008A/B Bonds. The interest rate swap agreements may be terminated at any time by the Authority,



but upon such termination the Authority must pay to, or will receive from, the counterparties under the interest rate swap agreements a termination payment determined in accordance with the terms of the interest rate swap agreements. In the current interest rate environment, the Authority must pay a termination payment in connection with the termination of the interest rate swap agreements. The Authority has determined to issue the fixed interest rate 2010A Bonds to refund the 2008A/B Bonds and terminate the interest rate swap agreements in order to reduce its exposure to risks associated with the variable rate demand obligations, particularly with regard to costs and availability of credit and liquidity support for the 2008A/B Bonds, and to risks associated with the interest rate swap agreements.

The 2010B Bonds are being issued for the purpose of providing funds, together with other available funds, to (a) refund the outstanding Raleigh-Durham Airport Authority Airport Revenue Bonds, Series 2001A (Non-AMT) (the “*2001A Bonds*”) maturing on November 1, 2011 through November 1, 2022, inclusive, and November 1, 2025 and a portion of the 2001A Bonds maturing on November 1, 2031 in an aggregate principal amount of \$16,465,000 (the “*Refunded 2001A Bonds*”) and (b) pay the costs incurred in connection with the issuance of the 2010B Bonds.

See “**THE PLAN OF REFUNDING**” and “**ESTIMATED SOURCES AND USES OF FUNDS**” herein.

***Details of Bonds.*** The 2010 Bonds will be dated their date of delivery. Interest on the 2010 Bonds will be payable on May 1 and November 1, beginning November 1, 2010, at the rates shown on the inside front cover. Principal of the 2010 Bonds will be payable, subject to prior redemption as described herein, on May 1, with respect to the 2010A Bonds, and November 1, with respect to the 2010B Bonds, in the years and amounts shown on the inside front cover.

The 2010 Bonds will be issued as fully registered bonds in book-entry-only form, without physical delivery of bond certificates to the beneficial owners of the 2010 Bonds. The Paying Agent will make payment of principal of and interest on the 2010 Bonds to The Depository Trust Company, New York, New York (“*DTC*”), which will in turn remit such payment to its participants for subsequent distribution to the beneficial owners of the 2010 Bonds. Individual purchases of the 2010 Bonds by the beneficial owners will be made in denominations of \$5,000 or integral multiples thereof. See “**THE 2010 BONDS--BOOK-ENTRY-ONLY SYSTEM**” herein.

***Tax Status.*** See “**TAX TREATMENT**” herein.

***Investment Considerations.*** For a description of certain risk factors affecting the payment of and security for the 2010 Bonds, see “**CERTAIN INVESTMENT CONSIDERATIONS**” herein.

***Copies of Documents.*** During the initial offering period, Barclays Capital Inc., as senior manager of the Underwriters (the “*Senior Manager*”), will provide to potential investors copies in reasonable quantity of the Master Indenture and the Eleventh Supplemental Indenture. Requests or inquiries should be made to Barclays Capital Inc., 745 Seventh Ave., New York, NY 10019, Attention: Mr. James Henn.

***Amendment to Master Trust Indenture.*** The Authority has previously amended the Master Indenture in accordance with its terms. The Authority has also previously adopted a resolution to enter into a Second Amending Trust Indenture with the Trustee (the “*Proposed Amendment*”) that would further amend the additional Bonds provisions of the Master Indenture.

For a summary of the existing additional Bonds test, which includes as it has been previously amended, and the Proposed Amendment, see “**SECURITY AND SOURCES OF PAYMENT FOR THE 2010A BONDS – ADDITIONAL BONDS**” herein and **Appendix C** hereto.

BY PURCHASING THE 2010 BONDS, THE HOLDERS AND BENEFICIAL OWNERS THEREOF WILL: (1) CONSENT TO THE AMENDMENTS TO THE MASTER INDENTURE CONTAINED IN THE SECOND PROPOSED AMENDMENT AND (2) APPOINT THE SENIOR MANAGER AS THEIR ATTORNEY-IN-FACT FOR THE PURPOSE OF EXECUTING A CONSENT TO THE AMENDMENTS TO THE MASTER INDENTURE CONTAINED IN THE PROPOSED AMENDMENT.

AFTER THE ISSUANCE OF THE 2010 BONDS, THE AUTHORITY WILL HAVE OBTAINED CONSENT FOR THE PROPOSED AMENDMENT FROM A MAJORITY OF THE HOLDERS OF THE BONDS AND THEREFORE INTENDS TO EXECUTE THE PROPOSED AMENDMENT ON OR AFTER THE DATE OF ISSUANCE OF THE 2010 BONDS. THE PROPOSED AMENDMENT WILL TAKE EFFECT UPON ITS EXECUTION AND DELIVERY BY THE AUTHORITY.

## **THE 2010 BONDS**

### **AUTHORIZATION**

The 2010 Bonds will be issued pursuant to the Act, the Order, the Master Indenture and the Eleventh Supplemental Indenture.

The issuance of the 2010 Bonds received the required approval of the North Carolina Local Government Commission (the “LGC”) on August 3, 2010. The LGC is a division of the State Treasurer’s office charged with general oversight of local government finance in North Carolina. Its approval is required for all local government bond issues and substantially all other local government financing arrangements in North Carolina. In determining whether to allow bonds to be issued under the Act, the LGC considers the need for and feasibility of the projects to be financed, the local government’s capability to repay the amount financed from the pledged revenue sources and the local government’s general compliance with State budget and finance laws. Under the Act, the LGC is also responsible, with the issuing unit’s approval, for selling bonds issued pursuant to the Act. See **Appendix D** for additional information on the LGC and its powers and duties.

### **GENERAL**

The 2010 Bonds will be dated their date of delivery, will bear interest from their delivery date payable on each May 1 and November 1, beginning November 1, 2010, at the rates shown on the inside front cover and will mature, subject to prior redemption as described herein, on May 1, with respect to the 2010A Bonds, and November 1, with respect to the 2010B Bonds, in the years and amounts shown on the inside front cover. The 2010 Bonds will be issued as fully registered bonds in book-entry-only form and will be subject to the provisions of the book-entry-only system described below. Individual purchases of the 2010 Bonds by the beneficial owners will be made in denominations of \$5,000 or integral multiples thereof.

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

Records of ownership of the 2010 Bonds will be maintained through a Book-Entry-Only system with The Depository Trust Company (“DTC”), New York, New York, as securities depository for the 2010 Bonds. Upon the delivery of the 2010 Bonds, one fully-registered bond for each maturity of the 2010 Bonds and each maturity of the 2010 Bonds will be registered in the name of Cede & Co., as

nominee for DTC, in the aggregate principal amount of that maturity. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2010 BONDS, REFERENCE HEREIN TO THE REGISTERED OWNERS OR OWNERS OF THE 2010A BONDS MEANS CEDE & CO. AND NOT THE BENEFICIAL OWNERS OF THE 2010 BONDS.

See **Appendix F** for a description of DTC and the Book-Entry-Only System for the 2010 Bonds.

**REDEMPTION PROVISIONS**

**Optional Redemption.** The 2010A Bonds maturing prior to May 1, 2020 are not subject to redemption at the option of the Authority. The 2010A Bonds maturing on or after May 1, 2021 are subject to redemption, at the option of the Authority, either in whole or in part on any date on or after May 1, 2020, at the redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date.

The 2010B Bonds maturing prior to November 1, 2019 are not subject to redemption at the option of the Authority. The 2010B Bonds maturing on or after November 1, 2020 are subject to redemption, at the option of the Authority, either in whole or in part on any date on or after May 1, 2020, at the redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date.

**Mandatory Sinking Fund Redemption.** The 2010A Bonds maturing on May 1, 2032 are subject to mandatory sinking fund redemption, at a redemption price equal to the principal amount to be redeemed plus accrued interest, if any, to the redemption date, without premium, on May 1 in the years and amounts as follows:

<u>YEAR</u>	<u>AMOUNT</u>
2031	\$12,490,000
2032*	13,130,000

\*Maturity.

The 2010A Bonds maturing on May 1, 2036 are subject to mandatory sinking fund redemption, at a redemption price equal to the principal amount to be redeemed plus accrued interest, if any, to the redemption date, without premium, on May 1 in the years and amounts as follows:

<u>YEAR</u>	<u>AMOUNT</u>
2033	\$13,805,000
2034	14,510,000
2035	15,255,000
2036*	16,040,000

\*Maturity.

**General Redemption Provisions.** The Registrar is required to give notice of redemption at least 30 days but not more than 60 days before each redemption by first-class mail (or with respect to 2010 Bonds held by DTC by an express delivery service for delivery on the next succeeding Business Day) to each owner of a 2010 Bond to be redeemed; each such notice to be sent to such owner’s registered address.

The Authority may provide that, if at the time of mailing of notice of an optional redemption there is not deposited with the Trustee or the Paying Agent moneys sufficient to redeem all of the 2010

Bonds called for redemption, the notice may state that it is conditioned upon the deposit of the redemption moneys with the Trustee or the Paying Agent not later than the scheduled redemption date, and such notice shall be of no effect unless such moneys are so deposited. In the event sufficient moneys are not on deposit on the required date, then the redemption will be canceled and a cancellation notice shall be mailed to the owners of such 2010 Bonds otherwise to be redeemed.

Failure to give any required notice of redemption as to any particular 2010 Bonds or any defect therein will not affect the validity of the call for redemption of any 2010 Bonds for which notice was properly given. Any notice sent will be conclusively presumed to have been given whether or not actually received by the addressee. When notice of redemption is given, 2010 Bonds called for redemption become due and payable on the redemption date at the applicable redemption price. In the event that funds are deposited with the Trustee or the Paying Agent sufficient for such redemption, interest on the 2010 Bonds to be redeemed will cease to accrue as of the redemption date.

## **SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS**

### **GENERAL**

In the Master Indenture, the Authority has entered into certain covenants regarding the operations of the Authority and its finances for the benefit of the owners of Bonds issued under the Master Indenture. The 2010 Bonds will be on parity with the Airport Revenue Bonds, including the 2001A Bonds, the Airport Revenue Refunding Bonds, Series 2001B (the “2001B Bonds” and collectively with the 2001A Bonds, the “2001 Bonds”), the Airport Revenue Bonds, Series 2005A (Non-AMT) and the Airport Revenue Bonds, Series 2005B (AMT) (collectively, the “2005 Bonds”), the Airport Revenue Bonds, Series 2007 (AMT) (the “2007 Bonds”) and the Variable Rate Airport Revenue Bonds, Series 2008C (Non-AMT) (the “2008C Bonds” and together with the 2008A/B Bonds, the “2008 Bonds”) previously issued under the Master Indenture, and any additional Bonds to be issued under the Master Indenture. The 2001 Bonds, the 2005 Bonds, the 2007 Bonds and the 2008C Bonds are collectively referred to in this Official Statement as the “Prior Bonds”. After the 2008A/B Bonds and the Refunded 2001A Bonds are refunded, the Prior Bonds will be outstanding in the aggregate principal amount of \$393,940,000. Regularly scheduled payments due under any interest rate swap agreements are also payable on parity with payments of debt service on the Prior Bonds, the 2010 Bonds and any additional Bonds to be issued under the Master Indenture. All other payments due under any interest rate swap agreements, including termination payments, if any, are subordinate to the payment of debt service on the Prior Bonds, the 2010 Bonds and any additional Bonds to be issued under the Master Indenture. As of the date the 2010 Bonds are issued, the Authority will not have any interest rate swap agreements in effect.

THE 2010 BONDS WILL BE SPECIAL OBLIGATIONS OF THE AUTHORITY, SECURED BY AND PAYABLE FROM THE NET REVENUES OF THE AUTHORITY AND, UNDER CERTAIN CIRCUMSTANCES, THE PROCEEDS OF THE 2010 BONDS, INVESTMENT EARNINGS, AMOUNTS SET ASIDE IN THE PARITY RESERVE FUND AS DESCRIBED HEREIN AND CERTAIN OTHER FUNDS AND ACCOUNTS DESCRIBED IN THIS OFFICIAL STATEMENT. THE AUTHORITY HAS NO TAXING POWER.

### **PLEDGE OF NET REVENUES**

Under the Master Indenture, the Authority has pledged, assigned and granted to the Trustee, among other things, a first lien on and security interest in all right, title and interest of the Authority in and to the Net Revenues for the equal and proportionate benefit and security of all Bonds issued under the Master Indenture. Under the Master Indenture, “Net Revenues” for a given period are defined as the “Revenues” for that period less the “Maintenance and Operation Expenses of the Authority” for that period. “Revenues” are defined, generally, as all income, receipts, earnings and revenues received by the

Authority from the operation and ownership of the Airport System, as determined in accordance with generally accepted accounting principles, as modified from time to time, subject to certain specific exclusions from the definition of “Revenues” set forth in the Master Indenture. “Maintenance and Operation Expenses of the Authority” are defined as, for any given period, the total maintenance and operation expenses of the Authority as modified from time to time, excluding depreciation expenses, allowances for any amortization of financing expenses and maintenance and operation expenses of any Special Facilities for so long as any Special Facility Obligations are outstanding, calculated based upon generally accepted accounting principles, except that such calculation will include and exclude those items set forth in the Master Indenture.

The definition of Revenues excludes “Passenger Facility Charges” (“PFCs”), except to the extent designated as Revenues in a resolution of the Authority or any Supplemental Indenture. The Authority has not designated PFCs as “Revenues,” although in certain Supplemental Indentures, the Authority has irrevocably committed or will irrevocably commit PFCs to pay a portion of the debt service on Bonds that are related to projects eligible to be paid from PFCs. See “--PASSENGER FACILITY CHARGES” below. Other items excluded from the definition of Revenues include gifts, grants and other income restricted to purposes inconsistent with the payment of debt service on the Bonds and certain insurance proceeds. See **Appendix C** for the complete definition of “Revenues” under the Master Indenture.

#### **PASSENGER FACILITY CHARGES**

The Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508) allows public agencies controlling commercial service airports with regularly scheduled service and enplaning 2,500 or more passengers annually to charge each enplaning passenger using the airport a \$1.00, \$2.00 or \$3.00 facility charge, referred to as a “PFC.” The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) increased the maximum allowable PFC which may be charged by qualifying airports from \$3.00 to \$4.50.

Public agencies wishing to impose and use PFCs are required to apply to the Federal Aviation Administration (the “FAA”) for such authority and meet the requirements specified in the legislation and pending regulations issued by the FAA. Regardless of the number of PFC applications which have been approved by the FAA, an airport can only collect a maximum of \$4.50 on each enplaning passenger under current legislation.

The purpose of PFCs is to develop additional capital funding resources for the expansion of the national airport system. PFCs are available to airports to finance specific eligible projects that (1) preserve or enhance capacity, safety or security of the national air transportation system, (2) reduce noise resulting from an airport or (3) furnish opportunities for enhanced competition among air carriers. Beginning May 1, 2003, the Authority imposed a PFC of \$3 per eligible enplaning passenger at the Airport under the terms of its initial PFC application and the Record of Decision (02-01-C-00-RDU) issued by the FAA. In June 2004, the FAA approved the Authority’s subsequent PFC application to (1) amend the existing application (02-01-C-00-RDU), which deletes certain projects that were previously approved for collection, (2) implement a new application (04-02-C-00-RDU) to impose and use PFCs for the redevelopment and expansion of Terminal C (which is now Terminal 2) at the Airport (the “Terminal C Redevelopment and Expansion Project”) on a pay-as-you-go and leveraged basis (a portion of which has been financed and refinanced with the proceeds of Prior Bonds and the 2010A Bonds), and (3) increase the PFC levy from \$3.00 per enplaning passenger to \$4.50. The Authority had approval from the FAA to collect \$7.4 million under PFC application 02-01-C-00-RDU at \$3 per enplaning passenger through September 30, 2004, and has approval to collect \$595.2 million under PFC application 04-02-C-00-RDU at \$4.50 per enplaning passenger beginning October 1, 2004 and extending through August 1,

2028 (the “2004 PFC Application”). In June, 2007, the FAA approved the Authority’s PFC application to amend its PFC authority to increase PFC collection authority from \$595 million to \$765 million for the Terminal C Redevelopment and Expansion Project and to extend the collection period through September 1, 2032.

In the Seventh Supplemental Trust Indenture, dated as of May 1, 2007 (the “Seventh Supplemental Indenture”), between the Authority and the Trustee, the Authority has irrevocably committed (although not legally pledged as Revenues) PFCs, up to an aggregate maximum amount in each Fiscal Year, to the extent received, to pay a portion of the debt service on the Bonds that is related to projects eligible to be paid from PFCs. In the Eighth Supplemental Trust Indenture, dated as of April 1, 2008, between the Authority and the Trustee, the Authority has also irrevocably committed (although not legally pledged as Revenues) an additional nominal amount of PFCs (\$1,000), to the extent received, in each Fiscal Year through the Fiscal Year ending March 31, 2038. In the Eleventh Supplemental Indenture the Authority will irrevocably commit (although not legally pledge as Revenues) PFCs, up to an aggregate maximum amount in each Fiscal Year, to the extent received, to pay a portion of the debt service on the Bonds that is related to projects eligible to be paid from PFCs. The Authority’s irrevocable commitment of PFCs, to the extent received, under the Seventh Supplemental Indenture, the Eighth Supplemental Indenture and the Eleventh Supplemental Indenture is in the following aggregate amounts, including any investment earnings thereon, in the following Fiscal Years:

**IRREVOCABLY COMMITTED PFCs**

<u>FISCAL YEAR ENDING MARCH 31</u>	<u>IRREVOCABLE PFC COMMITMENT</u>
2011	\$22,442,000
2012	22,946,000
2013	23,634,000
2014	24,346,000
2015	5,001,000
2016	5,001,000

The Authority is required to deposit PFCs, to the extent received, up to the amount irrevocably committed in each Fiscal Year, in the PFC Revenue Fund. The Authority may, but is not obligated to, use uncommitted PFCs from prior Fiscal Years to fund committed amounts of PFCs in subsequent years. See “--FLOW OF FUNDS” below. NO COMMITMENT, OTHER THAN THE AMOUNTS DESCRIBED IN THE PRECEDING PARAGRAPH, HAS BEEN MADE TO USE PFCs AFTER MARCH 31, 2016 TO PAY ANY DEBT SERVICE ON BONDS.

As detailed in Exhibit 4.0 to the Report of the Airport Consultant in **Appendix A**, the Authority expects to collect less PFCs in Fiscal Years ending March 31, 2011 through 2014 than have been irrevocably committed as set forth above; however, the Authority expects to use its PFC fund balance to pay the difference between what it collects in each of those fiscal years and the amount that is irrevocably committed in order to pay a portion of the debt service on the Bonds that is related to projects eligible to be paid from PFCs. As also detailed in Exhibit 4.0 to the Report of the Airport Consultant in **Appendix A**, in Fiscal Years ending March 31, 2015 and 2016, while only \$5,001,000 of PFCs will be irrevocably committed, to the extent collected, the Authority expects to use additional amounts collected in those fiscal years, plus, if necessary, its PFC fund balance, in order to pay a portion of the debt service on the Bonds that is related to projects eligible to be paid from PFCs.

## FLOW OF FUNDS

A special fund called the “*Revenue Fund*” is created under the Master Indenture. Pursuant to the Master Indenture, the Authority covenants and agrees that all Revenues when and as received shall be deposited by the Authority in the Revenue Fund. So long as no Event of Default exists and is continuing, and so long as the Authority does not fail to comply with the requirements of its Rate Covenant (hereinafter defined), or is taking actions required by the Master Indenture to cure a failure to comply with the Rate Covenant, the Revenue Fund will remain in the possession of the Authority. If an Event of Default has occurred and is continuing, or if the Authority fails to comply with the requirements of its Rate Covenant, the Trustee will receive and expend all Revenues pursuant to the terms of the Master Indenture until the Trustee is satisfied that the Event of Default or non-compliance with the Rate Covenant has been cured. In addition to the Revenue Fund, the Master Indenture creates special funds designated the “*Debt Service Fund*,” the “*Debt Service Reserve Fund*,” the “*Subordinated Obligation Debt Service Fund*,” and the “*Subordinated Obligation Debt Service Reserve Fund*.”

The Authority has created a “*PFC Revenue Fund*” in which the Authority is required to deposit all PFCs through March 31, 2016, to the extent received, up to the amount irrevocably committed in each Fiscal Year as set forth above under “—PASSENGER FACILITY CHARGES.” On or before the third Business Day prior to each Interest Payment Date, the PFC Revenues, including any investment earnings thereon, irrevocably committed by the Authority to the payment of principal and interest due on Bonds related to PFC eligible projects shall be transferred by the Authority, as appropriate, to pay principal and interest due on such Bonds. Any PFCs in excess of the irrevocably committed amounts that the Authority decides to use to pay principal of and interest on Bonds shall be transferred by the Authority to the applicable Debt Service Fund. Any PFCs accumulated in the PFC Revenue Fund in any Fiscal Year in excess of the committed amounts, including any investment earnings thereon, may be used by the Authority for paying PFC eligible project costs or as otherwise permitted by federal statute or the regulations promulgated by the FAA with respect to PFCs.

As long as there are any Outstanding Bonds, all Revenues on deposit in the Revenue Fund will be set aside for the payment of the following amounts or transferred to the following funds and accounts in the order listed:

(1) *Maintenance and Operation Expenses of the Authority.* Revenues shall be set aside from time to time in the Revenue Fund to be used to pay the current Maintenance and Operation Expenses of the Authority.

(2) *Debt Service Funds.* Revenues shall be transferred by the Authority to the Debt Service Funds to provide for the payment of principal and interest becoming due on the Authority’s Outstanding Bonds at the times and in the manner provided in the Supplemental Indenture authorizing the issuance of those Bonds. In accordance with the Fifth Supplemental Indenture, the Sixth Supplemental Indenture and the Eleventh Supplemental Indenture, money transferred from the PFC Revenue Fund to the Debt Service Funds to pay principal and interest on the Bonds will be taken into account in determining how much Revenues are required to be transferred to the Debt Service Funds. With respect to the 2010 Bonds, the Eleventh Supplemental Indenture provides that the Authority is required to transfer to the Trustee on the third Business Day prior to each interest payment date or principal payment date the amounts required to pay interest on or principal of the 2010 Bonds.

(3) *Debt Service Reserve Funds.* Revenues shall be transferred by the Authority to the Debt Service Reserve Funds in the amounts specified in a Supplemental

Indenture authorizing the issuance of the Bonds secured by such Debt Service Reserve Funds to cure a deficiency or otherwise fund the requirement of the Debt Service Reserve Funds. See “—**PARITY RESERVE FUND**” below.

(4) *Subordinated Obligation Debt Service Funds.* Revenues shall be transferred by the Authority to the trustee or other paying agent for any Subordinated Obligation (defined below) in such amounts and at such times as are sufficient to pay the principal and interest becoming due on the Subordinated Obligations as required by the instrument providing for the issuance of the Subordinated Obligation.

(5) *Subordinated Obligation Debt Service Reserve Funds.* Revenues shall be transferred by the Authority to the Subordinated Obligation Debt Service Reserve Fund, if any, as specified in an indenture or other instrument authorizing the issuance of the Subordinated Obligations secured by that Subordinated Obligation Debt Service Reserve Fund.

See **Appendix C** for a more complete description of the terms of the Master Indenture and Supplemental Indentures regarding the flow of funds thereunder.

Under the Master Indenture, multiple funds may be established for any of the purposes covered by the Debt Service Fund, Debt Service Reserve Fund, Subordinated Obligation Debt Service Fund and Subordinated Obligation Debt Service Reserve Fund.

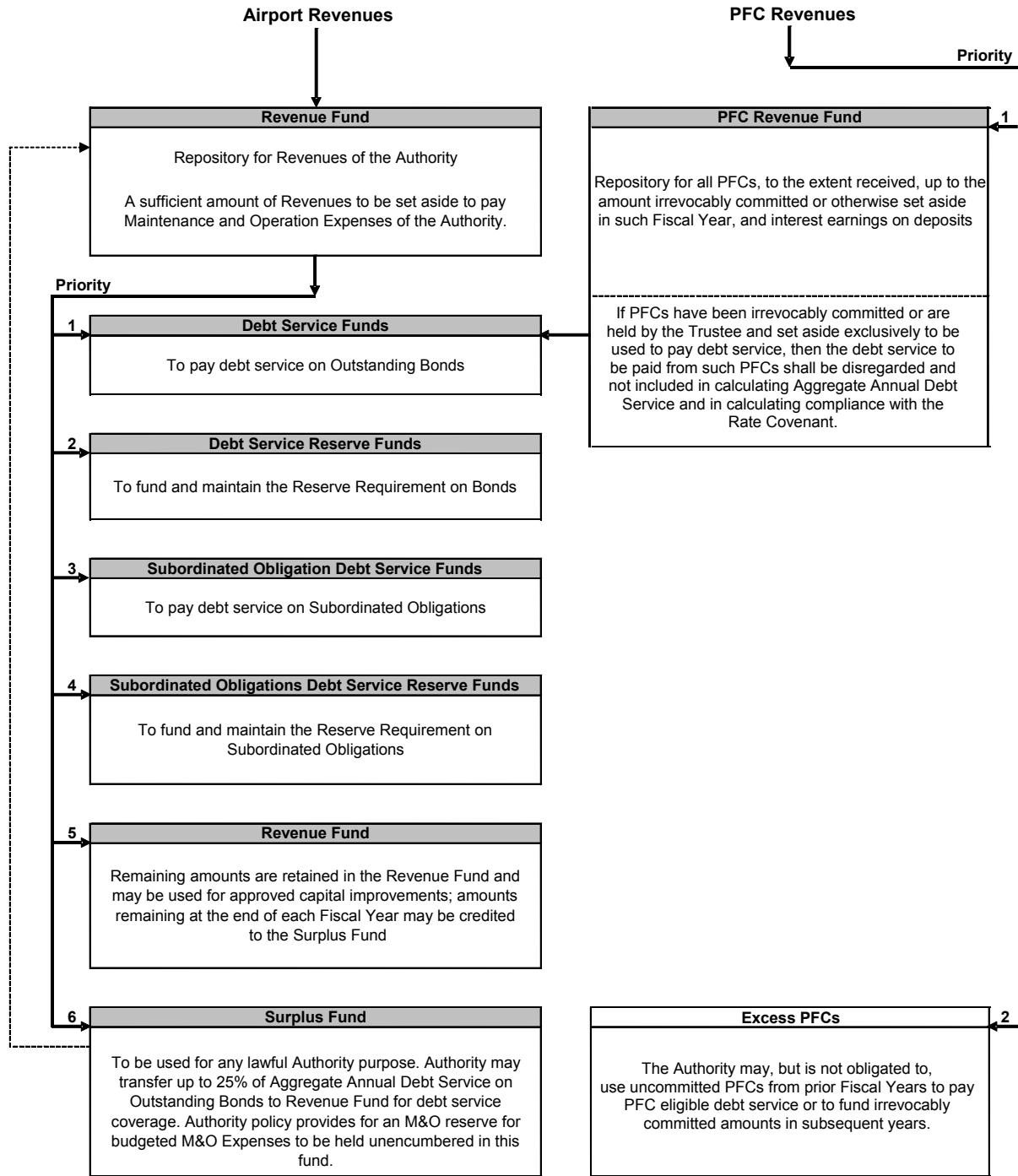
In addition, moneys on deposit in the Revenue Fund may be used from time to time to pay the cost of any additions, improvements, repairs, renewals or replacements to the Airport System set forth in the Authority’s Capital Improvements Budget; provided, however, that the use of such moneys may not impair the Authority’s ability to make the payments described above.

Amounts on deposit in the Revenue Fund on the last Business Day of each Fiscal Year may, as of such date, be credited to the Surplus Fund or any other account or fund directed by the Authority if (1) there exists no Event of Default, (2) no deficiency exists in any fund, account or subaccount created under the Master Indenture or any Supplemental Indenture and (3) the Authority certifies to the Trustee that the amount to be credited will not materially adversely affect the ability of the Authority to pay in the following Fiscal Year the Maintenance and Operation Expenses of the Authority or the amounts to be deposited in any fund, account or subaccount created under the Master Indenture or any Supplemental Indenture. Amounts transferred to the Surplus Fund are no longer subject to the pledge and lien created by the Master Indenture.

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The following graphic depicts the flow of funds under the Master Indenture.



## **RATE COVENANT**

Under the Master Indenture, the Authority covenants to establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System, and for services rendered in connection therewith, so that Net Revenues in each Fiscal Year will be at least equal to the amount necessary in that Fiscal Year (a) to pay debt service on all Bonds, (b) to make required deposits to any Debt Service Reserve Fund under the Master Indenture or any Supplemental Indenture, (c) to pay any reimbursement owed to any issuer of a credit facility or a standby purchase agreement for any Bonds and (d) to pay debt service and fund any required reserve fund payments on any Subordinated Obligations. In addition, the Authority further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues, together with any Transfer (described below), will be equal to at least 125% of Aggregate Annual Debt Service on the Outstanding Bonds. For purposes of this covenant, the amount of any Transfer taken into account may not exceed 25% of Aggregate Annual Debt Service on the Outstanding Bonds in such Fiscal Year. The requirements imposed upon the Authority and described in this paragraph are referred to in this Official Statement as the “*Rate Covenant*.”

Under the Master Indenture, a “*Transfer*” is defined to mean (a) the amount on deposit in the Surplus Fund on the last Business Day of a Fiscal Year plus (b) any amounts withdrawn from the Surplus Fund during that Fiscal Year to pay Maintenance and Operation Expenses of the Authority and to make any required payments or deposits to pay or secure the payment of the principal, purchase price or redemption premium of and interest on the Outstanding Bonds less (c) any amounts credited to the Surplus Fund from the Revenue Fund as of the last day of such Fiscal Year.

If Net Revenues, together with any Transfer (to the extent applicable), in any Fiscal Year are less than the amount necessary to meet the requirements of the Rate Covenant, the Authority will retain and direct a Consultant (as defined in the Master Indenture) to make recommendations regarding the Authority’s business operations and its schedule of rentals, rates, fees and charges for the use of the Airport System and for services rendered by the Authority in connection with the Airport System, and will take all lawful measures to revise the Authority’s business operations or schedule of rentals, rates, fees and charges as may be necessary to produce the required Net Revenues, in the next Fiscal Year. If the Authority takes the measures required by the Consultant prior to or during the next succeeding Fiscal Year, a deficiency in Net Revenues in the succeeding Fiscal Year will not constitute an Event of Default under the Master Indenture. If the Authority fails to meet the Rate Covenant in the second succeeding year, such failure will constitute an Event of Default.

Since the Authority has irrevocably committed or will irrevocably commit an amount of PFCs in each Fiscal Year through March 31, 2016, to the extent received, to pay debt service on Bonds related to PFC eligible projects, under the Master Indenture the Authority can disregard the debt service on Bonds to be paid by such PFCs in the calculation of Aggregate Annual Debt Service for purposes of complying with the Rate Covenant through March 31, 2016.

See **Appendix C** for a complete description of the terms of the Rate Covenant.

## **PARITY RESERVE FUND**

**General.** The 2010 Bonds will be secured by the Parity Reserve Fund created under the Master Indenture. The Parity Reserve Fund is a Debt Service Reserve Fund under the Master Indenture and also secures the 2001 Bonds, the 2005 Bonds and the 2007 Bonds.

On the date the 2010 Bonds are issued, the Trustee will transfer \$8,137,000 from the special reserve fund that secured the 2008A Bonds to the Parity Reserve Fund plus an additional amount from the proceeds the 2010A Bonds to satisfy the portion of the Reserve Requirement for the Parity Reserve Fund attributable to the 2010A Bonds. Since the 2010B Bonds are being issued to refund the Refunded 2001A Bonds resulting in annual debt service savings and since the 2001A Bonds are also secured by the Parity Reserve Fund, no additional deposit will be required related to the issuance of the 2010B Bonds. The 2008C Bonds are not secured by the Parity Reserve Fund. The Authority reserves the right to provide that a future Series of Bonds participate in the Parity Reserve Fund on a parity basis with the 2010 Bonds, the 2007 Bonds, the 2005 Bonds and the 2001 Bonds provided that there is deposited in the Parity Reserve Fund the Reserve Requirement required with respect to each of the Series of Bonds secured by the Parity Reserve Fund and the new Series of Bonds participating in the Parity Reserve Fund.

The Reserve Requirement is an amount equal to the least of (a) Maximum Aggregate Annual Debt Service for Reserve Requirement for all Series of Bonds participating in the Parity Reserve Fund, (b) 10% of the principal amount of the Series of Bonds that have been issued and are participating in the Parity Reserve Fund, less the amount of original issue discount with respect to such Series of Bonds if such original issue discount exceeded 2% of such Series of Bonds at the time of their original sale and (c) 125% of the average Aggregate Annual Debt Service for Reserve Requirement for all Series of Bonds participating in the Parity Reserve Fund. For purposes of determining the Reserve Requirement, debt service to be paid from PFCs is not excluded from Aggregate Annual Debt Service. After the issuance of the 2010 Bonds, the Reserve Requirement is equal to \$49,533,115.02.

The Parity Reserve Fund contains a Municipal Bond Debt Service Reserve Fund Policy (the "2001 Reserve Policy") in the amount of \$3,597,371.51 issued by Financial Guaranty Insurance Company ("*Financial Guaranty*") that was deposited in the Parity Reserve Fund in conjunction with the 2001 Bonds. Financial Guaranty met the ratings requirements of a permitted provider of a Debt Service Reserve Fund Surety Policy under the Master Indenture at the time that such policy was issued; however, Financial Guaranty is currently not rated by Moody's Investors Service, Standard & Poor's Ratings Services or Fitch, Inc. For information on the 2001 Reserve Policy, see **Appendix G** hereto. For more information on Financial Guaranty, see its website at [www.fgic.com](http://www.fgic.com). In light of the financial condition of Financial Guaranty, the Authority has determined to make an additional cash deposit to the Parity Reserve Fund in an amount so that the cash in the Parity Reserve Fund is equal to the Reserve Requirement without taking the 2001 Reserve Policy into account. Such cash will be part of the Parity Reserve Fund. The 2001 Reserve Policy will remain on deposit in the Parity Reserve Fund and will be available for drawings thereon in accordance with its terms (to the extent that Financial Guaranty is able to make payments thereunder). The Authority intends to continue to maintain a cash balance in the Parity Reserve Fund in an amount equal to the Reserve Requirement until such time, if any, that the financial condition of Financial Guaranty is at a level that would meet the requirements under the Master Trust Indenture for the provider of a new Debt Service Reserve Fund Surety Policy.

Moneys held in the Parity Reserve Fund shall be used for the purpose of paying principal of and interest on each Series of Bonds participating in the Parity Reserve Fund, including the 2010 Bonds, if, on any date on which principal or interest is due and payable, the amounts in the respective Debt Service Fund for that Series of Bonds participating in the Parity Reserve Fund are insufficient to pay in full the amount then due on such Series of Bonds.

If moneys have been withdrawn from the Parity Reserve Fund and deposited into the respective Debt Service Funds participating in the Parity Reserve Fund to prevent a default, then the Authority will pay to the Trustee, from Net Revenues, but only as provided in the Master Indenture, the full amount so withdrawn, together with interest, if any, or so much as shall be required to restore the Parity Reserve Fund to the Reserve Requirement and to pay such interest, if any. Such repayment shall be made in 12

substantially equal monthly installments each due on the first Business Day of the month commencing with the first month after such withdrawal occurs. Amounts provided by the Authority to the Trustee to fund the Authority's Parity Reserve Fund obligations for its Bonds must be distributed between the Bonds on a pro rata basis without regard to the existence of a cash funded Parity Reserve Fund or a Debt Service Reserve Fund Surety Policy.

See **Appendix C** for a complete description of the Parity Reserve Fund.

#### **ADDITIONAL BONDS**

The Authority may issue additional Bonds under the Master Indenture, secured by the Net Revenues on a parity with the 2010 Bonds, the Prior Bonds and any other Bonds issued under the Master Indenture, for the purpose of paying the cost of any project or undertaking of the Authority or refunding outstanding Bonds or Subordinated Obligations of the Authority.

**--Existing Additional Bonds Test.** In order to issue additional Bonds under the Master Indenture, other than refunding Bonds, the Authority must provide to the Trustee, among other things, evidence indicating that the Authority is in compliance with the Rate Covenant, or that it is taking the remedial actions recommended by a Consultant following a failure to meet the Rate Covenant as described above under "*Rate Covenant*" above and either:

(a) a Consultant retained by the Authority has provided to the Trustee a certificate stating that, based upon reasonable assumptions, projected Net Revenues will be sufficient to satisfy the Rate Covenant (disregarding any Bonds or Subordinated Obligations that have been paid or discharged or will be paid or discharged immediately after the issuance of the additional Bonds proposed to be issued) for each of the next five full Fiscal Years following issuance of the additional Bonds, or each full Fiscal Year from issuance of the additional Bonds through two full Fiscal Years following completion of the Projects financed by the additional Bonds proposed to be issued, whichever is later; provided, that if Capitalized Interest on any Bonds and proposed additional Bonds is to be applied in the last Fiscal Year of the period described in this sentence, the Consultant shall extend the test through the first full Fiscal Year for which there is no longer Capitalized interest, or

(b) an Authorized Authority Representative has provided to the Trustee a certificate stating that Net Revenues for the most recent Fiscal Year preceding the date of issuance of the proposed Series of Bonds were no less than 125% of Maximum Aggregate Annual Debt Service on all Bonds that would be Outstanding after the issuance of the additional Bonds proposed to be issued.

In preparing the certificates described above, the Authorized Authority Representative or the Consultant, as the case may be, is authorized by the Master Indenture to make certain adjustments to the actual or projected Net Revenues that take into account rate increases that were, or can reasonably be expected to be, placed into effect by the Authority during the period in question.

With respect to additional Bonds to be issued to refund Outstanding Bonds under the Master Indenture, the Authority must provide to the Trustee, among other things, evidence that either (1) one of the requirements for the issuance of additional Bonds described above is satisfied or (2) the Aggregate Annual Debt Service in each Fiscal Year with respect to all Bonds Outstanding after issuance of such Refunding Bonds will be less than the Aggregate Annual Debt Service in each such Fiscal Year through the last Fiscal Year in which Bonds are Outstanding prior to the issuance of such Refunding Bonds.

An earnings test certificate is not required if the proceeds of the additional Bonds will be used to pay costs of completing a Project for which Bonds have previously been issued and the principal amount of such completion Bonds does not exceed 15% of the principal amount of the Bonds originally issued for the Project if the Authority delivers to the Trustee, among other things, the evidence required by the Master Indenture demonstrating that the nature and purpose of the Project has not materially changed and the proceeds of the original Bonds have been or will be used to pay Costs of the Project.

**--Proposed Amendment.** In connection with the issuance of the 2008 Bonds, the Authority adopted a resolution to enter into a Second Amendatory Trust Indenture with the Trustee (the "*Proposed Amendment*") that would amend the additional Bonds provision of the Master Indenture set forth above. The Proposed Amendment would restate the test with respect to additional Bonds to be issued to refund Outstanding Bonds under the Master Indenture set forth above to provide as follows:

“With respect to additional Bonds proposed to be issued to refund Outstanding Bonds, either the requirement set forth above under “*—Existing Additional Bonds Test*” (as the same may be amended from time to time) is satisfied or the Authority has provided to the Trustee evidence that following the proposed issuance of the refunding Bonds and application of the proceeds thereof, the Aggregate Annual Debt Service in each Fiscal Year on all Bonds Outstanding shall not be more than one hundred ten percent (110%) of the Aggregate Annual Debt Service of all Outstanding Bonds as scheduled for such Fiscal Year prior to the proposed refunding.”

**Consent of 2010 Bondholders to Proposed Amendment.** Prior to the time the Authority enters into the Proposed Amendment with the Trustee, the Authority must obtain the consent of a majority of the owners of the Bonds issued and Outstanding under the Master Indenture and consents from liquidity providers and bond insurers related to the Bonds. By purchasing the 2010 Bonds, the Holders and Beneficial Owners thereof will: (1) consent to the amendments to the Master Indenture contained in the Proposed Amendment and (2) appoint the Senior Manager as their attorney-in-fact for the purpose of executing a consent to the amendments to the Master Indenture contained in the Proposed Amendment.

AFTER THE ISSUANCE OF THE 2010 BONDS, THE AUTHORITY WILL HAVE OBTAINED CONSENT FOR THE PROPOSED AMENDMENT FROM A MAJORITY OF THE HOLDERS OF BONDS AND THE OTHER CONSENTS REQUIRED. THE PROPOSED AMENDMENT WILL THEREFORE TAKE EFFECT ON ITS EXECUTION AND DELIVERY BY THE AUTHORITY ON OR AFTER THE DATE OF ISSUANCE OF THE 2010 BONDS.

See **Appendix C** for complete description of the terms and conditions under which additional Bonds may be issued under the Master Indenture.

## **SUBORDINATED OBLIGATIONS**

Under the Master Indenture, the Authority is authorized to issue or incur "*Subordinated Obligations*," or debt or other obligations secured by the Net Revenues on a subordinate basis to the 2010 Bonds and any other parity Bonds issued under the Master Indenture. Payments on Subordinated Obligations from moneys constituting Net Revenues may be made only if all amounts of principal and interest that have become due and payable on all Bonds, whether by maturity or redemption, have been paid in full and the Authority is current on all payments, if any, required to be made to replenish all Debt Service Reserve Funds.

There are currently no Subordinated Obligations outstanding.

## **PERMITTED INVESTMENTS**

Moneys and funds of the Authority may be invested in accordance with North Carolina law. Moneys held in the funds and accounts created under the Master Indenture may be invested in accordance with North Carolina law and subject to any additional restrictions that may be set forth in the Master Indenture.

See **Appendix C** for a list of investments that are “*Permitted Investments*” under the Master Indenture.

## **RELEASE OF REVENUES**

Under the Master Indenture, the Authority is authorized to obtain the release of any identified source or stream of revenues from the definition of “*Revenues*.” Upon such a release, the source or stream of revenues so released will no longer be “*Revenues*” pledged to secure payment of the Bonds. In order to obtain this release, the Authority must file with the Trustee:

(a) a request to release such category of Revenues, accompanied by a written certificate of the Authority certifying the Authority is in compliance with all requirements of the Master Indenture;

(b) a report of an independent certified public accountant to the effect that Net Revenues, excluding the category of Revenues proposed to become Released Revenues, for each of the two audited Fiscal Years prior to the date of the report were at least 150% of Maximum Aggregate Annual Debt Service;

(c) a certificate of a Consultant retained by the Authority to the effect that based upon current knowledge of the operations of the Airport System, Net Revenues, excluding the category of Revenues proposed to become Released Revenues, for the current Fiscal Year will be equal to at least 150% of Maximum Aggregate Annual Debt Service;

(d) confirmation from each Rating Agency then rating the Bonds that the ratings then assigned to any Bonds by such Rating Agency will not be reduced or withdrawn as a result of such withdrawal of Released Revenues; and

(e) an opinion of Bond Counsel to the effect that the exclusion of such revenues from the definition of Revenues and from the pledge, charge and lien of the Master Indenture will not, in and of itself, cause the interest on any Bond issued as tax-exempt securities to be included in gross income for purposes of federal income tax.

## **EVENTS OF DEFAULT AND REMEDIES; NO ACCELERATION**

Events of Default under the Master Indenture and related remedies are described in the summary of certain provisions of the Master Indenture in **Appendix C**, in particular under the caption “**DEFAULTS AND REMEDIES.**” The occurrence of an Event of Default does not grant any right to accelerate payment of the Bonds to either the Trustee, the Owners of the 2010 Bonds or the Owners of any other Bonds. The Trustee is authorized to take certain actions upon the occurrence of an Event of Default, including proceedings to enforce the obligations of the Authority under the Master Indenture.

## REPORT OF THE AIRPORT CONSULTANT

The Report of the Airport Consultant (the “*Report*”) which has been prepared by Jacobs Consultancy (the “*Airport Consultant*”) in connection with the 2010 Bonds is included in **Appendix A**. The Report provides certain information with respect to the Airport and the Capital Improvement Program and presents forecasts of Revenues, Maintenance and Operation Expenses, Net Revenues, PFCs, and debt service coverage for the Outstanding Bonds, the 2010 Bonds and the other fund deposit requirements of the Master Indenture and Eleventh Supplemental Indenture in each year of the forecast period (FY2011 - FY2016), and sets forth the information and assumptions upon which the forecasts and the findings of the Report are based.

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

As stated in the Report, Revenues are forecast to be sufficient to meet Maintenance and Operation Expenses, debt service requirements on the Outstanding Bonds, the 2010 Bonds, and the other fund deposit requirements of the Master Indenture and Eleventh Supplemental Indenture in each year of the forecast period (FY2011 - FY2016). The following Forecast Debt Service Coverage table has been extracted from the Report and must be read in conjunction with the assumptions underlying such forecast as set forth in the Report. The forecast indicates compliance with the Rate Covenant for each Fiscal Year of the forecast period.

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

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**FORECAST DEBT SERVICE COVERAGE  
FOR FISCAL YEARS ENDING MARCH 31  
(IN THOUSANDS OF DOLLARS)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net Revenues	\$41,960	\$42,869	\$47,798	\$49,167	\$49,330	\$49,772
Transfer	<u>5,396</u>	<u>6,987</u>	<u>6,761</u>	<u>6,586</u>	<u>6,588</u>	<u>6,592</u>
Net Revenues Plus Transfer	<u>47,355</u>	<u>49,856</u>	<u>54,559</u>	<u>55,754</u>	<u>55,918</u>	<u>56,364</u>
Annual Debt Service	44,024	50,895	50,679	50,692	50,699	50,715
Less: PFCs Applied	<u>(22,442)</u>	<u>(22,946)</u>	<u>(23,634)</u>	<u>(24,346)</u>	<u>(24,346)</u>	<u>(24,346)</u>
Aggregate Annual Debt Service	<u>21,582</u>	<u>27,949</u>	<u>27,045</u>	<u>26,346</u>	<u>26,353</u>	<u>26,369</u>
Debt Service coverage (Excluding Transfer)	1.94	1.53	1.77	1.87	1.87	1.89
Debt Service coverage (Including Transfer)	2.19	1.78	2.02	2.12	2.12	2.14

Source: Jacobs Consultancy. See the Report for the assumptions used in the Financial Forecast.

**THE PLAN OF REFUNDING**

**REFUNDING OF THE 2008A/B BONDS AND SWAP TERMINATIONS**

The 2010A Bonds are being issued for the purpose of providing funds, together with other available funds, to (a) refund the 2008A/B Bonds, (b) pay the termination payment on interest rate swap agreements entered into in connection with the 2008A/B Bonds, (c) fund a deposit to the Parity Reserve Fund, and (d) the costs incurred in connection with the issuance of the 2010A Bonds.

The 2008A Bonds were issued for the purpose of providing funds, together with other available funds, to refund the Authority's \$75,000,000 Variable Rate Airport Revenue Bonds, Series 2006B (AMT) (the "2006B Bonds") and \$50,000,000 Variable Rate Airport Revenue Bonds, Series 2006C (AMT) (the "2006C Bonds"). The 2008B Bonds were issued for the purpose of providing funds, together with other available funds, to refund the Authority's \$50,000,000 Variable Rate Airport Revenue Bonds, Series 2006D (AMT) (the "2006D Bonds") and \$50,000,000 Variable Rate Airport Revenue Bonds, Series 2006E (AMT) (the "2006E Bonds"). The proceeds of the 2006B Bonds, the 2006C Bonds, the 2006D Bonds and the 2006E Bonds (collectively, the "Refunded 2006 Bonds"), together with other available funds, were used and are being used to finance costs of the construction, redevelopment and expansion of Terminal C (which redeveloped and expanded terminal is now known as Terminal 2) at the Raleigh-Durham Airport.

The 2008A/B Bonds are currently outstanding in the aggregate principal amount of \$216,870,000. The 2008A/B Bonds are variable rate demand obligations, with credit and liquidity support provided by standby bond purchase agreements or letters of credit issued by financial institutions. In addition, the Authority has entered into interest rate swap agreements with respect to the 2008A/B Bonds that have aggregate notional amounts that correspond to the aggregate principal amount of the 2008A/B Bonds (with the notional amounts decreasing as the aggregate principal amount of the 2008A/B Bonds decreases). Under the terms of the interest rate swap agreements, the Authority receives



interest rate payments designed to approximate the variable rate interest payments the Authority pays on the 2008A/B Bonds, and pays fixed rate payments. This arrangement results in a synthetic fixed rate for the 2008A/B Bonds. The interest rate swap agreements may be terminated at any time by the Authority, but upon such termination the Authority must pay to, or will receive from, the counterparties under the interest rate swap agreements a termination payment determined in accordance with the terms of the interest rate swap agreements. In the current interest rate environment, the Authority must pay a termination payment in connection with the termination of the interest rate swap agreements.

The Authority has determined to issue the fixed interest rate 2010A Bonds to refund the 2008A/B Bonds and terminate the interest rate swap agreements in order to reduce its exposure to risks associated with the variable rate demand obligations, particularly with regard to costs and availability of credit and liquidity support for the 2008A/B Bonds, and to risks associated with the interest rate swap agreements.

The Authority expects to redeem the 2008A Bonds and the 2008B Bonds on or about the date the 2010A Bonds are issued.

One of the interest rate swaps to be terminated is with Barclays Bank, Plc, the parent company of the Senior Manager for the 2010A Bonds. One of the interest rate swaps to be terminated is with Citibank, N.A., parent company of Citigroup Global Markets Inc. a co-managing underwriter for the 2010A Bonds. The other interest rate swap to be terminated is with Morgan Keegan Financial Products, Inc., an affiliate of Morgan Keegan & Company, Inc., a co-managing underwriter for the 2010A Bonds. For more information on the terms of such interest rate swap agreements see Note 5 to the Authority's Audited Financial Statements in **Appendix B**.

#### **REFUNDING OF THE 2001A BONDS**

The 2010B Bonds are being issued for the purpose of providing funds, together with other available funds, to (a) refund the Refunded 2001A Bonds and (b) pay the costs incurred in connection with the issuance of the 2010B Bonds. The 2001A Bonds were issued to provide funds to pay costs of certain improvements to the Airport.

The Refunded 2001A Bonds will be redeemed at 101% of the principal amount thereof plus accrued interest to May 1, 2011. The proceeds of the 2010B Bonds will be used to purchase certain direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (the "*Federal Securities*"). The Federal Securities will be held in trust by the Escrow Agent pursuant to an Escrow Deposit Agreement dated as of August 1, 2010 (the "*Escrow Agreement*") between the Authority and The Bank of New York Mellon Trust Company, N.A. (the "*Escrow Agent*"), as Escrow Agent. The Federal Securities will mature at such times and in such amounts, and will bear interest payable at such times and in such amounts, so that sufficient money will be available to pay when due all principal and interest with respect to the Refunded 2001A Bonds to and including their respective dates of payment and redemption. The Escrow Agent will apply the maturing principal of and the interest on the Federal Securities to the payment of the principal and interest with respect to the Refunded 2001A Bonds, and the Authority has irrevocably instructed the Escrow Agent to redeem the Refunded 2001A Bonds on the redemption date.

Amounts on deposit under the Escrow Agreement will not secure the 2010 Bonds.

\$16,465,000 of the \$54,625,000 of 2001A Bonds stated to mature on November 1, 2031 are being refunded and will be redeemed on May 1, 2011, leaving a balance of \$38,160,000 of 2001A Bonds maturing November 1, 2031 that will remain Outstanding under the Master Indenture. The Trustee and Registrar under the Master Indenture will be instructed to select and identify the 2001A Bonds maturing

November 1, 2031 that are being refunded and will be redeemed on May 1, 2011, and the 2001A Bonds that are not so refunded and to be redeemed, such selection and identification to be in accordance with the rules and regulations of DTC for the book-entry only system for maintaining records of ownership of the 2001A Bonds. The Trustee and Registrar will be further instructed to request that new CUSIP numbers be issued to distinguish the 2001A Bonds maturing November 1, 2031 that have been refunded and selected for redemption on May 1, 2011 and the 2001A Bonds maturing on such date that have not been refunded and selected for redemption. CUSIP numbers are issued by an organization not affiliated with the Authority and the Authority cannot offer any assurance that new numbers will be issued in a timely manner or as to the accuracy of the numbers to be so issued.

#### **POTENTIAL FUTURE REFUNDING AND REDEMPTION OF 2001 BONDS**

As part of its financial planning, the Authority intends (but is not obligated) to use its own available funds to redeem all of the outstanding 2001B Bonds in the aggregate principal amount of \$10,395,000 (plus a 1% premium thereon) on May 1, 2011. For the outstanding 2001A Bonds that are not being refunded with the proceeds of the 2010B Bonds, the Authority will consider, depending on future market conditions, refunding all or a portion of such 2001A Bonds in order to achieve debt service savings.

#### **ESCROW VERIFICATION**

The Authority will arrange for a verification agent to deliver to the Authority and the Underwriters on or before the date of delivery of the 2010B Bonds its report indicating that it has performed certain agreed-upon procedures, in accordance with standards established by the American Institute of Certified Public Accountants, certain information and assertions provided by the Underwriters on behalf of the Authority. Included in the scope of its examination will be the verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities held in the Escrow Fund to pay principal and interest with respect to the Refunded 2001A Bonds, as such payments become due and (b) the mathematical computations supporting the conclusion of Bond Counsel that the 2010B Bonds are not “arbitrage bonds” under the Code and the regulations promulgated thereunder. Bond Counsel will rely on said verification in rendering its opinion as to the exclusion of interest with respect to the 2010B Bonds from gross income of the owners thereof for federal income tax purposes.

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**ESTIMATED SOURCES AND USES OF FUNDS**

The Authority estimates the sources and uses of funds associated with the 2010 Bonds to be as follows:

	<u>2010A BONDS</u>	<u>2010B BONDS</u>
<b>SOURCES:</b>		
Principal Amount	\$242,365,000	\$94,080,000
Net Original Issue Premium	18,348,625	9,243,948
Deposit from Reserve Account for 2008A Bonds	8,137,500	-
Other Available Funds related to Refunded Bonds	<u>264,117</u>	<u>2,726,681</u>
TOTAL	\$269,115,242	\$106,050,629
<b>USES:</b>		
Refunding of 2008A/B Bonds	\$216,870,000	-
Swap Termination Payments	33,549,516	-
Deposit to Parity Reserve Fund	16,516,187	-
Refunding of Refunded 2001A Bonds	-	\$105,291,751
Costs of Issuance <sup>1</sup>	<u>2,179,539</u>	<u>758,878</u>
TOTAL	\$269,115,242	\$106,050,629

<sup>1</sup>Includes underwriters' discount, legal fees, feasibility consultant fees, verification agent fees, printing costs, rating agency fees, fees and expenses of the Trustee, Registrar, Paying Agent and Escrow Agent and miscellaneous fees and expenses.

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## OUTSTANDING INDEBTEDNESS AND DEBT SERVICE SCHEDULE

Following the issuance of the 2010 Bonds as described in this Official Statement, the Authority will have debt service payment obligations with respect to the 2001 Bonds, the 2005 Bonds, the 2007 Bonds, the 2008C Bonds and the 2010 Bonds. The following table sets forth for each Fiscal Year ending March 31 the aggregate debt service requirements of the Authority with respect to the 2010 Bonds and the Prior Bonds:

FISCAL YEAR ENDING MARCH 31,	2010 BONDS						
	2010A BONDS		2010B BONDS		SUBTOTAL	PRIOR BONDS <sup>1</sup>	TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST			
2011		\$1,876,833		\$689,169	\$2,566,002	\$40,839,465	\$43,405,467
2012	\$5,040,000	11,401,463	\$3,960,000	4,205,100	24,606,563	25,665,543	50,272,106
2013	5,165,000	11,273,588	4,075,000	4,086,300	24,599,888	25,443,170	50,043,058
2014	5,320,000	11,116,313	4,200,000	3,964,050	24,600,363	25,458,100	50,058,463
2015	5,510,000	10,926,313	4,370,000	3,796,050	24,602,363	25,468,425	50,070,788
2016	5,740,000	10,701,313	4,540,000	3,621,250	24,602,563	25,482,675	50,085,238
2017	6,005,000	10,436,388	4,725,000	3,439,650	24,606,038	25,503,275	50,109,313
2018	6,310,000	10,128,513	4,865,000	3,297,900	24,601,413	25,512,600	50,114,013
2019	6,635,000	9,804,888	5,110,000	3,054,650	24,604,538	25,527,075	50,131,613
2020	6,975,000	9,464,638	5,365,000	2,799,150	24,603,788	25,542,850	50,146,638
2021	7,330,000	9,107,013	5,630,000	2,530,900	24,597,913	25,556,250	50,154,163
2022	7,710,000	8,731,013	5,805,000	2,362,000	24,608,013	25,573,375	50,181,388
2023	8,105,000	8,335,638	6,090,000	2,071,750	24,602,388	25,590,100	50,192,488
2024	8,520,000	7,920,013	6,395,000	1,767,250	24,602,263	25,598,475	50,200,738
2025	8,955,000	7,483,138	6,715,000	1,447,500	24,600,638	25,622,600	50,223,238
2026	9,415,000	7,023,888	7,055,000	1,111,750	24,605,638	25,639,431	50,245,069
2027	9,900,000	6,541,013	7,405,000	759,000	24,605,013	25,657,084	50,262,097
2028	10,355,000	6,086,413	7,775,000	388,750	24,605,163	25,682,547	50,287,709
2029	10,835,000	5,608,438			16,443,438	34,557,944	51,001,381
2030	11,385,000	5,052,938			16,437,938	34,583,156	51,021,094
2031	11,925,000	4,514,906			16,439,906	30,180,694	46,620,600
2032	12,490,000	3,949,250			16,439,250	25,576,075	42,015,325
2033	13,130,000	3,308,750			16,438,750	14,839,675	31,278,425
2034	13,805,000	2,635,375			16,440,375	14,870,625	31,311,000
2035	14,510,000	1,927,500			16,437,500	14,895,225	31,332,725
2036	15,255,000	1,183,375			16,438,375	14,925,950	31,364,325
2037	16,040,000	401,000			16,441,000	14,966,075	31,407,075
2038						10,157,875	10,157,875

<sup>1</sup> Assumes an interest rate of 4.00% on the 2008C Bonds. Assumes the redemption of the 2001B Bonds on May 1, 2011 as described under "THE PLAN OF REFUNDING—POTENTIAL FUTURE REFUNDING AND REDEMPTION OF 2001 BONDS."

## THE AUTHORITY

### ORGANIZATION AND GOVERNANCE

The General Assembly of North Carolina enacted legislation on March 9, 1939 enabling the Cities of Raleigh and Durham and the Counties of Wake and Durham to jointly establish, operate and maintain an airport and to appoint members to a board to be known as the “Aeronautics Authority for the City of Raleigh, City of Durham, the County of Durham and the County of Wake.” Subsequently, the Aeronautics Authority was created by action of the governmental units. The enabling act further authorized the Aeronautics Authority to “act in an administrative capacity and be vested with the authority to control, lease, maintain, improve, operate, and regulate the joint airport or landing field.” In 1941, the name of the Aeronautics Authority was changed to the “Raleigh-Durham Airport Authority.” Amendments to the Authority’s enabling legislation have been enacted from time to time to define and expand the Authority’s powers to operate the Airport.

The Authority is currently governed by a board (the “*Board*”) comprised of two representatives appointed for concurrent two-year terms by each of the four governmental units. The Board annually selects officers from among its members, including a chairman, vice chairman, secretary and treasurer. The Board establishes the policies under which the Airport is operated, hires a staff to handle its day-to-day development, operation and maintenance responsibilities, and establishes and collects charges made for use of the Airport to cover the financial obligations it incurs in developing, operating and maintaining the facility.

The Authority has many of the same powers of any North Carolina local governmental unit with some notable exceptions. It has no power to impose any taxes. In order to finance Airport development, operation and maintenance, it charges fees to those who use or operate businesses at the Airport. It cannot sell any of the land on which the Airport is located, if held in the names of the cities and counties, without the unanimous consent of the Cities of Raleigh and Durham, Wake County and Durham County, which own the land along with the Authority. It can, however, purchase land in its own name and can exercise the power of eminent domain to condemn privately held land and make it property of the Authority. The Authority receives \$12,500 per year from each of the four governmental units that appoint its members. The total of \$50,000 is less than one-tenth of one percent of the Authority’s annual operating revenue. All other financial support of the Authority is generated from user fees and rents paid by businesses leasing building space or ground on the Airport.

The Authority is authorized to have its own police and firefighting units, whose jurisdictions extend to approximately one mile outside the Airport’s property boundaries.

In the budget for the Fiscal Year ending March 31, 2011, the number of authorized full time positions of the Authority is 290, 10 of which are currently frozen. Thus, the Authority effectively has 280 full-time positions. In addition, the Authority employs up to 39 part-time law enforcement officers (in addition to its full time force) to provide law enforcement presence at the security checkpoints. The cost of this checkpoint security force is reimbursable from the Transportation Security Administration. Full time employees include police officers, firefighters (all of whom also are emergency medical technicians), maintenance workers (including electricians, heating and air conditioning mechanics, and automotive mechanics), engineers, accountants, auditors, human resources/personnel specialists, airport operations officers, telecommunicators, public information and marketing specialists, parking cashiers, shuttle bus drivers, purchasing specialists and regulatory specialists.

The Airport Director is the chief executive officer of the Authority. He or she reports to the Board, hires and supervises all subordinate staff members, and manages the day-to-day activities of the Airport.

## **GOVERNING BOARD**

Members of the Board are appointed to serve two-year terms with each of the four local governments required to appoint two members in the odd numbered calendar years. The current members of the Board and the governmental unit appointing the members are set forth on the inside cover page of this Official Statement.

## **KEY MANAGEMENT PERSONNEL**

The following are the names, backgrounds and duties of certain management personnel of Authority.

***John C. Brantley - Airport Director.*** Mr. Brantley has been employed by the Authority since October 31, 1977. He served in the position of Planning Consultant through June 1978, and as Manager of Airport Development from July 1978 to September 1982. He became Airport Director in October 1, 1982. Prior to joining the Authority, Mr. Brantley was employed by the Federal Aviation Administration, Atlanta Airports Branch from August 1966 to April 1969; and with private engineering firms from April 1969 until October 1977. Mr. Brantley received his undergraduate degree from North Carolina State University, his master's degree from Northwestern University, and has completed additional graduate studies at the University of California, Berkeley. He is a member of the Southeast Chapter of the American Association of Airport Executives. He is a member and past Board of Directors member of the North Carolina Airports Association. He is an Adjunct Assistant Professor of Civil Engineering at North Carolina State University.

***Joe D. Styres – Deputy Airport Director – Finance, Business and Administration.*** Mr. Styres' responsibilities include leading the Authority's Finance, Human Resources, Internal Audit, Purchasing and Business Development & Management. He has overall responsibility for strategic financial planning and compliance with federal, state, local and Authority regulation, policy and reporting. Mr. Styres has over 25 years experience in various finance and accounting roles in the government, high-technology and defense electronics sectors. Most recently he served as the CFO of the Durham Housing Authority for the period August 2004 through August 2007. His experience also includes over 16 years at Sun Microsystems Inc., where he held Controllershship positions in the Federal, US and World-wide Sales, and World-wide Manufacturing divisions as the organization grew from pre-IPO to Fortune 200 status. He also held Pricing, Financial Planning and Cost Management positions at two defense electronics companies – ROLM (Military Computer Division), and Watkins-Johnson, Inc. Mr. Styres is a CPA licensed in the state of North Carolina. He is also a certified management accountant (CMA), certified financial manager (CFM) and most recently certified in Sarbanes-Oxley (CSOX), awarded from the SOX Institute. He received his M.B.A. emphasizing government contracting from American Graduate University and his B.A. in Accounting from the University of South Florida. He is a member of the Institute of Management Accountants and the NCACPA.

***Michael J. McElvaney – Deputy Airport Director - Operations.*** Mr. McElvaney's responsibilities include overseeing a number of departments within the organization including Law Enforcement, Emergency Services, Communications, Ground Transportation, Traffic Control, Parking, Terminal Services and Operations. He is responsible for ensuring the airport is in compliance with regulations pertaining FAA Certification and TSA security requirements. Mr. McElvaney began his employment with the Authority in February 2004. Prior to joining the Authority he worked for Baker

Engineering as their aviation business development manager and as a contract project manager on the Department of Homeland Security's US-Visit program and wrote security plans for several US airports. He has over 21 years of airport management experience working at several airports including Birmingham (BHM), Gainesville (GNV), Tampa (TPA), Sky Harbor-Phoenix (PHX) and Prescott (PRC). He received a B.S. degree from Embry Riddle Aeronautical University and a Masters in Public Administration from Golden Gate University. He received his A.A.E. accreditation from the American Association of Airport Executives and is a member of the ACI-NA Security and Safety Committee.

***Steven M. Pittman– Deputy Airport Director - Facilities Engineering & Maintenance.*** Mr. Pittman's current responsibilities include the planning, design and construction of Airport facilities other than work within the terminal development area, assuring Authority compliance with environmental matters including aircraft noise and facility maintenance. He has been with the Authority for over nine years. Mr. Pittman is a graduate of The Citadel with a B.S. degree in civil engineering and holds a M.S. in Facilities Management from the Air Force Institute of Technology. He is a registered professional engineer in New York, Texas and North Carolina. Mr. Pittman is a member of the National Society of Professional Engineers and the Society of American Military Engineers. His past experience includes sixteen years as a USAF engineer in positions worldwide, three years as a Regional Project Manager for a worldwide construction contractor, and three years working for a national engineering firm as an engineering design and construction program management consultant.

***David R. Powell - Director – Major Capital Improvements Program.*** Mr. Powell's current responsibilities include the planning, design, construction and implementation of Airport facilities. He has been with the Authority for more than 25 years and has served in a number of positions related to the development and maintenance of its facilities and compliance with environmental matters including aircraft noise. Mr. Powell is a graduate of North Carolina State University and holds degrees in economics, business management and civil engineering. He is a registered professional engineer in North Carolina. Mr. Powell is a member of the American Society of Civil Engineers and serves on the Landside Committee of the Society's Air Transport Division. He is a member of the Peer Review Group, a group of airport development professionals that reviews and critiques airport development programs and discusses emerging issues and other matters related to airport development.

***Thomas D. Barritt, CPA – Director of Finance.*** Mr. Barritt's duties include oversight of Authority accounting, budget development and compliance, debt management, cash and investment management and financial planning. Mr. Barritt has been employed by the Authority since 1988 and has held his current position since 2001. Prior to becoming Director of Finance, he was the Finance Manager for the Authority since 1996. He received an B.A. degree in accounting from North Carolina State University in 1987. Mr. Barritt is a licensed Certified Public Accountant. Prior to joining the Authority staff, he was employed in public accounting. Mr. Barritt is a member of the American Institute of Certified Public Accountants and the North Carolina Association of Certified Public Accountants. Mr. Barritt serves on the Regional Advisory Board of the North Carolina Capital Management Trust.

***Teresa A. Damiano – Director of Marketing, Customer Service and Organizational Support.*** Ms. Damiano has been employed by the Authority since 1987. She was Public Affairs Manager from 1987 until becoming Assistant Director for Marketing in 1994 and has been in her present position since 2001. Ms. Damiano is responsible for air service development. She also oversees the departments of Marketing Communications, Employee Development, Customer Relations and Visitor Services. She is a member of the Board of Directors of the N.C. Commerce Division of Tourism, Film and Sports Development. She is a past president of the North Carolina Airports Association and is a member of the Airports Council International Marketing and Communications Committee. She graduated in 1979 from North Carolina State University and holds B.A. degrees in English and Speech Communications.

## SERVICE AREA

The Airport is located midway between the cities of Raleigh and Durham and in an area often referred to as the “Research Triangle.” The population as of July 1, 2009 of the Raleigh-Durham-Cary Combined Statistical Area (“CSA”), which is made up of the eight counties in and around the Research Triangle, was estimated at approximately 1,743,000. The Airport is the easternmost large Airport in North Carolina and draws significant users from eastern North Carolina, in addition to users from the Research Triangle area. The Piedmont Triad International Airport, which primarily services the Greensboro-Winston-Salem area, is approximately 79 miles west of the Airport. Charlotte Douglas International Airport is located approximately 159 miles southwest of the Airport.

The following table shows the estimated population in the CSA, North Carolina, and in the United States on the dates set forth:

<b>YEAR</b>	<b>CSA</b>	<b>NORTH CAROLINA</b>	<b>UNITED STATES</b>
1990	954,000	6,629,000	248,710,000
2000	1,315,000	8,049,000	281,422,000
2009 <sup>1</sup>	1,743,000	9,381,000	307,007,000

Source: U.S. Department of Commerce, Bureau of the Census.

<sup>1</sup> Estimated.

According to the U.S. Department of Labor, Bureau of Labor Statistics, as of May 2010 total non-farm employment in the Raleigh-Durham-Cary combined statistical area was approximately 784,000 comprised of the following:

<b>SECTOR</b>	<b>EMPLOYMENT (1,000s)</b>
Government	149
Trade, Transportation and Utilities	121
Professional and Business Services	117
Educational and Health Services	117
Leisure and Hospitality	72
Manufacturing	65
Other Services	46
Financial Activities	40
Mining, Logging and Construction	38
Information	21

Source: U.S. Department of Labor, Bureau of Labor Statistics.

The Research Triangle Park (the “RTP”) is located five miles from the Airport. According to the Research Triangle Foundation of North Carolina, as of May 2010, 115 companies are located in RTP employing about 42,000 people with an average salary of \$56,000.



The following table shows the 15 largest employers in the 13 counties surrounding RTP along with their industry specialization:

<b>LARGEST EMPLOYERS IN THE RESEARCH TRIANGLE AREA</b>		
<b>EMPLOYER</b>	<b>SPECIALIZATION</b>	<b>EMPLOYEES</b>
State of North Carolina	Government	79,549
Duke University & Medical Center	University & Medical Center	31,000
The University of North Carolina at Chapel Hill	University	17,243
Wake County Public School System	Education	16,755
International Business Machines	Computer/Digital Switching Equipment	11,530
UNC Healthcare	Medical Center	7,644
North Carolina State University	University	7,219
WakeMed Health & Hospitals	Medical Center	6,893
Wal-Mart	Retail	6,786
GlaxoSmithKline	Pharmaceutical Research and Development	5,800
Durham Public School System	Education	5,489
Food Lion	Groceries	5,142
Cisco Systems, Inc.	Communications	4,600
Securitas Security Services USA, Inc.	Industrial Security	4,500
Rex Healthcare	Medical Center	4,400
City of Raleigh	Government	4,376

Source: Research Triangle Regional Partnership website, accessed May 2010, data as of February 2009 ([http://www.researchtriangle.org/pages.php?page1=52&page2=74&page3=76&page\\_id=76](http://www.researchtriangle.org/pages.php?page1=52&page2=74&page3=76&page_id=76)).

The Research Triangle area draws its name from the location of three major universities, The University of North Carolina at Chapel Hill, North Carolina State University and Duke University, all of which are located in the area. In addition to those institutions, the area is the home of several other colleges and universities. The following table sets forth the colleges and universities in the region and their 2008 enrollment:

<b>COLLEGE AND UNIVERSITY ENROLLMENT FALL 2008</b>	
North Carolina State University	32,872
The University of North Carolina at Chapel Hill	28,567
Duke University	14,060
North Carolina Central University	8,035
Shaw University	2,702
Meredith College	2,250
Saint Augustine's College	1,451
Peace College	713
Louisburg College	572

Source: Statistical Abstract of Higher Education in North Carolina 2008-09, Research Report 1-09 (July 2009), The University of North Carolina, Chapel Hill, North Carolina.

## **THE AIRPORT SYSTEM**

### **GENERAL**

The Airport is located in Wake County, near the Durham County border (a small amount of the Airport property is located in Durham County), between the Cities of Raleigh and Durham. The Airport

is located approximately 11 miles from the downtown areas of each of Raleigh and Durham. Interstate 40, a major thoroughfare, is located directly to the southwest of the Airport and US Highway 70, another major thoroughfare, is located directly to the northeast of the Airport. William B. Umstead State Park is located to the immediate east of the Airport.

The Airport consists of approximately 5,100 acres, approximately 2,075 of which are developed. The Airport has two active terminals, Terminal 1 (previously known as Terminal A), which consists of approximately 296,000 square feet of floor space, including 23 contact gates, and Terminal 2 (previously known as Terminal C), which consists of approximately 550,000 square feet of floor space, including 19 contact gates. Terminal 2 is being expanded to a total of approximately 900,000 square feet with a total of 36 gates. The Airport has two primary runways and one secondary runway.

The Authority estimates that for the fiscal year ending March 31, 2010, 4,518,000 passengers were enplaned at the Airport. The Airport was ranked 37th in the United States in enplanements in calendar year 2009 and second in North Carolina behind Charlotte Douglas International Airport. The Airport, however, serves almost exclusively origin-destination (O&D) passengers while Charlotte Douglas International Airport serves largely connecting passengers.

The Airport is designated as a medium hub airport by the FAA. At present, the Airport System is comprised of only the Airport.

## **AIRPORT FACILITIES**

***Airfield.*** The airfield includes three runways and aircraft parking ramps and taxiways. The primary runway system consists of 10,000-foot Runway 5L-23R and parallel 7,500-foot Runway 5R-23L. These runways have northeast/southwest alignments and are able to accommodate simultaneous take-offs and landings. These runways are equipped with high-intensity runway lighting and instrument landing systems that permit operation under almost all types of weather conditions. With regard to airfield lighting, the Authority received federal and state project grants – \$5.8M from the American Recovery and Reinvestment Act of 2009 (stimulus funds) and \$2.5M from the North Carolina Department of Transportation, for its LED taxiway/runway lighting project. LED lighting offers substantial operational savings over traditional quartz lighting, reducing energy costs by up to 60% and saving on maintenance due to less frequent lamp replacement. RDU is one of the first airports in the country to use primarily LED lighting on its airfield. The Airport is also served by a secondary 3,550 foot Runway 14-32. Runway 14-32 is not equipped to handle most commercial aircraft.

***Passenger Terminal Facilities.*** Passenger terminal facilities at the Airport are located in two separate buildings known as Terminal 1 and Terminal 2. Terminal 1 includes an area once known as “Terminal B,” which was the site of the passenger terminal originally opened in October 1955.

Terminal 1 (other than the old Terminal B area) was placed in service in January 1982. Terminal 1 currently serves Air Tran Airways, Continental Airlines, Continental Express, Jet Blue Airways, Southwest Airlines, US Airways and US Airways Express.

Terminal 2 is a state-of-the-art, common use, passenger terminal that opened on October 26, 2008. The second phase of Terminal 2 will open in early 2011 and will expand the facility to a total of 35 passenger boarding gates. Terminal 2 is currently occupied by Air Canada, American Airlines, Delta Air Lines, Midwest Airlines, United Airlines and Charter Express. Continental Airlines and US Airways are expected to relocate from Terminal 1 to Terminal 2 when the south concourse opens in January 2011.

Certain agreements of the Authority with airlines and concessionaires with respect to the use of the passenger terminals are described below under “--ARRANGEMENTS AND AGREEMENTS FOR USE OF AIRPORT FACILITIES.”

**Parking Facilities.** There are 20,350 parking spaces located in four structural and multiple surface lots throughout the Airport. Parking spaces at the Airport are designated as “hourly,” “daily,” and “park and ride.” Parking rates are set based upon the proximity of the parking facility to the terminals. Current rates for parking are \$1 per hour with a maximum of \$24 per day in hourly parking and \$2 per hour with a maximum of \$10 per day in daily parking. Rates for “park and ride” lots are \$6 per day. There are off-Airport parking providers, but the Authority has over 90% market share of Airport-related parking. In accordance with an Authority ordinance, any such off-Airport parking providers are required to pay the Authority 10% of their gross revenues.

For the Fiscal Year ended March 31, 2010, parking revenues accounted for approximately 39% of the total operating revenue of the Authority.

**Cargo Facilities.** Major cargo carriers operating at the Airport are ABX Air, Federal Express, DB Schenker (formerly BAX Global), United Parcel Service and UPS Supply Chain (formerly Emery Worldwide). These carriers currently lease 95,603 square feet of cargo space from the Authority in the North Cargo Complex at the Airport and DB Schenker leases 7,173 square feet of cargo space from the Authority in the South Cargo Complex at the Airport. There are also multiple freight forwarders and passenger airlines that lease an additional square feet of office and warehouse space from the Authority in the South Cargo Complex.

**Other Airport Facilities.** Various other facilities are located at the Airport, including general aviation facilities, on-Airport rental car service centers, fuel storage facilities, a service station and convenience store and a hangar and administration building providing facilities for the North Carolina National Guard.

**PASSENGER AIR CARRIERS SERVING THE AIRPORT**

As of July 2010, the Airport was served by the following major/national domestic airlines, regional airlines and foreign-flag carriers:

**MAJOR/NATIONAL CARRIERS**

AirTran Airways  
 American Airlines  
 Continental Airlines  
 Delta Air Lines  
 JetBlue Airways  
 Southwest Airlines  
 United Airlines  
 US Airways

**REGIONAL CARRIERS**

American Connection (American Eagle, Chautauqua)  
 Continental Express (Chautauqua, Colgan Air, ExpressJet)  
 Delta Connection (Atlantic Southeast, Comair, Chautauqua, Mesaba, Pinnacle)  
 Midwest  
 United Express (ExpressJet, Mesa, Shuttle America)  
 US Airways Express (Air Wisconsin, Chautauqua, Mesa, PSA, Republic, Trans States)

**FOREIGN-FLAG CARRIERS**

Air Canada Jazz

For each airline’s market share of total enplaned passengers at the Airport, see Table 16 in **Appendix A** hereto.

The Airport currently serves 27 domestic cities nonstop with an average of 175 daily departing flights. Airline carrier have announced that effective in the current fiscal year they have restored or added new route service for Authority passengers, including Delta restoring its flight to Los Angeles (LAX), Southwest adding a daily St. Louis flight and Midwest Airlines returning to the Airport with service to Milwaukee. In Fiscal Year 2010, approximately 98% of all passengers at the Airport enplaned on domestic flights and 2% enplaned on international flights.

### ENPLANED PASSENGER TRENDS

#### Raleigh-Durham International Airport (for Fiscal Years ending March 31; passengers in thousands)

	2000	2005	2006	2007	2008	2009	2010 (a)	CAGR		% Change
								2000-2005	2005-2010	2009-2010
<b>Total enplaned passengers</b>	<b>4,703</b>	<b>4,517</b>	<b>4,699</b>	<b>4,768</b>	<b>5,082</b>	<b>4,685</b>	<b>4,518</b>	<b>(0.8%)</b>	<b>0.0%</b>	<b>(3.6%)</b>
Domestic	4,577	4,427	4,609	4,677	4,987	4,596	4,439	(0.7%)	0.1%	(3.4%)
International	126	90	90	91	96	89	79	(6.5)	(2.5)	(11.3)
O&D	3,926	4,277	4,461	4,560	4,835	4,474	4,315	1.7%	0.2%	(3.5%)
Connecting	777	239	238	209	248	211	203	(21.0)	(3.3)	(3.7)
As percent of total enplaned passengers:										
Domestic	97.3%	98.0%	98.1%	98.1%	98.1%	98.1%	98.3%			
International	2.7	2.0	1.9	1.9	1.9	1.9	1.7			
O&D	83.5%	94.7%	94.9%	95.6%	95.1%	95.5%	95.5%			
Connecting	16.5	5.3	5.1	4.4	4.9	4.5	4.5			

CAGR = Compound annual growth rate.

Notes: FY 2004, FY 2005, and FY 2006 enplaned passenger totals, as reported by the Authority were adjusted by Jacobs Consultancy because of airline misreporting.

Columns may not add to totals shown because of rounding.

(a) Total enplaned passengers shown for FY 2010 represent actual passengers reported to the Authority; however, the O&D and connecting split was estimated based on three quarters of actual data.

Sources: Raleigh-Durham Airport Authority; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1; Jacobs Consultancy.

### ARRANGEMENTS AND AGREEMENTS FOR USE OF AIRPORT FACILITIES

**Landing Fees.** Under existing policy, the Authority calculates landing fee rates according to a cost center compensatory methodology. The cost base is defined as the sum of direct and indirect (1) maintenance and operation expenses, (2) debt service payments, and (3) depreciation and return on investment for Airport cash-funded facilities. These costs are allocated among air carrier and general aviation users at the Airport, and the air carrier portion is charged to the individual carriers on the basis of landed weight.

The landing fee was \$1.59 per 1,000 pound unit in the Fiscal Year ended March 31, 2009. The landing fee rate increased in Fiscal Year ending March 31, 2010 to \$2.054 per 1,000 pound unit. The landing fee was set at 1.9214 per 1,000 pound unit in the Fiscal Year ending March 31, 2011.

**Operating Agreements.** Each of the airlines operating at the Airport, except American Airlines (see “--*Agreement with American Airlines*” below), has entered into month-to-month letter operating

agreements (the “*Operating Agreements*”) with the Authority providing for the operation of each airline’s scheduled passenger business and lease of terminal space. The rights of the Authority under the Operating Agreements have not and will not be assigned to the Trustee to secure the Bonds (although income generated from the leasing of the space constitutes “*Revenues*” under the Master Indenture and will secure the Bonds).

Under the Operating Agreements, airlines operating at the Airport are required to pay rent to the Authority to lease space in the terminals. The lease payments are determined based upon the amount of square footage leased by an airline for ticket counter space, gate space, baggage handling and claim space, security checkpoint space and administrative office space. The cost of providing security checkpoints, baggage claim space and law enforcement services are pro-rated among the airlines. The cost of utility service is also included in fixed rental rates. Any operating airline whose senior corporate rating is rated below investment grade is required to post payment collateral equal to 90 days of estimated airport rentals, fees, and charges. Any such operating airline that is unable to post the payment collateral through a bond or letter of credit must pay its rentals, fees, and charges in advance.

The rentals charged under the agreement may be changed from time to time by the Authority. Rates are examined annually during the Authority’s budget process and are subject to adjustment each Fiscal Year. Under current Authority practice, airline terminal building space rentals are calculated taking into consideration (1) the costs incurred by the Authority in operating and maintaining the terminals, and (2) nonairline revenues generated in the terminals.

Pursuant to the Operating Agreements, each airline operating at the Airport is required to carry a \$50 million comprehensive general liability insurance policy covering its operations at the Airport with a combined single limit of at least \$50 million.

The agreements may be amended or modified at any time without bondholder approval and may be terminated without cause and without penalty at any time by either party thereto upon one month’s notice.

***Agreement with American Airlines.*** On May 23, 2002, the Authority and American Airlines (“*American*”) entered into the Lease Purchase and Modification Agreement (the “*Purchase Agreement*”) and in June 2002, the parties entered into a Facilities Lease and Use Agreement (the “*Lease*”). In conjunction with the replacement of Terminal C with Terminal 2, American signed an amendment to the Lease related to its move to the new north concourse and now occupies space in Terminal 2. The amendment to the Lease changed several other terms of the Lease regarding the use of equipment and systems owned and operated by the Authority in Terminal 2. Except for the fixed term of American’s Lease, American’s occupancy of Terminal 2 is on terms substantially identical to the operating agreements that are in place for the other airlines in the terminal. The Purchase Agreement and the Lease provide for, among other things, (1) that American is subject to the same terminal rental rates as all other airlines, as adopted by the Authority through its annual budget process, (2) leased premises rented by American in Terminal C are for its preferential use, (3) the right of the Authority to relocate the leased premises during the term of the Lease to allow for the renovation, expansion, and redevelopment of Terminal C, (4) a rent credit equal to \$2,162,500 as of March 31, 2010 (as adjusted by changes to the Authority’s terminal rental rate structure and American’s leased premises, if any) will be applied at the rate of \$25,000 per month, and (5) a 15-year term expiring on June 15, 2017.

***Concessions.*** The Authority has contractual relationships with concessionaires for food and beverage, news/gifts, advertising and various other miscellaneous services at the Airport. The current contract with the food/beverage concessionaire is for a ten-year term ending December 31, 2010. New contracts concession contracts for services in the new terminal have been initiated for food/beverage,

retail merchandise and services concessionaires. Three contracts for food/beverage concessionaires have nine-year terms ending September 30, 2017. Five contracts for retail merchandise and three contracts for services have seven-year terms ending September 30, 2015. The food/beverage, retail merchandise and services contracts each provide the Authority with a percentage of sales with a minimum guaranteed amount. The minimum guaranteed amounts under such contracts are waivable by the Authority and have been waived for brief periods in the past based on various economic circumstances. The Authority has an exclusive advertising agreement with the advertising concessionaire that extends through April 30, 2012. The Authority receives the greater of a minimum guaranteed amount or 50% of gross advertising sales.

***Cargo Agreements.*** Cargo operators at the Airport have entered into agreements with the Authority to pay monthly rentals for their leased cargo space. The current agreements expire in 2013. Cargo carriers are also required to pay landing fees at the prescribed rates.

***Rental Car Agreements.*** Eight automobile rental companies provide service at the Airport. Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National and Thrifty each maintain service centers on Airport property in an area that is remote from the terminals and accessed via company operated shuttles. Under the terms of the agreements between the Authority and the companies operating on the Airport property, the Authority receives a rent equal to 10% of gross automobile rental revenues, subject to minimum annual guarantees. The companies operating at the Airport also pay ground rents.

## **FINANCIAL INFORMATION**

The financial statements of the Authority for the fiscal year ended March 31, 2010 have been audited by certified public accountants. Copies of these financial statements containing the unqualified report of the independent certified public accountants are available in the office of Director of Finance, Raleigh-Durham Airport Authority, P.O. Box 80001, RDU Airport, North Carolina 27623. Attached hereto in **Appendix B** is the Management Discussion and Analysis and the Basic Financial Statements of the Authority and the notes thereto, taken from the audited Comprehensive Annual Financial Report of the Authority for the fiscal year ended March 31, 2010.

The Authority was the recipient of the Government Finance Officers Association of the United States and Canada Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ended March 31, 2009, which was the first time that the Authority sought such recognition. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government finance reports.

The Airport was recognized for the fifth year in a row by the Air Transport Research Society as one of the top three airports in North America (and #1 for the most recent year) for both overall financial operating efficiency and cost competitiveness.

The following table presents the Authority's Summary of Operations for the fiscal years ended March 31, 2008, 2009 and 2010:

**RALEIGH-DURHAM AIRPORT AUTHORITY  
SUMMARY OF OPERATIONS**

	YEARS ENDED MARCH 31,		
	2008	2009	2010
<b>Operating Revenues</b>			
Parking	\$39,500,251	\$36,572,511	\$33,998,195
Airfield	11,308,179	10,614,546	12,499,790
General Aviation	1,342,211	1,387,739	1,398,821
Terminals	18,845,460	20,459,651	23,283,910
Air Cargo	1,959,833	1,989,512	2,004,795
Fuel Farm	565,893	927,232	961,740
Rental Car	13,628,529	12,788,821	11,604,879
Other	1,208,407	1,492,178	1,416,787
<b>Total Operating Revenues</b>	<u>\$88,358,763</u>	<u>\$86,232,190</u>	<u>\$87,168,917</u>
<b>Operating Expenses</b>			
Airfield Facilities	\$12,290,026	\$15,499,047	\$17,956,239
Administrative	6,684,641	8,274,367	8,201,857
Fuel Farm Complex	739,965	932,042	903,815
Law Enforcement	2,987,660	3,008,371	2,848,365
Airport Maintenance	4,247,141	4,821,408	4,828,437
Parking and Ground Transportation Complexes	2,644,350	2,756,988	2,416,808
Emergency Services	1,508,453	1,461,996	1,523,960
Visitor Services	543,024	611,002	689,040
Communications	741,821	814,682	727,856
Operations	919,665	1,004,747	984,061
Ground Transportation	2,771,980	2,722,685	2,701,382
Terminal Services	123,352	222,382	227,699
<b>Subtotal Expenses</b>	<u>\$36,202,078</u>	<u>\$42,129,717</u>	<u>\$44,009,519</u>
Depreciation	33,505,153	39,245,679	47,523,955
<b>Total Operating Expenses</b>	<u>69,707,231</u>	<u>81,375,396</u>	<u>91,533,474</u>
<b>Operating Income</b>	<u>18,651,532</u>	<u>4,856,794</u>	<u>(4,364,557)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Investment Interest Income	\$8,507,396	\$5,592,912	\$3,750,839
Passenger Facility Charges	24,006,372	19,710,529	18,940,075
Net increase (decrease) in Fair Value	771,553	(40,516)	(404,147)
Bond Interest Expense, Net	(15,239,195)	(14,597,370)	(22,663,862)
Loss on Swap Termination	-	(4,543,541)	-
Other, Net	206,670	(765,636)	487,820
<b>Total Non-Operating Revenues (Expenses)</b>	<u>18,252,796</u>	<u>5,356,378</u>	<u>110,725</u>
<b>Income Before Capital Contributions</b>	36,904,328	10,213,172	(4,253,832)
<b>Capital Contributions</b>	50,000	5,677,385	11,518,926
<b>Increase in Net Assets</b>	36,954,328	15,890,557	7,265,094
<b>Net Assets, beginning of year</b>	<u>424,266,653</u>	<u>461,220,981</u>	<u>477,111,538</u>
<b>Net Assets, end of year</b>	<u>\$461,220,981</u>	<u>\$477,111,538</u>	<u>\$484,376,632</u>

Source: Raleigh-Durham Airport Authority.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL INFORMATION

The Authority has established multiple cost centers, referred to as "complexes," to track revenues and expenses that are used in the calculation of airline and non-airline rates and charges. The Authority accounts for all operating revenues, and for direct maintenance and operation expenses, on the basis of these complexes. With regard to revenue, Parking, Airfield, Terminals, and Rental Car represent the largest of these complexes. Additionally, the Authority incurs certain indirect expenses which are allocated back to the complexes based on direct labor by complex. The Authority employs a time tracking system for direct labor as the basis used to facilitate this allocation.

### REVENUES, EXPENSES, AND CHANGE IN NET ASSETS

For the fiscal year ended March 31, 2010, the Authority experienced a 1.1% increase, or \$940,000, in operating revenues due primarily to increased Airfield revenues (\$1.8 million) and Terminal revenues (\$2.8 million). Largely offsetting these increases were decreased parking revenue (\$2.6 million) and decreased rental car revenue (\$1.2 million) each compared to the prior year. This overall increase in operating revenue was realized despite a decrease in enplaned passengers of 166,000 (-3.6%) for the fiscal year, relative to the prior fiscal year. The Authority's rates and charges to air carriers remained at the low end of comparable airports. In addition, the Authority's airline derived revenue remained diversified with no carrier accounting for more than 10% of operating revenues for the fiscal year ended March 31, 2010.

Operating expenses (excluding depreciation) increased 4.5%, or \$1.9 million, for the fiscal year ended March 31, 2010 relative to the prior year. This increase was primarily due to increases in Airport facilities costs associated with the full year operation of Terminal 2 (5 months of operational costs were in fiscal year ended March 31, 2009). Depreciation expense increased 21.11% or \$8.3 million during the fiscal year ended March 31, 2010. This increase was due to the full year addition of phase 1, Terminal 2 to depreciation expense (\$9.5 million) versus half year depreciation in the prior year. Thus, total Operating expenses (including depreciation) increased 12.5% or \$10.2 million. The combined effect of the above items was a 190% or \$9.2 million decrease in Operating Income relative to the prior period. Nearly all of this decrease in Operating Income was directly related to increased depreciation of the Terminal 2 phase I asset.

Non-operating revenues (expenses) in total decreased \$5.2 million or 97.9% due to several factors. Investment interest income decreased \$1.8 million or 32.9% due to declining interest rates. Passenger Facility Charges (PFC) revenue also decreased \$800,000 or 3.9%, both for the period ending March 31, 2010 compared to the prior year. Net Bond interest expense, increased \$6.7 million or 41.7%, primarily due to the expensing of interest related to the 2007 Bonds. As a result, \$7.3 million of interest costs related to the Terminal project were not capitalized as in the prior year. Finally, a \$4.5 million loss was realized in fiscal year ended March 31, 2009 (Feb-09) on the swap termination related to the Lehman Brothers bankruptcy and subsequent termination of a \$150 million Lehman Brothers swap with the Authority. No corresponding loss on the swap terminations was experienced in fiscal year ended March 31, 2010. Capital contributions increased \$5.8 million or 103% compared to the prior year due to increased Federal Grant revenue. The Authority PFC program collection level of \$4.50 requires a corresponding reduction of 75% in federal entitlement grant revenue. Thus, the increase in Net assets of \$7.26 million for the period ending March 31, 2010 represented a decrease of \$8.6 million or 54% from the prior year increase.



## **BUDGET INFORMATION FOR THE FISCAL YEAR ENDING MARCH 31, 2011**

The Authority, as it typically does, elected to forecast conservatively, especially with respect to revenue generation for the fiscal year ending March 31, 2011. For comparison purposes, fiscal year ending March 31, 2011 budgeted operating revenues of \$86,295,852 were 1.0% (\$873,000) lower than actual fiscal year ended March 31, 2010 operating revenues of \$87,168,917. For fiscal year ending March 31, 2011 relative to the prior year budget, total budgeted operating revenue decreased \$1.6 million or 1.9% due to decreased estimated parking revenues (down \$1.4 million or 3.9%), rental car revenues (down \$73,000 or .6%) and landing fees revenue (\$1.0 million or 7.9%) offset by estimated increased terminal revenues (\$690,000 or 3.0%). In addition, budgeted non-operating revenue increased \$2.9 million or 12.4% due to increased Federal and State entitlement Grant revenues (\$3.1 million) and PFC revenues of (\$1.4 million).

Budgeted operating expenses (excluding depreciation) increased \$1.2 million, or 2.7% for the year ending March 31, 2011 relative to the prior year. Inclusive of depreciation, total budgeted operating expenses increased \$6.1 million or 6.9% relative to the prior year. Total budgeted non-operating expenses increased \$795 thousand or 3.8% due to changes in debt service interest expense.

The combined net effect of these items was to decrease budgeted Net Assets \$5.6 million or 203.3% with regard to the Authority's fiscal year ending March 31, 2011 budgeted projections versus the prior year. This decrease in Net Assets was primarily the result of increased depreciation (\$4.8 million) related to the Terminal 2 phase 1 completion.

### **OTHER POST-EMPLOYMENT BENEFITS**

The Authority provides certain post-employment healthcare benefits ("*OPEB*") as a part of the total compensation offered to attract and retain the services of qualified employees. The Authority pays the cost of the individual and dependent premiums (or the same portion of the cost as it pays for non-retired employees) for the qualified retiree's health coverage through the Authority's group health insurance plan. When the retiree reaches age 65, the Authority's post-retirement benefits cease. At that time, the retiree is no longer covered by the Authority's group health insurance program.

This benefit is available to retirees who participate in the North Carolina Local Government Employees' Retirement System ("*LGERS*"). While eligibility to draw retirement benefits from LGERS vests at 5 years, eligibility for post-retirement health benefits from the Authority requires: (1) all requirements for retirement from LGERS are met and (2) the final 5 years of service are worked with the Authority.

In June 2004, the Governmental Accounting Standards Board released its Statement No. 45 relating to the Accounting and Financial Reporting by Employers for Post-employment Benefit Plans Other Than Pension Plans (the "*GASB 45*"). GASB 45 requires governments to treat OPEB for accounting purposes on an accrual basis similar to pensions. The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("*ARC*"), an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years. As of March 31, 2010, the actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability ("*UAAL*") was \$6,078,786 and the ARC needed to meet the UAAL was \$854,455. The Authority does not fund the ARC, but rather pays for its OPEB liabilities on an annual pay-as-you-go basis.

For additional information concerning the Authority's OPEB, see Note 7 to the Authority's Audited Financial Statements in **Appendix B**.

### **CAPITAL IMPROVEMENT PROGRAM**

The Authority has developed a capital improvement program covering the period of Fiscal Year ended March 31, 2011 through Fiscal Year ending March 31, 2016 (the "*Capital Improvement Program*"). The Capital Improvement Program includes \$209 million of projects that the Authority intends to fund, to the extent the Authority determines to proceed with such projects, from a combination of funds generated from Authority activities, PFCs, Airport Improvement Program grants-in-aid, grants from the State of North Carolina and existing Bonds issued under the Master Indenture. Additional sources of funding may be utilized in the future. The Authority has also included certain demand driven projects, such as a consolidated rental car facility and certain roadway improvements, totaling \$110 million, in its capital planning process. These demand driven projects are outside the scope of the Capital Improvement Program and the Authority's decision of whether or not to proceed of these projects will depend on demand, availability of funding and other considerations. The Authority expects that funding for any such demand driven projects would come from consolidated rental car facility charges and internally generated funds. The implementation of the future elements of the Capital Improvement Program is contingent upon demand and the availability of funds or financing of the program under reasonable terms and conditions.

Significant projects in the Capital Improvement Program includes approximately \$89 million for the completion of Terminal 2 and approximately \$63 million for the renovation and improvement of Terminal 1 and associated roadway projects. The Authority expects to use its own funds for the Terminal 1 project which could begin late in the Fiscal Year ending March 31, 2011.

Except as noted above, the Authority does not plan to issue additional Bonds to finance these projects. The Authority continues, however, to regularly examine the condition of its general infrastructure and the need to meet the demands of the Airport's customers. To the extent necessary, the Authority will seek debt authorization in keeping with the Authority's objectives.

### **INFORMATION ON AIRLINES AND THE AVIATION INDUSTRY**

The airlines and cargo carriers serving the Airport or their respective parent corporations are subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, file reports and other information with the Securities and Exchange Commission (the "*SEC*"). Certain information, including financial information, as of particular dates concerning such airlines or their respective parent corporations is disclosed in reports and statements filed with the SEC. Such reports and statements can be inspected in the Public Reference Rooms of the SEC which can be located by calling the SEC at 1-800-SEC-0330. Certain information is also filed electronically with the SEC and can be accessed on its website at <http://www.sec.gov>. In addition, each airline is required to file periodic reports with the United States Department of Transportation. These reports can be inspected at the Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies can be obtained from the Department of Transportation at prescribed rates.

### **CERTAIN INVESTMENT CONSIDERATIONS**

The following section describes certain risk factors affecting the payment of and security for the 2010 Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with

the purchase of the 2010 Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following specific factors along with all other information described or referenced elsewhere in this Official Statement in evaluating the 2010 Bonds.

#### **GENERAL FACTORS AFFECTING AIRLINES**

The 2010 Bonds will be special obligations of the Authority, secured by and payable from the Net Revenues of the Authority and, under certain circumstances, PFCs, the proceeds of the 2010 Bonds, investment earnings, amounts set aside in the Parity Reserve Fund and certain other funds and accounts described in this Official Statement. The ability to pay debt service on the 2010 Bonds will depend on the receipt of sufficient Net Revenues and, to the extent permitted under applicable law, PFCs.

The Airport's ability to generate Net Revenues and PFCs depends on sufficient levels of aviation activity and passenger traffic at the Airport. The achievement of increased passenger traffic will depend partly on the profitability of the airline industry and the ability of individual airlines to provide sufficient capacity to meet demand.

The Authority's ability to derive Net Revenues from its operation of the Airport depends upon many factors which affect the airlines' operations at the Airport, many of which are not subject to the control of the Authority, including the economy, domestic and international affairs, air transportation disruptions, the threat of terrorism and international conflict, health crises, cost structure of the airlines, including the cost of aviation fuel, and labor issues. The Authority cannot assess the impact that these factors will have on the airline industry and, in turn, on the Airport's Net Revenues.

In addition, many factors have combined to create structural changes in the travel market that have altered consumer travel patterns. The threat of terrorism against the United States remains. As a result, the federal government has mandated various security measures that have resulted in new security taxes and fees and longer passenger processing and wait times at airports. Both add to the costs of air travel and make air travel less attractive to consumers relative to ground transportation, especially to short-haul destinations. Additionally, consumers have become more price-sensitive. Efforts of airlines to stimulate traffic by heavily discounting fares have changed consumer expectations regarding airfares. Consumers have come to expect extraordinarily low fares. In addition, the availability of fully transparent price information on the Internet now allows quick and easy comparison shopping, which has changed consumer purchasing habits. Consumers have shifted from purchasing paper tickets from travel agencies or airline ticketing offices to purchasing electronic tickets over the Internet. This has made pricing and marketing even more competitive in the U.S. airline industry. Smaller corporate travel budgets, combined with the higher time costs of travel, have made business customers more amenable to communications substitutes such as tele- and video-conferencing.

#### **AIRLINE BANKRUPTCIES**

Since 2000, numerous airlines have filed for and emerged from bankruptcy protection due to the events of September 11, 2001, a general economic slowdown, increased aviation fuel costs, increased competition from low-cost carriers, labor disruptions and other factors. Among the airlines that have filed for bankruptcy protection there have been and are several that have significant operations at the Airport. Each of the airlines that have filed for bankruptcy have continued operations at the Airport, however, as a part of their restructuring plans and continued operations, certain routes and flights have been subject to reductions. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. The Authority has not lost any revenues under its operating agreements with the airlines currently operating at the Airport directly as a result of any airline bankruptcies; however, it is not possible to predict the future impact on the Airport System of the bankruptcies and any further bankruptcies,

liquidations or major restructurings of other airlines. See “--**FEDERAL LEGISLATION AFFECTING THE AIR TRANSPORTATION INDUSTRY**” below.

The act authorizing PFCs provides that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFCs separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. The airlines, however, are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFCs until such PFCs are remitted. Vision 100 – Century of Aviation Reauthorization Act (“*Vision 100*”), adopted in December of 2003 requires airlines in bankruptcy to segregate PFCs into a separate account for the benefit of eligible agencies. While Vision 100 should provide some protection for airports in connection with PFCs collected by airlines in bankruptcy, prior to its enactment, bankruptcy courts have not universally treated PFCs collected by the airlines as trust funds. Therefore, the Authority cannot predict how a bankruptcy court might rule on this matter in the event of a bankruptcy filing by airlines operating at the Airport. It is possible that the Authority could be held to be an unsecured creditor with respect to unremitted PFCs held by an airline that has filed for bankruptcy protection. Additionally, the Authority cannot predict whether the airline that files for bankruptcy protection would have properly accounted for the PFCs owed to the Authority or whether the bankruptcy estate would have sufficient moneys to pay the Authority in full for the PFCs owed by such airline.

#### **PASSENGER FACILITY CHARGES**

***Application.*** As described under “**SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS—Passenger Facility Charges**” herein, the Authority has irrevocably committed or will irrevocably commit PFCs to pay a portion of the debt service on the Bonds that are related to projects eligible to be paid from PFCs. The Authority is required to deposit PFCs, to the extent received, up to the amount irrevocably committed in each Fiscal Year, in the PFC Revenue Fund. The Authority may, but is not obligated to, use uncommitted PFCs from prior Fiscal Years to fund committed amounts of PFCs in subsequent years.

***Sufficiency.*** The Authority’s ability to collect PFC revenues will vary depending on the actual number of passenger enplanements at the Airport. As detailed in Exhibit 4.0 to the Report of the Airport Consultant in **Appendix A**, the Authority expects to collect less PFCs in Fiscal Years ending March 31, 2011 through 2014 than have been irrevocably committed; however, the Authority expects to use its PFC fund balance to pay the difference between what it collects in each of those fiscal years and the amount that is irrevocably committed in order to pay a portion of the debt service on the Bonds that is related to projects eligible to be paid from PFCs. As also detailed in Exhibit 4.0 to the Report of the Airport Consultant in **Appendix A**, in Fiscal Years ending March 31, 2015 and 2016, while only \$5,001,000 has been irrevocably committed, to the extent collected, the Authority expects to use additional amounts collected in those fiscal years, plus, if necessary, its PFC fund balance, in order to pay a portion of the debt service on the Bonds that is related to projects eligible to be paid from PFCs.

If the number of enplaned passengers at the Airport falls below the estimate used in the Report of the Airport Consultant attached hereto as **Appendix A** to project annual PFC revenues and accumulated balances may not be sufficient to offset debt service to the extent forecast in the Report of the Airport Consultant in Appendix A. Such a shortfall in PFCs could have an adverse impact on the timely payment of principal of or interest on the Bonds to the extent payable from irrevocably committed, or otherwise applied, PFCs. A shortfall in PFCs could also adversely impact the Bonds indirectly if the PFC shortfall resulted in a sufficient increase in rates and charges that negatively impacts the Airport’s desirability to

the airline industry, thus ultimately impacting the Authority's collection of Revenues. There can be no assurance as to what passenger traffic, and Revenues of the Airport, will be in the future.

**Availability.** The authority to impose and use PFCs are subject to the terms and conditions of the federal regulations and statutes. Failure to comply with the requirements of applicable law, such as the failure to use PFCs strictly for the approved PFC eligible projects, may cause the FAA to terminate or reduce the Authority's authority to impose and collect PFCs. In addition, notwithstanding FAA regulations requiring airlines that collect PFCs to account for PFC collections separately and indicating that those PFC collections are to be regarded as funds held in trust by the collecting airline for the beneficial interest of the public agency imposing the PFC, in the event of a bankruptcy proceeding involving a collecting airline, there is the possibility that a bankruptcy court could hold that the PFCs in the airline's custody are not to be treated as trust funds and that the Airport is not entitled to any priority over other creditors of the collecting airline as to such funds. Also, there is no assurance that the federal law authorizing the imposition of PFCs or any other relevant legislation or regulation will not be repealed or amended as to adversely affect the Authority's ability to collect PFCs or to apply them to pay for the PFC eligible projects. The occurrence of any of these events could have an adverse impact on the timely payment of principal of or interest on the Bonds, as noted above.

#### **FEDERAL LEGISLATION AFFECTING THE AIR TRANSPORTATION INDUSTRY**

The operations of the Airport are affected by a variety of contractual, statutory and regulatory restrictions and limitations. Since September 11, 2001 and as a result of the financial distress and bankruptcy filings in the airline industry, the Federal government enacted several pieces of legislation that have directly affected the airline industry. Such legislation includes the Federal Aviation and Transportation Security Act to provide, among other things, for the federalization of airport security through the Transportation Security Administration ("*TSA*"). The Homeland Security Act ("*HSA*") created the Department of Homeland Security ("*DHS*") to accomplish several primary goals, identified by the statute as: preventing terrorist attacks within the United States; reducing the nation's vulnerability to terrorism; minimizing the damage of, and assisting in the recovery from, terrorist attacks that do occur; and monitoring connections between illegal drug trafficking and terrorism and coordinating efforts to seek such connections. The TSA is part of DHS.

The Next Generation Air Transportation System program run by the Federal Aviation Administration has the potential to change the current financing system for the national aviation system.

It is not possible to predict whether future restriction or limitations on Airport operations will be imposed, whether future legislation or regulations will affect anticipated federal funding or PFC collections for capital projects for the Airport, whether additional requirements will be funded by the federal government or require funding by the Authority, or whether such restrictions or legislation or regulations would adversely affect Net Revenues.

#### **FEDERAL REGULATION REGARDING RATES AND CHARGES DISPUTES**

The FAA Authorization Act of 1994 establishes that airline rates and charges set by airports be "reasonable" and mandates an expedited administrative process by which the Secretary of Transportation (the "*Secretary*") shall review rates and charges complaints. An affected air carrier may file a written complaint requesting a determination of the Secretary as to reasonableness within 60 days after such carrier receives written notice of the establishment or increase of such fee. During the pendency of the review, the airlines must pay the disputed portion of the fee to the airport under protest, subject to refund to the extent such fees are found to be unreasonable by the Secretary. The airport must obtain a letter of

credit, surety bond or other suitable credit facility equal to the amount in dispute unless the airport and the complaining carriers agree otherwise.

## **REPORT OF THE AIRPORT CONSULTANT**

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

Accordingly, the projections contained in the Report of the Airport Consultant or that may be contained in any future certificate of the Authority or a consultant are not necessarily indicative of future performance, and neither the Airport Consultant nor the Authority assumes any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the Authority are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the 2010 Bonds are cautioned not to place undue reliance upon the Report of the Airport Consultant or upon any projections or requirements for projections. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Net Revenues and PFCs may be materially less than expected and consequently, the ability of the Authority to make timely payment of the principal of and interest on the 2010 Bonds may be materially adversely affected.

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

## **FORWARD LOOKING STATEMENTS**

This Official Statement, and particularly the information contained under the captions **"MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL INFORMATION"** and **"CAPITAL IMPROVEMENT PROGRAM"** and in **Appendix A – "REPORT OF THE AIRPORT 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," 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 are an inability to incur debt at assumed rates, construction delays, increases in construction costs, general economic downturns, factors affecting the airline industry in general, 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 cost 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.

## CONTINUING DISCLOSURE

In the Eleventh Supplemental Indenture, the Authority will undertake, for the benefit of the beneficial owners of the 2010 Bonds, to provide to the Municipal Securities Rulemaking Board (“MSRB”):

(a) by not later than seven months from the end of each Fiscal Year of the Authority, beginning with the Fiscal Year ending March 31, 2011, the audited financial statements of the Authority for such Fiscal Year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or, if such audited financial statements of the Authority are not available by seven months from the end of such Fiscal Year, unaudited financial statements of the Authority for such Fiscal Year to be replaced subsequently by audited financial statements of the Authority to be delivered within 15 days after such audited financial become available for distribution,

(b) by not later than seven months from the end of each Fiscal Year of the Authority, beginning with the Fiscal Year ending March 31, 2011, the financial and statistical data as of the date not earlier than the end of the preceding Fiscal Year for the type of information included under the following headings in this Official Statement to the extent such items are not included in the audited financial statements referred to in (a) above: **“THE AIRPORT SYSTEM--AIRPORT FACILITIES--*Parking Facilities*”** (number of spaces); **“PASSENGER AIR CARRIERS SERVING THE AIRPORT”** (table of enplanements by carriers); **Appendix A – “REPORT OF THE AIRPORT CONSULTANT”** -- Table 19 (enplaned passenger forecast) and Table 20 (forecast in aircraft landed weight),

(c) in a timely manner, notice of any of the following events with respect to the 2010 Bonds, if material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties;
- (5) substitution of any credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the 2010 Bonds;
- (7) modification to rights of the beneficial owners of the 2010 Bonds;
- (8) redemption of any of the 2010 Bonds, other than pursuant to mandatory sinking fund redemption;

- (9) defeasances;
  - (10) release, substitution or sale of any property securing repayment of the 2010 Bonds; and
  - (11) rating changes.
- (d) in a timely manner, notice of a failure of the Authority to provide required annual financial information described in (a) or (b) above on or before the date specified.

The Authority shall provide the document referred to above to the MSRB in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB. The Authority may discharge its undertaking described above by transmitting the documents referred to above to any entity and by any method subsequently authorized by the U.S. Securities and Exchange Commission.

At present, Section 159-34 of the General Statutes of North Carolina requires the Authority's financial statements to be prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

The Eleventh Supplemental Indenture will also provide that if the Authority fails to comply with the undertaking described above, the Trustee or any beneficial owner of the 2010 Bonds may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that the Authority's failure to comply with the undertaking will not constitute an Event of Default under the Master Indenture and will not result in the acceleration of the 2010 Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the 2010 Bonds.

Pursuant to the Eleventh Supplemental Indenture, the Authority will reserve the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Authority, provided that any such modification will be done in a manner consistent with Rule 15c2-12, and provided further that:

- (a) any such modification 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 the Authority;
- (b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and
- (c) any such modification does not materially impair the interests of the beneficial owners of the 2010 Bonds, as determined either by the Trustee or bond counsel, or by the approving vote of the Owners of a majority in principal amount of the 2010 Bonds pursuant to the terms of the Master Indenture, as it may be amended from time to time, at the time of the amendment.



Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the 2010 Bonds.

Except as hereinafter described, the Authority has not failed to comply with any continuing disclosure undertaking pursuant to Rule 15c2-12. The Authority's audited financial statements and operating data for the fiscal year ended March 31, 2006 was formally filed with the appropriate repository in January 2007, which was later than the October 31, 2006 deadline the Authority had undertaken in a prior bond issue.

## **LITIGATION**

No litigation is now pending or, to the best of the Authority's knowledge, threatened against or affecting the Authority seeking to restrain or enjoin the authorization, execution or delivery of the 2010 Bonds, the Master Indenture or the Eleventh Supplemental Indenture or contesting the validity or the authority or proceedings for the adoption, authorization, execution or delivery of the 2010 Bonds, the Master Indenture or the Eleventh Supplemental Indenture or the Authority's creation, organization or corporate existence, or the title of any of the Authority's present officers to their respective offices, or the Authority's powers to carry out its obligations thereunder.

The Authority is party to a number of civil lawsuits and other legal actions. The ultimate outcome of these suits is not expected to have a material adverse impact upon the Authority's financial position.

## **LEGAL MATTERS**

Legal matters related to the authorization, execution, sale and delivery of the 2010 Bonds are subject to the approval of Womble Carlyle Sandridge & Rice, PLLC, Bond Counsel, the form of whose approving legal opinion is set forth in **Appendix E**. Certain legal matters will be passed upon for the Authority by Moore & Van Allen, PLLC, counsel to the Authority, and for the Underwriters by Parker Poe Adams & Bernstein LLP, counsel to the Underwriters.

## **TAX TREATMENT**

### **OPINION OF BOND COUNSEL**

In the opinion of Bond Counsel, under existing law and assuming continuing compliance by the Authority with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "*Code*"), regarding, among other matters, the use, expenditure and investment of the proceeds of the 2010 Bonds, and the timely payment of certain investment earnings to the United States Treasury, interest on the 2010 Bonds will not be includable in the gross income of the owners thereof for purposes of federal income taxation (except for any owner of a 2010A Bond who is a "substantial user" of the facilities refinanced with the proceeds of the 2010 Bonds or a "related person" of a "substantial user" (as such terms are defined in the Code)). Bond Counsel is also of the opinion that interest on the 2010 Bonds will not be treated as a specific preference item for purposes of the federal alternative minimum tax imposed by the Code on corporations and other taxpayers, including individuals. In addition, interest

on the 2010A Bonds will not be includable in determining “adjusted current earnings” of corporations for purposes of computing the alternative minimum tax imposed by the Code on corporations; however, interest on the 2010B Bonds will be includable in determining “adjusted current earnings” of corporations for purposes of computing the alternative minimum tax imposed by the Code. In addition, in the opinion of Bond Counsel, under existing law, interest on the 2010 Bonds will be exempt from all State of North Carolina income taxes.

The Code and other laws of taxation, including the laws of taxation of the State of North Carolina, of other states and of local jurisdictions, may contain other provisions that could result in tax consequences, upon which Bond Counsel expresses no opinion, as a result of ownership or transfer of the 2010 Bonds.

### **ORIGINAL ISSUE PREMIUM**

The initial public offering prices of the 2010A Bonds maturing on May 1, 2011 through May 1, 2026, inclusive, May 1, 2028, May 1, 2029, May 1, 2032 and May 1, 2036 and the 2010B Bonds maturing on November 1, 2011 through November 1, 2019, inclusive, and November 1, 2021 through November 1, 2027, inclusive (collectively, the “*Premium Bonds*”), are greater than the amounts payable at maturity. The difference between (a) the initial offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, wholesalers or other intermediaries) at which a substantial amount of each maturity of the Premium Bonds is sold and (b) the principal amount payable at maturity of such Premium Bonds constitutes original issue premium. In general, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond based on the owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium Bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. If the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost.

Owners of Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences in connection with the ownership and disposition of Premium Bonds.

### **ORIGINAL ISSUE DISCOUNT**

The initial public offering prices of the 2010A Bonds maturing on May 1, 2027 and May 1, 2030 and the 2010B Bonds maturing on November 1, 2020 (collectively, the “*Discount Bonds*”) are less than the respective amounts payable at maturity. An amount not less than the difference between the initial offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, wholesalers or other intermediaries) of the Discount Bonds and the amounts payable at maturity constitutes original issue discount. Under existing federal income tax law and regulations, the original issue discount on a Discount Bond is interest not includable in the gross income of an owner who purchases such Discount Bond in the original offering at the initial public offering price thereof and holds it to maturity, and such owner will not realize taxable gain upon payment of such Discount Bond at maturity. Owners who purchase Discount Bonds at a price other than

the initial offering price or who do not purchase Discount Bonds in the initial public offering should consult their tax advisors with respect to the consequences of the ownership of such Discount Bonds. An owner who purchases a Discount Bond in the initial offering at the initial offering price and holds such Discount Bond to maturity is deemed under existing federal tax laws and regulations to accrue original issue discount on a constant yield basis under Section 1288 of the Code from the date of original issue. An owner's adjusted basis in a Discount Bond is increased by accrued original issue discount for purposes of determining gain or loss on sale, exchange or other disposition of such Discount Bond. Accrued original issue discount may be taken into account as an increase in the amount of tax-exempt interest received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors regarding the calculation of accrued original issue discount for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the ownership or disposition of Discount Bonds.

#### **OTHER TAX CONSEQUENCES**

Ownership or transfer of, or the accrual or receipt of interest on, the 2010 Bonds may result in collateral federal, State of North Carolina, other state or local tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers who may be eligible for the federal earned income tax credit, and taxpayers subject to franchise, estate, inheritance, gift or capital gains taxes. Prospective purchasers of the 2010 Bonds should consult their tax advisors as to any such possible tax consequences. Except to the extent covered in its legal opinion, Bond Counsel expresses no opinion regarding any such collateral tax consequences.

No assurance can be given that future legislation, including amendments to the Code or interpretations thereof, if enacted into law, or certain litigation or judicial decisions, if upheld, will not contain provisions or produce results which could, directly or indirectly, reduce the benefit of the excludability of interest on the 2010 Bonds from gross income for federal income tax purposes.

The Internal Revenue Service (the "*Service*") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the 2010 Bonds.

Interest paid on tax-exempt obligations, such as the 2010 Bonds, will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of interest with respect to the 2010 Bonds from gross income for federal income tax purposes, such reporting requirement causes the payment of interest with respect to the 2010 Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the Service as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or credit against such beneficial owner's federal income tax liability provided the required information is furnished to the Service.

## **LEGALITY FOR INVESTMENT**

Section 159-140 of the General Statutes of North Carolina provides that the 2010 Bonds are securities in which all public officers and public bodies of the State of North Carolina and its political subdivisions and agencies and all insurance companies, trust companies, investment companies, banks, savings banks, building and loan associations, savings and loan associations, credit unions, pension or retirement funds, other financial institutions engaged in business in the State of North Carolina, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them, and the 2010 Bonds are securities which may properly and legally be deposited with and received by any State of North Carolina or municipal officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds, notes or obligations of the State is now or may hereafter be authorized by law.

## **RATINGS**

Moody's Investors Service ("*Moody's*") and Fitch, Inc. ("*Fitch Ratings*") have assigned ratings of "Aa3" and "AA-" respectively, to the 2010 Bonds. Further explanation of the significance of such ratings may be obtained from Moody's and Fitch Ratings. The Authority has provided to Moody's and Fitch Ratings certain information that has not been included in this Official Statement. The ratings are not a recommendation to buy, sell or hold the 2010 Bonds and should be evaluated independently. There is no assurance that such ratings will not be withdrawn or revised downward by Moody's or Fitch Ratings. Such action may have an adverse effect on the market price of the 2010 Bonds. Neither the Authority nor the Underwriters have undertaken any responsibility after the issuance of the 2010 Bonds to assure maintenance of the ratings or to oppose any such revision or withdrawal.

## **FINANCIAL ADVISOR**

The Authority has retained the services of Jefferies & Company, Inc., as Financial Advisor, in connection with the authorization and delivery of the 2010 Bonds. The Financial Advisor is not contractually obligated to undertake, and has not undertaken to make, an independent verification or to assume the responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement.

## **UNDERWRITING**

The Underwriters have entered into a Bond Purchase Agreement to purchase all of the 2010 Bonds, if any of the 2010 Bonds are to be purchased, at a purchase price equal to the principal amount thereof, plus a net original issue premium of \$27,592,572.70, less an underwriters' discount of \$1,707,442.55. The obligation of the Underwriters to pay for the 2010 Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

The Underwriters may offer and sell the 2010 Bonds to certain dealers (including dealers depositing the 2010 Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the cover page hereof. The public offering prices may be changed from time to time by the Underwriters.

**MISCELLANEOUS**

Members of the LGC staff have participated in the preparation of this Official Statement and other documents related to the issuance of the 2010 Bonds, but the LGC and its staff assume no responsibility for the accuracy or completeness of any representation or statement in this Official Statement other than those made in **Appendix D**.

The LGC and the Authority have each duly authorized the execution and delivery of this Official Statement.

**NORTH CAROLINA LOCAL GOVERNMENT  
COMMISSION**

By: /s/ T. Vance Holloman  
Secretary

**RALEIGH-DURHAM AIRPORT AUTHORITY**

By: /s/ Robert D. Teer, Jr.  
Chairman

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**APPENDIX A**  
**REPORT OF THE AIRPORT CONSULTANT**

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Appendix A

**REPORT OF THE AIRPORT CONSULTANT**

on the proposed issuance of

**AIRPORT REVENUE REFUNDING BONDS  
SERIES 2010A**

Prepared for

Raleigh-Durham Airport Authority  
Raleigh, North Carolina

Prepared by

Jacobs Consultancy  
Burlingame, California

July 26, 2010

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July 26, 2010

Mr. John C. Brantley  
Airport Director  
Raleigh-Durham Airport Authority  
Raleigh-Durham International Airport  
1000 Trade Drive  
Raleigh, North Carolina 27623-0001

**Re: Report of the Airport Consultant on behalf of the Raleigh-Durham Airport Authority concerning the Issuance of Airport Revenue Refunding Bonds, Series 2010A**

Dear Mr. Brantley:

We are pleased to submit this Report of the Airport Consultant (Report) on certain aspects of the proposed issuance of Airport Revenue Refunding Bonds, Series 2010A (the 2010A Bonds) by the Raleigh-Durham Airport Authority (the Authority). The Report presents forecasts of passengers enplaning at Raleigh-Durham International Airport (the Airport or RDU) and an evaluation of the Authority's ability to generate Net Revenues\* sufficient to satisfy the Rate Covenant under the Master Trust Indenture, as amended. The forecast covers the fiscal year ending March 31, 2011 (FY 2011) through FY 2016. This letter and the accompanying attachment and financial exhibits constitute our Report.

The Airport is owned and operated by the Authority. The Authority is a public entity of the State of North Carolina (the State). The Authority was created and empowered by Chapter 168 of the *State of North Carolina Public-Local Laws*, enacted by the General Assembly of North Carolina in March 1939, enabling the cities of Raleigh and Durham and the counties of Wake and Durham to jointly establish, operate, maintain, and develop the Airport and to appoint members to its governing board.

Before the Authority issues any form of debt, it must obtain approval from the Local Government Commission (LGC), a division of the North Carolina Department of the State Treasurer, which oversees bond issuances by governmental units in the State.

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\*Capitalized terms have the same meaning as defined in the Indenture (as defined on page A-3), and the Preliminary Official Statement to which this Report is attached, except as otherwise defined herein.

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## **PLAN OF REFUNDING**

The Authority intends to issue the fixed rate 2010A Bonds in the par amount of approximately \$238,785,000 to refund the Variable Rate Airport Revenue Refunding Bonds, Series 2008A and Series 2008B (Series 2008A/B Bonds), outstanding in the aggregate principal amount of \$216,870,000. In connection with the refunding, the Authority intends to terminate the related outstanding interest rate exchange agreements (swaps), which have a notional amount of \$216,872,500. Jefferies & Company, Inc., the Authority's financial advisor, provided the estimated plan of refunding on the basis of certain assumptions, including: (1) an estimated swap termination amount of \$23,435,000 and (2) an all-in interest rate cost of 4.55% for the 2010A Bonds, both of which are subject to market conditions at the time of pricing.

Information contained in this Report related to the Plan of Refunding for the Series 2008A/B Bonds is preliminary and subject to change. Depending on market conditions on or before the sale date for the 2010A Bonds, it is possible that the Authority may decide to only redeem a portion of the 2008A/B Bonds. See the "Plan of Refunding" within the Official Statement to which this Report is attached.

The Authority intends, but is not obligated, to use its own available funds to redeem all of the outstanding 2001B Bonds in the aggregate principal amount of \$10,395,000 (plus a 1% premium thereon) on May 1, 2011. The Authority will also consider, depending on market conditions at the time, refunding all or a portion of the 2001A Bonds in order to achieve debt service savings. For the purposes of this Report the redemption of the 2001B Bonds is assumed, but the refunding for savings of the 2001A Bonds is not assumed.

## **CAPITAL PROGRAM**

The Authority has developed a multiyear Capital Improvement Program (CIP) for FY 2011-FY 2016. The CIP includes \$209 million of expenditures over the multiyear period. Completion of Terminal 2 represents the largest project in the CIP, with \$89 million of expenditures remaining. The Terminal 1 project and associated roadway improvements represent the next largest project in the CIP, with \$63 million budget.

The CIP represents the Authority's plan for significant capital improvements expected to be undertaken through FY 2016. The Authority intends to fund the CIP through a combination of internally generated cash flow, passenger facility charge (PFC) revenues, Airport Improvement Program (AIP) grants-in-aid, State grants, and existing Airport Revenue Bond (Bond) proceeds. Based on information currently available, the Authority does not plan to issue additional Bonds during the forecast period.

The Authority reassesses its capital needs at least annually and will modify the CIP as necessary to accommodate security needs, fulfill management's financial performance targets (including airline cost per enplaned passenger, unrestricted cash on hand, and debt service coverage), and other factors, which could result in increases or decreases to

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the CIP, or extending the schedule to complete certain projects. The Authority has included projects during the CIP planning period that may or may not proceed during the period depending upon demand, availability of funding, and other considerations (Demand Driven Projects). Such Demand Driven Projects are outside the scope of the CIP and include a consolidated rental car facility (CRCF) and related roadway infrastructure improvements, which together total \$110 million. Construction of the CRCF and related roadway improvements would not be initiated until FY 2016 at the earliest, and is expected to be funded primarily by bonds supported by rental car customer facility charges (CFC Bonds) and Authority funds.

Planned Authority funding, debt service, Maintenance and Operation Expenses (M&O Expenses), and revenues for CIP projects are included in the financial forecasts accompanying this Report. Demand Driven Projects are not considered in the financial forecasts accompanying this Report.

#### **MASTER TRUST INDENTURE**

The proposed 2010A Bonds are to be issued under the terms and conditions of the Master Trust Indenture executed by the Authority in 2001, as amended, authorizing the issuance of Bonds and the Eleventh Supplemental Indenture authorizing the issuance of the 2010A Bonds (collectively, the Indenture).

Bonds issued under the Indenture are payable from and secured by a pledge of and lien on the Net Revenues. The Indenture defines Net Revenues as Revenues less M&O Expenses. Under the Indenture, PFCs are specifically excluded from Revenues, unless designated as Revenues under the terms of a Supplemental Indenture or pursuant to a resolution of the Authority. The Authority has not designated PFCs as Revenues, although in certain Supplemental Indentures, the Authority has irrevocably committed PFCs to pay a portion of the debt service on Bonds. The amount of such irrevocable commitments is not included in the calculation of Aggregate Annual Debt Service.

In Section 5.04 of the Master Trust Indenture (referred to as the Rate Covenant), the Authority covenants to establish, fix, prescribe, and collect rates, tolls, fees, rentals, and charges in connection with the Airport so that Net Revenues in each Fiscal Year (1) will at least equal the amount necessary in that Fiscal Year to (a) pay debt service on all parity Bonds, (b) make required deposits to any Debt Service Reserve Fund under the Master Trust Indenture or any Supplemental Indenture, (c) pay any reimbursement owed to any issuer of a credit facility or a standby purchase agreement for any Bonds, and (d) pay debt service and fund any required reserve fund payments on any Subordinated Obligations, and (2) together with any Transfer, will equal at least 125% of Aggregate Annual Debt Service on Outstanding Bonds. For purposes of the Rate Covenant, the amount of any Transfer taken into account may not exceed 25% of Aggregate Annual Debt Service on Outstanding Bonds in such Fiscal Year.

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To issue additional Bonds other than refunding Bonds, under Section 2.11(a) of the Master Trust Indenture (the “Additional Bonds Test”), the Authority must provide the Trustee, among other things, evidence indicating that the Authority is in compliance with the Rate Covenant and either:

a Consultant retained by the Authority has provided to the Trustee a certificate stating that, based upon reasonable assumptions, projected Net Revenues will be sufficient to satisfy the rate covenant set forth in Section 5.04 (disregarding any Bonds or Subordinated Obligations that have been paid or discharged or will be paid or discharged immediately after the issuance of the additional Bonds proposed to be issued) for each of the next five full Fiscal Years following issuance of the additional Bonds, or each full Fiscal Year from issuance of the additional Bonds through two full Fiscal Years following completion of the Projects financed by the additional Bonds proposed to be issued, whichever is later; provided, that if Capitalized Interest on any Bonds and proposed additional Bonds is to be applied in the last Fiscal Year of the period described in this sentence, the Consultant shall extend the test through the first full Fiscal Year for which there is no longer Capitalized interest, or

an Authorized Authority Representative has provided to the Trustee a certificate stating that Net Revenues for the most recent Fiscal Year preceding the date of issuance of the proposed Series of Bonds were no less than 125% of Maximum Aggregate Annual Debt Service on all Bonds that would be Outstanding after the issuance of the additional Bonds proposed to be issued.

To issue refunding Bonds, the Authority must either meet the requirements set forth in the “Additional Bonds Test” or, under Section 2.11(b) of the Master Trust Indenture (the “Refunding Bonds Test”), demonstrate that the Aggregate Annual Debt Service in each Fiscal Year will be lower as a result of the refunding. The Authority has elected to use a Certificate of the Consultant, which will be provided to the Trustee as a separate document, to meet the Additional Bonds Test for the issuance of the proposed 2010A Bonds.

The Indenture prescribes the application of Revenues to the various funds and accounts established under the Indenture (described in the section of the attachment to this Report entitled “Application of Revenues”).

### **PASSENGER FACILITY CHARGES**

The Authority currently collects a \$4.50 PFC per enplaning passenger under applications approved by the Federal Aviation Administration (FAA). The Authority has \$772.7 million in approved PFC applications and amendments, primarily related to the Terminal 2 project (including bond capital, interest, and financing approval).

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Exhibit 4.0 presents historical and forecast PFC collections, interest earnings, and the application of PFC revenues to pay debt service and eligible project costs. As shown on the exhibit:

- The Authority had \$70.8 million of PFCs on hand as of March 31, 2010.
- During the forecast period, 94% of passengers are forecast to be eligible to pay a PFC. The estimated percentage of eligible passengers paying a PFC has been at or above 94% in recent years (in FY 2009, the ratio was 94.4%).
- The Seventh and Eighth Supplemental Indentures irrevocably committed PFCs, to the extent collected in each fiscal year, to pay debt service. In FY 2011 through FY 2014, the Authority expects to collect less PFCs than the specified level of irrevocable commitment. However, the Authority expects to use PFCs from prior Fiscal Years to fund the specified level of irrevocable commitments during the period.
- In FY 2015 and FY 2016, the Authority expects to collect more PFCs than have been irrevocably committed in the Eighth and proposed Eleventh Supplemental Indentures. In addition to amounts irrevocably committed, the Authority expects to apply annual collections and, if necessary, available PFCs from prior Fiscal Years to reduce Aggregate Annual Debt Service for the purposes of calculating compliance with the Rate Covenant.
- Finally, in FY2011 and FY2012 the Authority intends to apply \$47 million in pay-as-you-go PFCs (from the accumulated balance of \$70.8 million noted above) to complete portions of the Terminal 2 project. There are no other projects in the CIP for which PFCs are a funding source.

#### **AIRLINES OPERATING AT THE AIRPORT**

As of July 2010, the Airport was served by 25 scheduled passenger airlines, which provided 175 daily departing flights on average to 27 nonstop markets. Passenger market shares for FY 2009 were primarily divided among Southwest (22%), American and its affiliated airlines (21%), US Airways and its affiliated airlines (17%), and Delta and its affiliated airlines (16%).

#### **AIRLINE RATES AND CHARGES**

All of the scheduled airlines operating at the Airport, with the exception of American Airlines, have entered into month-to-month letter operating agreements (the Operating Agreements) with the Authority providing for the operation of a scheduled passenger airline business at the Airport and, for most of the airlines, the leasing of space in Terminal 1 or 2. These month-to-month Operating Agreements govern the rights and responsibilities of the airlines, including a responsibility to pay rentals, fees, and charges adopted by the Authority through its Budget Ordinance. The current lease

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with American Airlines provides, among other things, that: (1) American is subject to the same landing fee and terminal rental rates as all other airlines, as adopted by the Authority through its annual Budget Ordinance, (2) Leased Premises are to be rented by American in Terminal 2 for its preferential use, (3) the Authority has the right to relocate the Leased Premises during the term of the lease to allow for the renovation, expansion, and redevelopment of Terminal 2, (4) a rent credit equal to \$2,162,500 as of March 31, 2010 (as adjusted by changes to the Authority's terminal rental rate structure and American Airlines' Leased Premises, if any), is to be applied at the rate of \$25,000 per month, and (5) the term of the lease is to be 15 years, expiring on June 15, 2017. In addition, American is entitled to flow up to 38 million gallons of jet fuel through the fuel farm annually without incurring uplift charges through the lease term.

Prior to the beginning of each Fiscal Year, the Authority adopts a Budget Ordinance that provides the basis for the rentals, fees, and charges to be paid by the airlines and other Airport tenants, and which includes the Authority's detailed revenue and operating expense budget for the Fiscal Year. The Authority also annually adopts a capital Budget Ordinance for all capital projects.

Under its existing rate-making policy, the Authority calculates landing fee rates according to a cost center compensatory methodology. Airline rental rates for space in Terminals 1 and 2 are established taking into consideration (1) the costs incurred by the Authority in operating and maintaining Terminals 1 and 2 and (2) nonairline revenues generated in the terminals. Historically, the Authority has revised terminal rental rates infrequently to provide a degree of rate stability for the airlines.\*

Airline equipment charges are related to common equipment and systems in Terminal 2, including passenger loading bridges, the flight and baggage information system, resource management center, and baggage claim. Charges are determined using various methodologies to recover the capital and maintenance costs of the equipment and systems.

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\*The last terminal rental rate increase was 10% per class implemented on April 1, 2006 (FY 2007). Prior to that, the last terminal rate increase was implemented in FY 2002.



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As shown in the table below, the cost per enplaned passenger is forecast to remain below \$6.00 throughout the forecast period.

<b>COST PER ENPLANED PASSENGER FORECAST</b>						
Raleigh-Durham International Airport						
(for Fiscal Years ending March 31; in millions except cost per enplaned passenger)						
The forecasts presented in this table were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.						
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total airline costs	\$ 26,266	\$ 27,197	\$ 26,976	\$ 28,690	\$ 29,462	\$ 30,642
Enplaned passengers	4,575	4,667	4,807	4,951	5,075	5,189
Cost per enplaned passenger	\$ 5.74	\$ 5.83	\$ 5.61	\$ 5.79	\$ 5.81	\$ 5.91

## SCOPE OF REPORT

The purpose of this Report is to evaluate the ability of the Authority to generate Net Revenues sufficient to satisfy the requirements of the Rate Covenant, taking into account Aggregate Annual Debt Service on the Outstanding Bonds to be in effect upon the issuance of the 2010A Bonds and the defeasance in FY2012 of the 2001B Bonds using cash of the Authority. The evaluation, which considers the effects of the CIP but not the Demand Driven Projects, covers the forecast period through FY 2016.

The section of this Report entitled "Airline Traffic Analysis" describes the existing facilities at the Airport, the region served by the Airport, the economic base for air transportation at the Airport, trends in Airport activity, and forecasts of enplaned passengers and landed weight, including the assumptions supporting the forecasts. The section of this Report entitled "Financial Analysis" provides a discussion of the legal and contractual framework governing the financial operation of the Authority, the CIP, revenues and expenses, a reconciliation of historical operating results, the application of Revenues under the Indenture, and debt service coverage, including compliance with the Rate Covenant.

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In preparing this Report, we analyzed:

- Future airline traffic demand at the Airport, giving consideration to the demographic and economic characteristics of RDU's service region; historical trends in airline traffic; recent airline service developments and airfares; and other key factors that may affect future airline traffic.
- Estimated Aggregate Annual Debt Service for the proposed 2010A Bonds, provided by the Authority's Financial Advisor, Jefferies & Company, Inc.
- Historical relationships among Revenues, M&O Expenses, airline traffic, and other factors that may affect future Revenues and M&O Expenses.
- The Authority's policies and contractual agreements relating to use of the Airport; calculation and adjustment of airline rentals, fees, and charges; operation of public automobile parking and other concession and service privileges; and leasing of buildings and grounds.
- The Authority's intended use of PFCs during the forecast period for funding portions of the Terminal 2 project on a pay-as-you-go basis and as a source for repayment of Bonds, including the proposed 2010A Bonds.

We also identified key factors upon which the future financial results of the Authority may depend and, together with the Authority, formulated assumptions about those factors. On the basis of those assumptions, we assembled the financial forecasts presented in the exhibits provided at the end of this Report and summarized in this letter.

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**FORECAST DEBT SERVICE COVERAGE**

The following table summarizes the forecast of Net Revenues, Transfer, Annual Debt Service, PFCs applied to Annual Debt Service, and debt service coverage (with and without the Transfer). The forecast period is FY 2011 through FY 2016; compliance with the Rate Covenant is indicated in each Fiscal Year of the forecast period.

<b>FORECAST DEBT SERVICE COVERAGE</b>							
Raleigh-Durham Airport Authority							
(for Fiscal Years ending March 31; in thousands except coverage ratios)							
<p>The forecasts presented in this table were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.</p>							
		<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Revenues		\$ 88,346	\$ 90,646	\$ 97,009	\$ 100,839	\$ 103,585	\$ 106,740
Less: M&O Expenses		<u>(46,386)</u>	<u>(47,778)</u>	<u>(49,211)</u>	<u>(51,672)</u>	<u>(54,255)</u>	<u>(56,968)</u>
Net Revenues	[A]	\$ 41,960	\$ 42,869	\$ 47,798	\$ 49,167	\$ 49,330	\$ 49,772
Transfer	[B = F * 25%]	<u>5,396</u>	<u>6,987</u>	<u>6,761</u>	<u>6,586</u>	<u>6,588</u>	<u>6,592</u>
Net Revenues + Transfer	[C]	\$ 47,355	\$ 49,856	\$ 54,559	\$ 55,754	\$ 55,918	\$ 56,364
Annual Debt Service	[D]	\$ 44,024	\$ 50,895	\$ 50,679	\$ 50,692	\$ 50,699	\$ 50,715
Less: PFCs Applied	[E]	<u>(22,442)</u>	<u>(22,946)</u>	<u>(23,634)</u>	<u>(24,346)</u>	<u>(24,346)</u>	<u>(24,346)</u>
Aggregate Annual Debt Service	[F = D + E]	\$ 21,582	\$ 27,949	\$ 27,045	\$ 26,346	\$ 26,353	\$ 26,369
Debt Service Coverage							
Excluding Transfer	[A / F]	1.94	1.53	1.77	1.87	1.87	1.89
Including Transfer	[C / F]	2.19	1.78	2.02	2.12	2.12	2.14

**UNDERLYING ASSUMPTIONS**

The forecasts are based on information and assumptions that were provided by or reviewed with and agreed to by Authority management. The forecasts reflect management’s expected course of action during the forecast period and, in Authority management’s judgment, present fairly the expected financial results of the Authority.

The key factors and assumptions that are significant to the forecasts are set forth in the attachment, “Background, Assumptions, and Rationale for the Financial Forecasts.” The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the assumptions underlying the financial forecasts provide a reasonable basis for the forecasts. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances

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may occur. Therefore, there will be differences between the forecast and actual results, and those differences may be material. Neither Jacobs Consultancy nor any person acting on our behalf makes any warranty, expressed or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions disclosed in this Report. We have no responsibility to update this Report for events and circumstances occurring after the date of the Report.

\* \* \* \* \*

We appreciate the opportunity to serve as the Airport Consultant in connection with this proposed financing.

Respectfully submitted,  
  
JACOBS CONSULTANCY

Attachment

BACKGROUND, ASSUMPTIONS, AND  
RATIONALE FOR THE FINANCIAL FORECASTS

Raleigh-Durham Airport Authority

Raleigh, North Carolina

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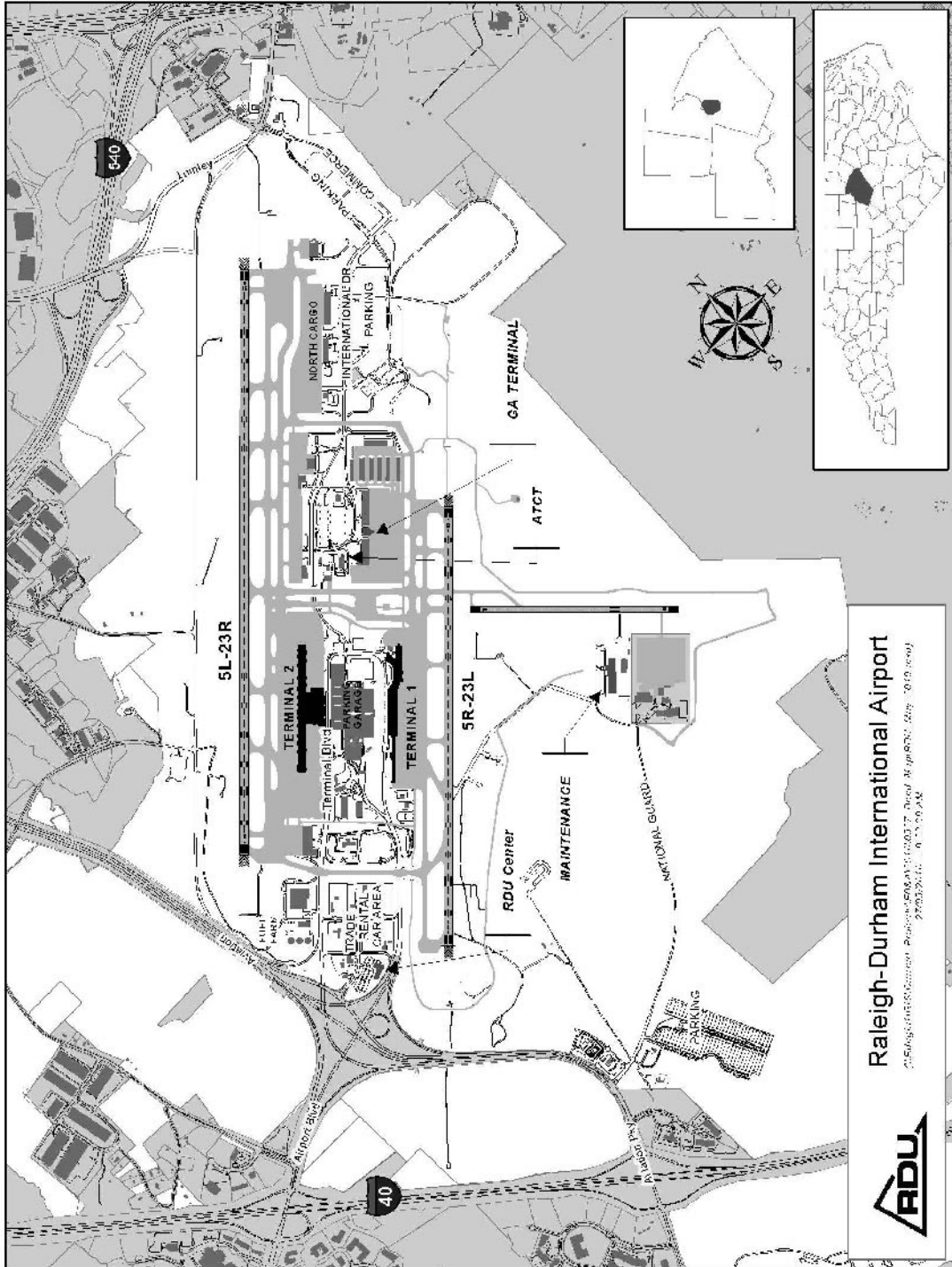
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Figure 1

**RALEIGH-DURHAM INTERNATIONAL AIRPORT LAYOUT**

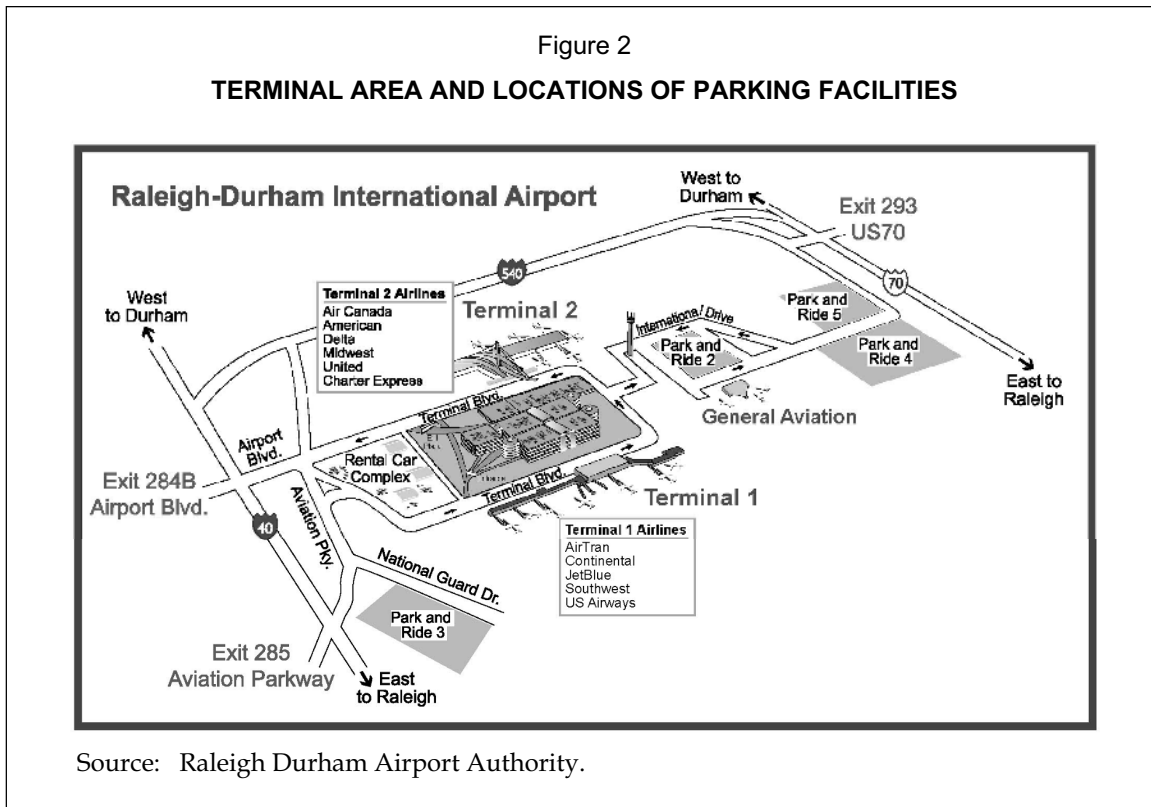


## AIRLINE TRAFFIC ANALYSIS

### AIRPORT FACILITIES

Raleigh-Durham International Airport (the Airport or RDU) is owned and operated by the Raleigh-Durham Airport Authority (the Authority). The Airport is located midway between the cities of Raleigh and Durham, primarily in Wake County, approximately 11 miles southeast of Durham and 11 miles northwest of Raleigh. The Airport (see Figure 1 on previous page) encompasses approximately 5,100 acres, of which approximately 2,075 acres are developed.

The Airport has two terminals - Terminal 1 (previously called Terminal A), which consists of approximately 296,000 square feet of floor space and provides 23 contact gates served by loading bridges, and Terminal 2 (replacement for Terminal C), which consists of approximately 550,000 square feet of floor space, and provides 19 contact gates. Terminal 2 is being expanded to a total of approximately 900,000 square feet, with a total of 36 gates. Figure 2 shows the layout of the terminal area and the locations of the parking facilities.



Terminal 1, placed into service in January 1982, serves Air Tran Airways, Continental Airlines, Continental Express, JetBlue Airways, Southwest Airlines,

US Airways, and US Airways Express. All 23 contact gates can accommodate B-737/A320 aircraft and 2 gates can accommodate B-757 aircraft.

The first phase of Terminal 2 was placed into service on October 26, 2008. Terminal 2 accommodates Air Canada, American Airlines, Delta Air Lines, Midwest Airlines, United Airlines, and Charter Express. Upon completion of the second and final phase in early 2011, Continental Airlines and US Airways are scheduled to relocate from Terminal 1 to Terminal 2.

The Airport has two primary runways and one secondary runway. Runway 5L-23R is 10,000 feet long and 150 feet wide. Runway 5R-23L is 7,500 feet long and 150 feet wide. These parallel runways have northeast/southwest alignments and are able to accommodate simultaneous take-offs and landings. The parallel runways are equipped with high-intensity runway lighting and instrument landing systems that permit operations under almost all weather conditions. Secondary Runway 14-32 is 3,550 feet long and 100 feet wide. Runway 14-32 is not equipped to accommodate commercial jet aircraft.

#### **AIRPORT SERVICE REGION**

The Raleigh-Durham-Cary Combined Statistical Area (CSA) provides the primary economic base for air transportation at the Airport. The CSA is comprised of Chatham, Durham, Franklin, Johnston, Harnett, Orange, Person, and Wake counties. The eight county CSA is part of a larger 13 county area identified by the State as the Research Triangle Region.

The limits to an airport's service region are generally determined by the driving distance and travel time to other nearby commercial service airports, as well as the availability, price, and quality of airline service at those other airports. The two nearby major air service airports are (1) Piedmont Triad International Airport (GSO), serving the Greensboro, Winston-Salem, High Point area, located approximately 79 miles west of RDU and (2) Charlotte Douglas International Airport (CLT), located approximately 159 miles southwest of RDU. Because of the greater availability of low airfares at RDU relative to CLT and GSO, the frequency of service offered at RDU, and the easternmost location within the State as compared to CLT and GSO, the Airport's service region extends to a 2-hour drive from the Airport.

## DEMOGRAPHIC AND ECONOMIC PROFILE

The population of the Raleigh-Durham-Cary CSA in 2009 was approximately 1,743,000. Based on 2009 population estimates by the U.S. Department of Commerce, Bureau of the Census, North Carolina was the 10th largest state in the nation, and ranked 8th in percentage population growth between 2000 and 2009. The Research Triangle, a 3,480-square-mile geographic region anchored by the cities of Raleigh, Durham, and Chapel Hill, has been ranked among the nation's best places to live, work, raise a family, and get an education because of its strong and diverse economy, skilled workforce, and above average educational facilities.\* The Research Triangle Regional Partnership (RTRP) is a public-private partnership of economic development agencies that works collaboratively with the North Carolina Department of Commerce to market the 13-county Research Triangle Region of North Carolina for the economic benefit of its communities.

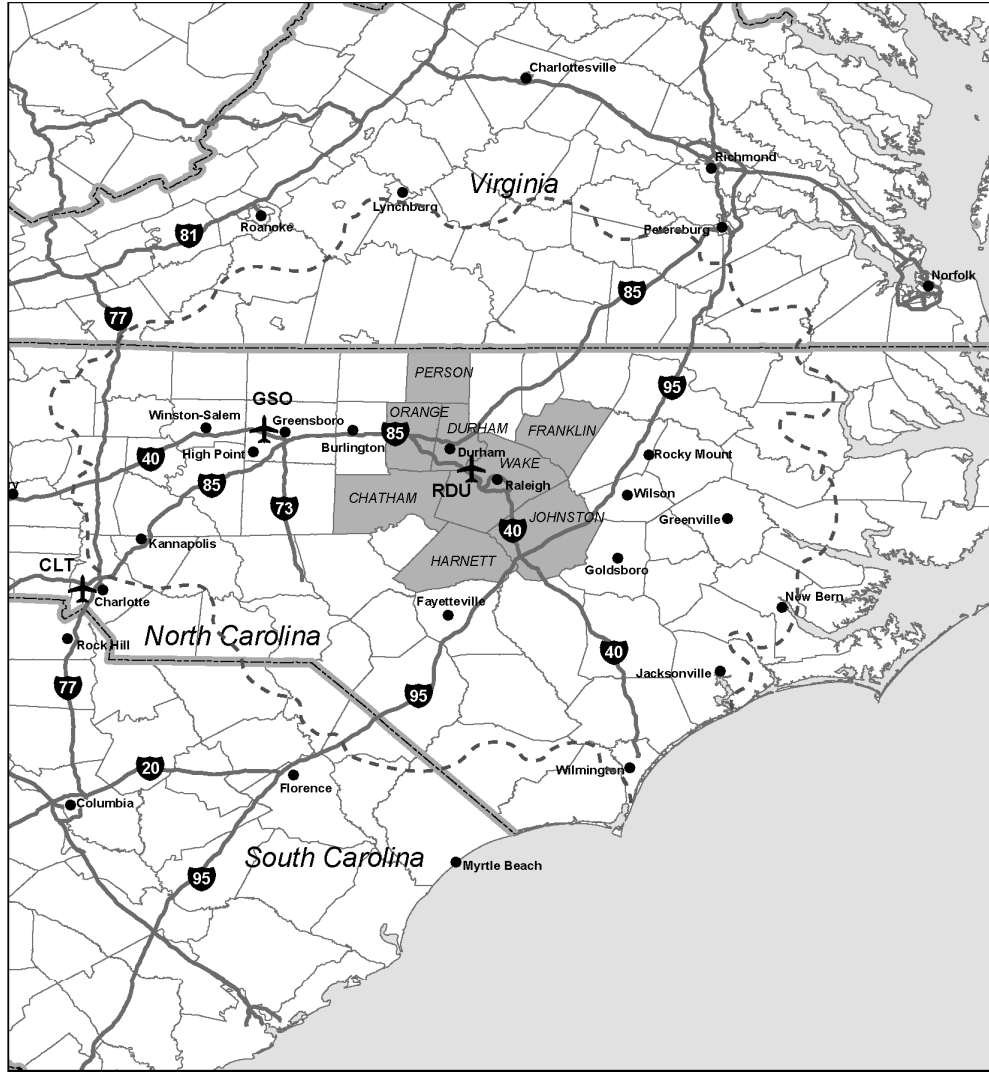
Passenger traffic at RDU is affected by the region's economic profile. For example, the amount and type of commerce in the region may affect the level of business travel to and from RDU, or the amount of per capita personal income in the region may affect the level of discretionary travel from RDU. The region's diverse and fundamentally strong economic profile provides the basis for air passenger and cargo service demand.

The CSA's economy traditionally has been recognized for its strength and stability. The area has a history of successful partnerships among businesses, governmental entities, and universities.

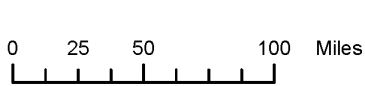
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\*#3 (Raleigh, NC) and #23 (Durham, NC) Best Places for Business and Careers, *Forbes*, April 2010; #15 Raleigh, NC, Best Cities for Business, *MarketWatch*, December 2009; #8 Durham MSA Best Educated City, *Forbes*, November 2008.

Figure 3  
**RALEIGH-DURHAM-CARY COMBINED STATISTICAL AREA**



-  Airports
-  Interstate Highways
-  CSA
-  Surrounding Counties
-  Approx. 2 Hr. Drive Time to/from RDU



From: Raleigh-Durham Int'l Airport (RDU)	Air Miles	Road Miles
To: Piedmont Triad Int'l Airport (GSO)	66	79
To: Charlotte Douglas Int'l Airport (CLT)	130	159

Sources: Raleigh-Durham Airport Authority and Jacobs Consultancy.

## Demographic Trends

**Population.** Local population is one of the primary determinants of airline traffic demand at an airport. Table 1 presents the population for the United States, the State, and the CSA. Population has historically grown more rapidly in the CSA and the State than the U.S., and the population of the CSA has grown more rapidly than the State. In 2009, the population of the CSA accounted for 18.6% of the total population of the State.

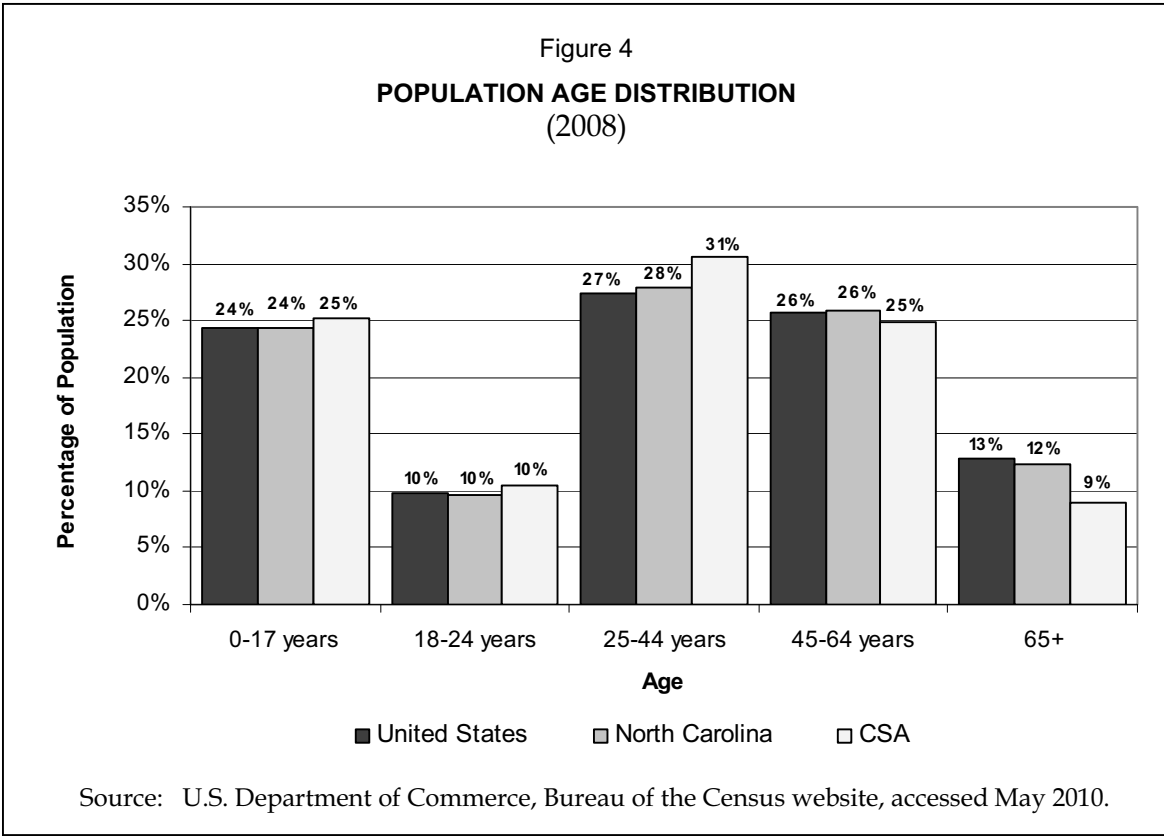
Calendar Year	United States	North Carolina	CSA	CSA as % of United States	CSA as % of North Carolina
1970	203,302	5,084	613	0.3%	12.1%
1980	226,542	5,880	754	0.3	12.8
1990	248,710	6,629	954	0.4	14.4
2000	281,422	8,049	1,315	0.5	16.3
2008	304,375	9,247	1,693	0.6	18.3
2009	307,007	9,381	1,743	0.6	18.6
<b>CAGR</b>					
1970-2009	1.1%	1.6%	2.7%		
1970-1980	1.1	1.5	2.1		
1980-1990	0.9	1.2	2.4		
1990-2000	1.2	2.0	3.3		
2000-2009	1.0	1.7	3.2		

CAGR=Compound annual growth rate.

Source: U.S. Department of Commerce, Bureau of the Census website, accessed May 2010.

**Age Distribution.** Figure 4 presents the population age distribution in 2008 for the CSA, the State, and the U.S. As shown, the CSA has a younger population than the U.S. or the State. The median age in the CSA is 34.7, which is the 23rd lowest of the 126 CSAs in the nation. One factor influencing the relatively low median age in the CSA is the large number of universities and colleges in the immediate area. High quality educational institutions with a national draw can generate air travel demand to and from their home airports by students and families. Additionally, college graduates, from the CSA and elsewhere, entering the Research Triangle workforce will have greater propensity for business travel, as well as greater discretionary income to support leisure air travel.





**Personal Income.** Trends in the growth and distribution of personal income, in aggregate and per capita, are determining factors in the underlying demand for air transportation. Income growth results, in part, from the expansion of economic activity, which is attributed to, among other things, increased output by existing businesses and the creation of new jobs by new businesses. Also, the income generated by increased economic activity leads to greater levels of disposable income for individuals, which, in turn, positively affects the demand for air travel. Total personal income is included in this discussion because it is a measure of the local area economy relative to the State and national economies, while per capita personal income is discussed because it is an indicator of the disposable income of individuals.

As shown in Table 2, total personal income increased at a greater rate in the CSA than in the State and the United States between 1970 and 2008 (latest data available for the CSA as of the date of this Report). Additionally, personal income for the CSA as a percentage of State personal income steadily increased between 1970 and 2008. This pattern of growth mirrors the trend of growth in the CSA's population as a percentage of the State's population over the same time period, as shown in Table 1.

Two well-known research parks—Research Triangle Park and North Carolina State University’s Centennial Campus—and three nationally renowned research universities—Duke University, North Carolina State University, and the University of North Carolina at Chapel Hill—contribute to the economic stability of the CSA.

As shown in Table 2, per capita personal income has historically been higher in the CSA than in the State. Additionally, while per capita personal income in the CSA lagged that in the nation in 1970 and 1980, it began to exceed U.S. averages in 1985 and continued to do so through 2007. However in 2008, the latest year for which CSA data are available, per capita personal income for the CSA was 2.3% lower than the average for the nation, but still 17.5% higher than the average for the State. As a result of the recent national economic recession, per capita personal income in the State declined by 2.3% from 2008 to 2009, as compared to a 2.6% decline for the U.S.

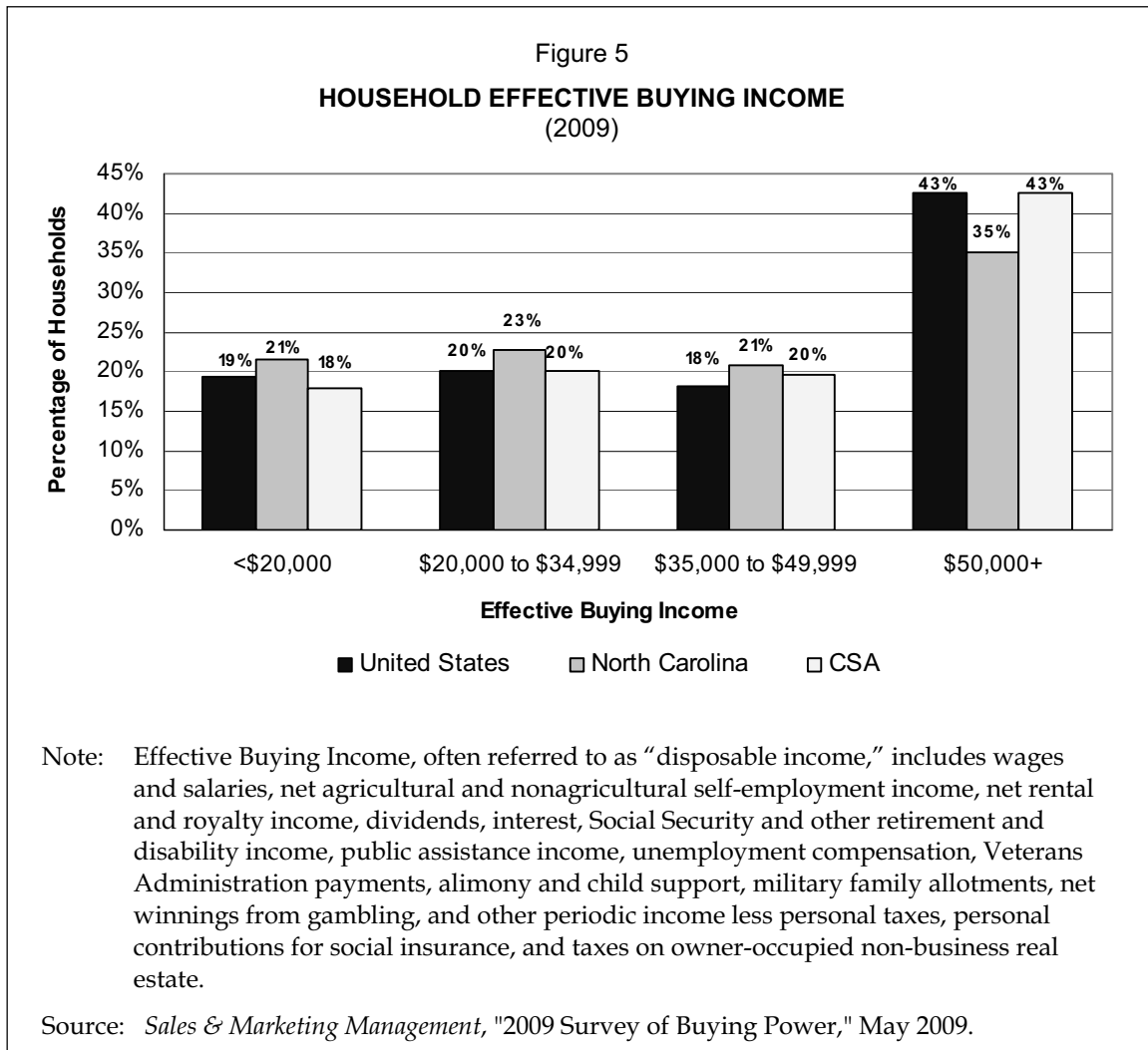
**Table 2**  
**PERSONAL INCOME**

Year	Total personal income (billions)					Per capita personal income				
	United States	North Carolina	CSA	CSA as	CSA as	United States	North Carolina	CSA	CSA as	CSA as
				% of United States	% of North Carolina				% of United States	% of North Carolina
1970	\$ 832.0	\$ 17.0	\$ 2.2	0.3%	13.1%	\$ 4,085	\$ 3,267	\$ 3,538	86.6%	108.3%
1980	2,298.0	48.0	6.8	0.3	14.2	10,114	8,195	9,038	89.4	110.3
1990	4,862.0	115.0	19.2	0.4	16.7	19,477	17,246	19,887	102.1	115.3
2000	8,422.0	219.0	42.0	0.5	19.2	29,845	27,068	31,808	106.6	117.5
2008	12,226.0	326.0	66.4	0.5	20.4	40,166	35,249	39,239	97.7	117.5
2009	12,016.0	323.0	n.a.	n.c.	n.c.	39,138	34,453	n.a.	n.c.	n.c.
<b>Compound annual growth rate</b>										
1970-2008	7.3%	8.1%	9.4%			6.2%	6.5%	6.5%		
1970-1980	10.7	11.2	12.1			9.5	9.6	9.8		
1980-1990	7.8	9.0	10.9			6.8	7.7	8.2		
1990-2000	5.6	6.6	8.2			4.4	4.6	4.8		
2000-2008	4.8	5.1	5.9			3.8	3.4	2.7		

n.a. = not available  
n.c. = not calculated

Source: U.S. Department of Commerce, Bureau of Economic Analysis, accessed May 2010.

Figure 5 presents the distribution of effective buying income (EBI) by household in the CSA, the State, and the nation. The distribution of income in the CSA demonstrates the area's wealth compared to that of the nation and the State. More than 62% of households in the CSA had EBIs of at least \$35,000 in 2009. In comparison, lower percentages of U.S. households (61%) and State households (56%) had EBIs of at least \$35,000.



## Economic Trends

**Employment.** The economy of the CSA expanded to create employment opportunities for its growing population at a rate that outpaced population growth throughout the 1970s, 1980s, and 1990s. From 2008 to 2009, however, while population continued to grow, employment levels declined 3.5%, which equates to a loss of approximately 28,600 jobs.

Over the past nearly four decades, nonagricultural employment in the CSA increased as a proportion of total nonagricultural employment in both the State and the U.S. (see Table 3).

Year	United States	North Carolina	CSA (a)	CSA as % of North Carolina	CSA as % of United States
1970	71,006.0	1,782.8	167.0	0.2%	9.4%
1980	90,528.0	2,380.1	274.0	0.3	11.5
1990	109,487.0	3,117.6	508.8	0.5	16.3
2000	131,785.0	3,933.7	702.0	0.5	17.8
2008	136,790.0	4,135.1	812.5	0.6	19.7
2009	130,920.0	3,915.7	783.9	0.6	20.0
	<u>Compound annual growth rate</u>				
1970-1980	2.5%	2.9%	5.1%		
1980-1990	1.9	2.7	6.4		
1990-2000	1.9	2.4	3.3		
2000-2009	(0.1)	(0.1)	1.2		

(a) The CSA includes Chatham, Durham, Franklin, Johnston, Orange, Person, and Wake counties in 1990 and subsequent years. The Bureau of Labor Statistics (BLS) does not provide nonagricultural employment data for Harnett County. Data for 1970 and 1980 do not include Harnett or Person county.

Source: U.S. Department of Labor, Bureau of Labor Statistics, May 2010.

Expansion of the CSA economy is reflected, in part, by its unemployment rate, which remained significantly below rates of the U.S. and the State over the past decade. Table 4 presents historical data on unemployment rates for the U.S., the State, and the CSA.

The impact of the recent economic recession is clearly indicated by the rapid increase in unemployment rates from 2007 to 2009. The CSA has typically recorded a lower unemployment rate than the State and the U.S., and while this trend continued during the recent economic recession, the unemployment in the CSA more than doubled from 3.7% in 2007 to 8.9% year to date in 2010. During the same period, the unemployment rate in the State increased from 4.7% to 11.0%, while the unemployment rate in the U.S. increased from 4.6% to 9.7%.

Year	United States	North Carolina	CSA
1990 (a)	5.6%	4.2%	3.0%
2000	4.0	3.7	2.7
2001 (a)	4.7	5.6	4.3
2002	5.8	6.6	5.7
2003	6.0	6.4	5.4
2004	5.5	5.5	4.4
2005	5.1	5.3	4.2
2006	4.6	4.7	3.8
2007	4.6	4.7	3.7
2008 (a)	5.8	6.2	4.9
2009 (a)	9.3	10.6	8.5
2010 YTD (b)	9.7	11.0	8.9

Note: (a) Indicates national recession during all or part of the year, according to the National Bureau of Economic Research (NBER).  
(b) 2010 YTD period is January through April.

Source: U.S. Department of Labor, Bureau of Labor Statistics, May 2010.

**Employment by Sector.** Table 5 presents nonagricultural employment by industry for the U.S., the State, and the CSA. Expansion of the CSA economy is reflected, in part, by employment growth, which increased an average of 1.3% per year between 2000 and 2009, compared to a decrease of 0.1% in the U.S. and flat growth in the State.

The CSA economy is principally related to government, trade, transportation, utilities, and professional and business services. The fastest growing sectors in the CSA – education and health services, leisure and hospitality, and financial activities – together accounted for 29.1% of total nonagricultural employment in the CSA in 2009. Manufacturing accounted for 8.3% of local nonagricultural employment in the CSA in 2009, compared to 11.4% in the State and 9.1% in the U.S. Manufacturing employment in the CSA is concentrated in pharmaceutical and medical manufacturing and computers and peripheral products.

The recent unemployment rate increases described earlier did not affect all sectors of nonagricultural employment equally, nor did they impact the CSA, the State, and the U.S. equally. The State experienced a housing and real estate development boom during the early to mid-2000s which ended with the decline in the residential housing markets. This decline created job losses in construction and in related industries that supplied raw materials and finished goods used in construction. For this reason, growth in Natural Resources, Mining, and Construction employment between 2007 and 2009 in the CSA and the State underperformed the U.S.

While employment growth in the State mirrored the U.S. between 2007 and 2009, the CSA outperformed both the State and the U.S. in every other industry over the period (except for Natural Resources, Mining, and Construction – which comprises 4.9% of the CSA's employment). Between 2007 and 2009, employment growth in the CSA occurred in the following industries: Government; Education and Health Services; Leisure and Hospitality; Other Services; Financial Activities; and Information. By comparison, between 2007 and 2009, the State and the U.S. experienced growth in only two industries: Government and Education and Health Services. Both of these grew at lower rates than in the CSA.

**Major Employers.** The largest employers in the Research Triangle Region\* (based on numbers of employees) are presented in Table 6.

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\*The Research Triangle Region incorporates the eight counties in the CSA, as well as Granville, Lee, Moore, Vance, and Warren counties.

**Table 5**  
**NONAGRICULTURAL EMPLOYMENT BY INDUSTRY**

Industry	2009 Employment (thousands)			2009 % of Total		
	United States	North Carolina	CSA (a)	United States	North Carolina	CSA (a)
Government	22,549	716	149	17.2%	18.3%	19.0%
Trade/ Transportation/ Utilities	24,949	720	121	19.1	18.4	15.4
Professional/ Business Services	16,580	464	117	12.7	11.8	14.9
Education and Health Services	19,191	542	117	14.7	13.9	14.9
Manufacturing	11,883	448	65	9.1	11.4	8.3
Leisure and Hospitality	13,102	393	72	10.0	10.0	9.1
Natural Resources, Mining, and Construction	6,737	197	38	5.1	5.0	4.9
Other Services	5,364	165	46	4.1	4.2	5.8
Financial Activities	7,758	202	40	5.9	5.2	5.1
Information	2,807	70	21	2.1	1.8	2.7
<b>TOTAL</b>	<b>130,920</b>	<b>3,916</b>	<b>784</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Industry	CAGR 2000-2009			CAGR 2007-2009		
	United States	North Carolina	CSA (a)	United States	North Carolina	CSA (a)
Government	0.9%	1.7%	2.6%	1.5%	4.1%	5.1%
Trade/ Transportation/ Utilities	(0.6)	(0.5)	0.1	(6.3)	(7.5)	(5.5)
Professional/ Business Services	(0.1)	1.1	0.9	(7.6)	(7.3)	(6.8)
Education and Health Services	2.7	3.9	4.6	4.7	3.8	5.0
Manufacturing	(4.1)	(5.7)	(2.9)	(14.4)	(16.9)	(14.3)
Leisure and Hospitality	1.1	2.1	2.9	(2.4)	(1.6)	3.6
Natural Resources, Mining, and Construction	(1.0)	(2.1)	(1.3)	(19.4)	(24.8)	(24.6)
Other Services	0.4	0.6	2.1	(2.4)	(4.6)	8.6
Financial Activities	0.1	0.9	2.7	(6.5)	(4.5)	1.3
Information	(2.8)	(1.0)	(1.6)	(7.4)	(4.0)	1.0
<b>TOTAL</b>	<b>(0.1%)</b>	<b>0.0%</b>	<b>1.3%</b>	<b>(4.9%)</b>	<b>(5.5%)</b>	<b>(2.4%)</b>

CAGR=Compound annual growth rate.

Note: Columns may not add to totals shown because of rounding.

(a) The CSA includes Chatham, Durham, Franklin, Johnston, Orange, Person, and Wake counties. The Bureau of Labor Statistics does not provide nonagricultural employment data for Harnett County.

Source: U.S. Department of Labor, Bureau of Labor Statistics, May 2010.

Table 6  
**TOP 35 EMPLOYERS IN THE RESEARCH TRIANGLE REGION**

Employer	Employees	Industry
State of North Carolina	79,549	Government
Duke University & Medical Center	31,000	Private university, health/research facilities
University of North Carolina	17,243	Public university and research facilities
Wake County Public School System	16,755	Public education
IBM (a)	11,530	Computer technology
UNC Healthcare System	7,644	Healthcare
North Carolina State University	7,219	Public university
WakeMed Health & Hospitals	6,893	Healthcare
Wal-Mart Stores, Inc. (a)	6,786	Retail
GlaxoSmithKline PLC	5,800	Pharmaceuticals
Durham Public School System	5,489	Public education
Food Lion LLC	5,142	Grocery
Cisco Systems, Inc.	4,600	Communications
Securitas Security Services USA, Inc.	4,500	Industrial security
Rex Healthcare	4,400	Healthcare
City of Raleigh	4,376	Government
SAS Institute, Inc.	4,206	Computer software
Blue Cross & Blue Shield of NC	4,033	Health insurance
Progress Energy	3,600	Utility and energy
Wake County	3,500	Government
FirstHealth Moore Regional Hospital	3,200	Healthcare
RTI International	2,800	Nonprofit research organization
Verizon (a)	2,710	Communications
Fidelity Investments	2,500	Financial services
Harris Teeter, Inc.	2,428	Grocery
Lowe's Companies (a)	2,375	Retail
Durham City	2,336	Government
Chapel Hill-Carrboro Schools	2,311	Public education
Target (a)	2,295	Retail
Durham VA Medical Center	2,162	Healthcare
Talecris Biotherapeutics, Inc.	2,100	Biopharmaceutical
Wachovia Corporation	2,100	Financial
Harnett County Public Schools	2,068	Public education
Central Regional Hospital	2,000	Healthcare
Revlon Consumer Products Corporation	2,000	Manufacturing

(a) Ranked in the top 50 of Forbes Fortune 500 list of largest U.S. companies (based on revenues) in 2010; May 21, 2010.

Source: Research Triangle Regional Partnership website, accessed May 2010.



Five of the companies listed in Table 6 are ranked in the Fortune 500 list of largest U.S. companies (based on revenues). The CSA also benefits from having a diverse industry base that includes a variety of health services, education, and business services.

The region has a history of successful partnerships among businesses, governmental entities, and universities. Research Triangle Park (RTP), a public/private planned research park created in 1959, is 5 miles west of the Airport. Operating as a special Durham County tax district for research and production, the 8-mile-long and 2-mile-wide RTP is the world's largest research park, with more than 115 companies, more than 42,000 full-time equivalent employees, and 10,000 contract workers, which support research in a variety of high technology fields. The average salary in the RTP is nearly \$56,000 annually, significantly higher than regional and national averages.\* The three largest RTP employers – IBM, GlaxoSmithKline, and Cisco Systems – have a combined total of over 19,000 employees; however, almost 40% of the businesses in the RTP have fewer than 10 employees.

In the 1990s, North Carolina State University developed Centennial Campus, a 1,300-acre advanced technology community for university, government, and industrial partners located adjacent to the university's main campus. As of June 2010, Centennial Campus included 30 buildings, housing over 130 companies, government agencies, and North Carolina State University research and academic units and employing 2,200 corporate and government employees and 1,350 university faculty, staff, and post-doctoral students.

The region has a heavy concentration of medical institutions and life science companies. Two nationally recognized medical centers and teaching hospitals (Duke University Medical Center, Durham County's largest employer, and University of North Carolina Hospitals-Chapel Hill), three biomedical engineering degree programs, and 1 of only 28 veterinary schools in the United States are located in the region. In addition, a number of nonacademic research facilities in the State contribute to North Carolina's medical research base, including the National Institute of Environmental Health Sciences (the only National Institute of Health located outside Washington, D.C.) and the U.S. Environmental Protection Agency (the largest complex outside Washington, D.C. and home to one-third of EPA's research activity). These institutions, combined with the large number of private employers, including GlaxoSmithKline, bring a diverse group of medical and life science-related jobs to the area. In 2008, Merck & Co. completed Phase I of a \$300 million vaccine manufacturing plant in Durham. Phase II, which includes a vaccine manufacturing facility and packaging line, is expected to be completed in 2010. Phase III of the project is planned to add a bulk vaccine manufacturing facility scheduled to open in 2012.

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\*Source: The Research Triangle Park website.

**Education.** The area has three prominent universities, several smaller universities, and several 2-year colleges (see Table 7). Duke University in Durham County (14,100 students), The University of North Carolina at Chapel Hill in Orange County (28,600 students), and North Carolina State University in Wake County (32,900 students) are doctoral-granting research institutions in the CSA. The area’s population is generally well-educated and, in 2009, over 40% of metropolitan area residents over age 25 hold at least a bachelor’s degree, and more than a third of that group also hold a graduate, professional, or doctoral degree.\*

Table 7  
**COLLEGE AND UNIVERSITY ENROLLMENT**  
(as of fall 2008)

Institution	Enrollment
North Carolina State University	32,872
The University of North Carolina at Chapel Hill	28,567
Duke University	14,060
North Carolina Central University	8,035
Shaw University	2,702
Meredith College	2,250
Saint Augustine’s College	1,451
Peace College	713
Louisburg College	572

Source: The University of North Carolina at Chapel Hill, *Statistical Abstract of Higher Education 08-09*, Research Report 1-09, July 2009.

**Military.** North Carolina has a sizable military presence. The two largest military installations in the State in terms of active duty military and civilian personnel – Fort Bragg (51,000 personnel) and Camp Lejeune (47,000 personnel) – are located within the 2-hour drive time radius of the Airport, as shown on Figure 3. Fort Bragg and Camp Lejeune are also the largest and fourth largest military installations, respectively, in the nation. On a per capita basis, only four other states (Hawaii, Alaska, Virginia, and North Dakota) have a greater presence of active duty military and civilian personnel than North Carolina. The transport of personnel to and from these installations is a positive and stabilizing factor supporting the demand for air travel at the Airport.

**Local Attractions and Facilities**

Numerous tourist attractions, as well as local activities, are located in the CSA. The three largest communities, Raleigh, Durham, and Cary, are within 20 minutes of one

\*Source: <http://www.raleigh-durham-northcarolina.com>.

another. Raleigh, the largest of the three, with a population of approximately 371,000, is the State capital and offers many arts and entertainment opportunities, including ballet and opera companies, theaters, and museums. Durham, with a population of approximately 219,000, is home to 13 historic sites, three art centers, nine signature annual events with national or regional recognition, plus dozens of other core and celebrated annual events, six science and nature centers, and spectator sports venues. Cary is the headquarters of the world's largest privately held software company, SAS. All three communities are just 2 hours from beaches on the Atlantic Ocean and 4 hours from the Appalachian Mountains.\*

The area is also home to several major collegiate and professional sports programs. The Duke University Blue Devils, the University of North Carolina Tar Heels, and the North Carolina State University Wolfpack are in the CSA, and each program provides top quality sports attractions and facilities. The CSA is also home to the National Hockey League's Carolina Hurricanes, the Carolina Mudcats (a minor league baseball team based in the eastern suburbs of Raleigh that is a Double-A affiliate of the Florida Marlins), and the Durham Bulls (a Triple-A baseball team affiliated with the Tampa Bay Rays).

In addition, the area is home to a variety of museums and related sights, including the North Carolina Museum of History, the North Carolina Museum of Natural Sciences, and the North Carolina Museum of Art, all located in Raleigh; the Nasher Museum of Art and Sarah P. Duke Gardens on the campus of Duke University; and Morehead Planetarium and Ackland Art Museum on the campus of the University of North Carolina at Chapel Hill.

Cary offers an extensive parks system and excellent sports facilities, such as WakeMed Soccer Park (formerly SAS Soccer Park), a \$14.5 million facility, which features seven Bermuda grass fields and a main stadium with seating for 7,000 (expandable to 10,000). WakeMed Soccer Park is the home of the Carolina Courage (of the Women's United Soccer Association), and is also the home of the Carolina RailHawks (of the United States Soccer Federation). In addition, the North Carolina State University Wolfpack of the Atlantic Coast Conference (ACC) play select matches at the WakeMed Soccer Park and the park regularly hosts major tournaments, such as the National Collegiate Athletic Association (NCAA) College Cup, the ACC Soccer Championships, and the State high school soccer finals.

USA Baseball is the sole organization responsible for selecting, training, developing, and supporting the USA Olympic, National, Junior National, and Youth National teams that participate in international competitions each year. USA Baseball has executive and administrative offices and national team competition and training facilities in both Cary and Durham. The National Training Complex was built in a partnership between the Town of Cary and USA Baseball, and opened in June 2007.

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\*Source: [www.raleigh-durham-northcarolina.com](http://www.raleigh-durham-northcarolina.com).

The facility includes four baseball fields, a clubhouse, an entry plaza/retail area, batting cages, concessions, and a maintenance facility on 127 acres.\*

The Raleigh Convention Center, which opened in September 2008, is a convention and exhibition facility in downtown Raleigh. The three-level 500,000-square-foot building contains a 150,000-square-foot exhibit hall, 20 meeting rooms, and a 32,000-square-foot ballroom. The facility is more than double the size of the older convention center. A new Marriott hotel, the Marriott City Center, was built to provide lodging for visitors and is now connected to the Convention Center.

RDU is located approximately 70 minutes driving time from Pinehurst Resort, a premier golf resort and spa that hosted the 1999 and 2005 U.S. Open Golf Championship and the 2008 U.S. Golf Association's Men's Amateur Golf Championship. In addition, in 1996 Pinehurst was designated a National Historic Landmark by the U.S. Department of the Interior. The U.S. Golf Association plans to bring both the men's and women's U.S. Open to Pinehurst #2 in 2014. This course has hosted several major tournaments, including the Professional Golfers' Association Championship, Ryder Cup matches, and Tour Championships. Pinehurst Resort is only the second resort course to host the U.S. Open.

Annual events that have significant out-of-state and in-state visitor appeal include the American Dance Festival (June), the largest and most influential modern dance festival in the world, and the Bull Durham Blues Festival (September), an outdoor music event featuring national, regional, and local blues bands.

### **Economic Outlook**

Economic activity in North Carolina and the CSA is directly linked to the production of goods and services in the rest of the United States. Airline travel and the movement of cargo through RDU depend on the economic linkages between the CSA, State, and U.S. economies.

**U.S. Economy.** The U.S. economy, after expanding from November 2001 through December 2007, entered into a recession, which was triggered by a contraction in the real estate markets combined with a surge in energy and other commodity prices in 2006. As the economy weakened, a number of factors contributed to the intensity and duration of the recession, including the following:

- A financial system crisis in the United States was triggered by a decrease in real estate prices and the value of real-estate-backed investment securities and other financial assets during summer 2007. This crisis was followed by sub-prime mortgage-related problems with some large investment and commercial banks during the first half of 2008 and the collapse of Lehman

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\*Sources: [www.usabaseball.com](http://www.usabaseball.com) and [www.carychamber.com](http://www.carychamber.com).

Brothers and the near collapse of American International Group, Inc. (AIG) in the second half of 2008.

- National unemployment rates (seasonally adjusted) increased from 5.8% in July 2008 to 10.0% in December 2009, reflecting the loss of 7 million jobs during this period.
- Consumer spending, which historically accounts for about 70% of U.S. gross domestic product (GDP), became constrained by the loss of home equity, tight credit, modest income growth, and high unemployment in a weak labor market. Consumer borrowing began declining in the fourth quarter of 2008 and accelerated to an 8.5% annual rate of decline by November 2009.
- U.S. economic performance declined significantly, measured by decreases in U.S. GDP during four consecutive quarters, beginning with the third quarter of 2008 through the second quarter of 2009.
- A global economic recession, the fourth since World War II, was declared by the International Monetary Fund (IMF) in April 2009, related to the spillover effects from the U.S. recession and financial crisis.

Although the National Bureau of Economic Research\* has not officially announced the end of the current recession, economists generally agree that the recession ended in the second quarter of 2009. Recent trends in U.S. GDP (in 2005 dollars) suggest that economic growth is strengthening, with increases in each of the last three quarters—2.2% in the third quarter of 2009, 5.6% in the fourth quarter of 2009, and 3.2% in the first quarter of 2010. National unemployment rates, however, remain historically high (9.9% in April 2010) and continue to dampen the prospects for an economic recovery.

At its April 2010 meeting, the Federal Open Market Committee (FOMC) indicated that it expected the economic recovery to continue, but at a slower rate of growth in output and employment than past recoveries from deep recessions. The FOMC's April 2010 outlook included the following observations:

- Consumer spending and business outlays for equipment and software were broadly consistent with a moderate pace of economic recovery.
- The labor market appeared to be starting to improve, but job growth was expected to be modest.
- The continued expansion of economic activity would be supported by a number of factors, including accommodative monetary policy and the improved condition of financial markets and institutions.

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\*The National Bureau of Economic Research is a nonprofit economic research organization that determines the start and end dates of U.S. economic cycles.

Table 8 presents a comparison of U.S. economic projections prepared by the Congressional Budget Office (CBO), the Blue Chip Consensus, and the FOMC. Consistent with the CBO projections, both the Blue Chip Consensus forecasts and the FOMC projections reflect the effects of fiscal stimulus and Federal Reserve System measures to provide support to credit markets. The long-term growth rates for each of the three projections and forecasts (through 2020) do not include assumptions regarding further economic and other shocks, and all three projections and forecasts show GDP growth ranging from 2% to 3%.

	Compound annual growth rate (a)			
	Historical	Projected		
	1980-2009	2009-2010	2010-2011	2009-2020
Real GDP				
CBO	2.8%	2.1%	2.4%	2.9%
Blue Chip Consensus		2.9	3.1	(b)
FOMC		2.7-4.0	3.0-4.6	2.4-3.0
CPI-U				
CBO	3.4%	1.6%	1.1%	1.7%
Blue Chip Consensus		1.7	2.0	(b)
		Calendar year average rates		
Unemployment rate (percent)				
CBO	6.2% (c)	10.1%	9.5%	5.0% (d)
Blue Chip Consensus		10.0	9.3	(b)
FOMC		8.6- 9.7	7.2- 8.7	5.0- 6.3

CBO= Congressional Budget Office  
 CPI-U=Consumer price index for all urban consumers  
 FOMC=Federal Reserve Board, Federal Open Market Committee  
 GDP=Gross domestic product

Note: The Blue Chip Consensus is the average of about 50 forecasts by private-sector economists.

(a) Represents the percent change between the fourth quarters of the years indicated, except 1980 through 2009.

(b) The January 2010 Blue Chip Consensus extends only through 2011.

(c) Represents the average from 1980 through 2009 (estimated).

(d) Projected level in 2020.

Sources: Congressional Budget Office, *The Budget and Economic Outlook, Fiscal Years 2010 to 2020*, January 2010 (including data for the Blue Chip Consensus). Federal Reserve Board, Federal Open Market Committee, *Summary of Economic Projections*, April 27-28, 2010, May 19, 2010.

**North Carolina and CSA Economies.** The economic outlook for the CSA is closely related to the outlook for North Carolina and the U.S.

The economy of the CSA has experienced a decline similar to that experienced in the U.S. and the State, however because of the CSA's diverse economic base, anchored by the high-technology industries in the Research Triangle, its economic decline has not been as severe. Between 2008 and 2009, employment in the CSA decreased 3.5% compared to a decrease of 5.3% in the State and a decline of 4.3% in the nation. The 2009 unemployment rate averaged 8.5% in the CSA compared to 10.6% in North Carolina and 9.3% in the nation. The monthly unemployment rate continued to rise in 2010 reaching a high of 9.4% in the CSA, 11.2% in the State, and 9.9% for the U.S.

According to the *North Carolina Economic Outlook Summer 2009*, produced by the Department of Agricultural and Resource Economics at North Carolina State University, unemployment in North Carolina during economic recessions tends to be higher than in the U.S., but employment in the State tends to improve at a faster rate than in the U.S. when national economic recovery begins.

Near-term projections of nonagricultural employment from the North Carolina Department of Commerce (NCDOC) call for employment in the CSA to increase 3.8% per year between 2009 and 2014. Employment in the State is projected to increase 2.7% per year during the same period. According to the North Carolina Employment Security Division, employment in the CSA increased by 0.7% for the period January through April 2010 over the same period in 2009. Employment in the State and the U.S. however, declined by 1.5% and 1.8% respectively for the same period.

Per capita personal income decreased 2.3% in the State between 2008 and 2009 (figures for the CSA are not available for 2009), which compares with a 2.6% decrease in the U.S.. NCDOC projects that this decline will soon reverse and that per capita personal income will grow an average of 0.8% per year in the CSA and the State between 2009 and 2014.

A large and rapidly growing population has historically been a key driver of economic growth in the CSA. From 1990 through 2009, population in the CSA increased an average of 3.2% per year, compared to increases of 1.8% per year in the State and 1.1% per year in the U.S. This trend is projected to continue, with the NCDOC projecting population growth averaging 2.7% per year from 2009 through 2014 in the CSA and 1.6% per year in the State. These rates are both higher than the 1.0% per year growth projected for the U. S.

Table 9

**COMPARISON OF SOCIOECONOMIC PROJECTIONS**  
Raleigh-Durham-Cary CSA and North Carolina

	Compound annual growth rate		
	Historical		Projected
	1990-2009	2008-2009	2009-2014 (a)
Population (b)			
Raleigh-Durham-Cary CSA	2.9%	3.0%	2.7%
State of North Carolina	1.6	1.4	1.6
Nonagricultural employment (c)			
Raleigh-Durham-Cary CSA	4.0%	(3.5%)	3.8%
State of North Carolina	2.0	(5.3)	2.7
Total personal income (d)			
Raleigh-Durham-Cary CSA	2.6%	n.a.	0.8%
State of North Carolina	2.6	(2.3%)	0.8

n.a.= not available

(a) North Carolina Department of Commerce, Economic Development Information System.

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

(c) U.S. Department of Labor, Bureau of Labor Statistics (historical).

(d) U.S. Department of Commerce, Bureau of Economic Analysis (historical).

**Risks to the Economic Outlook.** Provided below is a discussion of some of the key risks to the economic outlook for the nation, State and CSA. Key risks include:

- In the near term, the principal risk is that the federal government's policy response to the recent financial crisis and recession in the United States may not be effective in providing the foundation for recovery.
- Inflation risks could materialize because of the sizable amount of liquidity that the Federal Reserve System has injected into the banking system, which could eventually trigger upward pressures on prices. Also, increases in oil prices and rapid expansion of U.S. industrial capacity could trigger upward pressure on inflation.
- There is the risk that U.S. consumers may not be able to generate much spending growth because of persistent unemployment and the various reasons discussed above.
- In the longer term, the principal risks to U.S. economic performance are the sizable external and fiscal deficits. The continuing deficits in the U.S.



balance of payments could result in greater volatility in the currency markets, which would then translate into higher interest rates and, therefore, slower economic growth. These risks could be compounded if the fiscal deficit does not shrink within the next 5 years, thereby leading to much larger financing requirements and subsequent increases in interest rates. Increased interest rates could lead to slower investment and, consequently, slower productivity growth.

## TRENDS IN AIRPORT ACTIVITY

RDU is designated as a medium hub airport by the FAA. In terms of numbers of enplaned passengers in 2009 (the latest year for which data are available), RDU ranked second in North Carolina and 37th among U.S. airports (see Table 10). In terms of domestic outbound O&D passengers, RDU ranked second in the State and 37th nationally.\*

Rank	Total enplaned passengers (a)	
	Airport	Passengers
1	Atlanta	44,016,043
11	Charlotte	17,268,333
34	Kansas City	5,020,583
35	Cleveland	4,857,802
36	Oakland	4,826,391
<b>37</b>	<b>Raleigh-Durham</b>	<b>4,486,605</b>
38	Nashville	4,468,430
39	Sacramento	4,457,255
40	Orange County, CA	4,352,600

Note: Enplaned passenger numbers in this table differ slightly from Authority records as presented in Table 11.

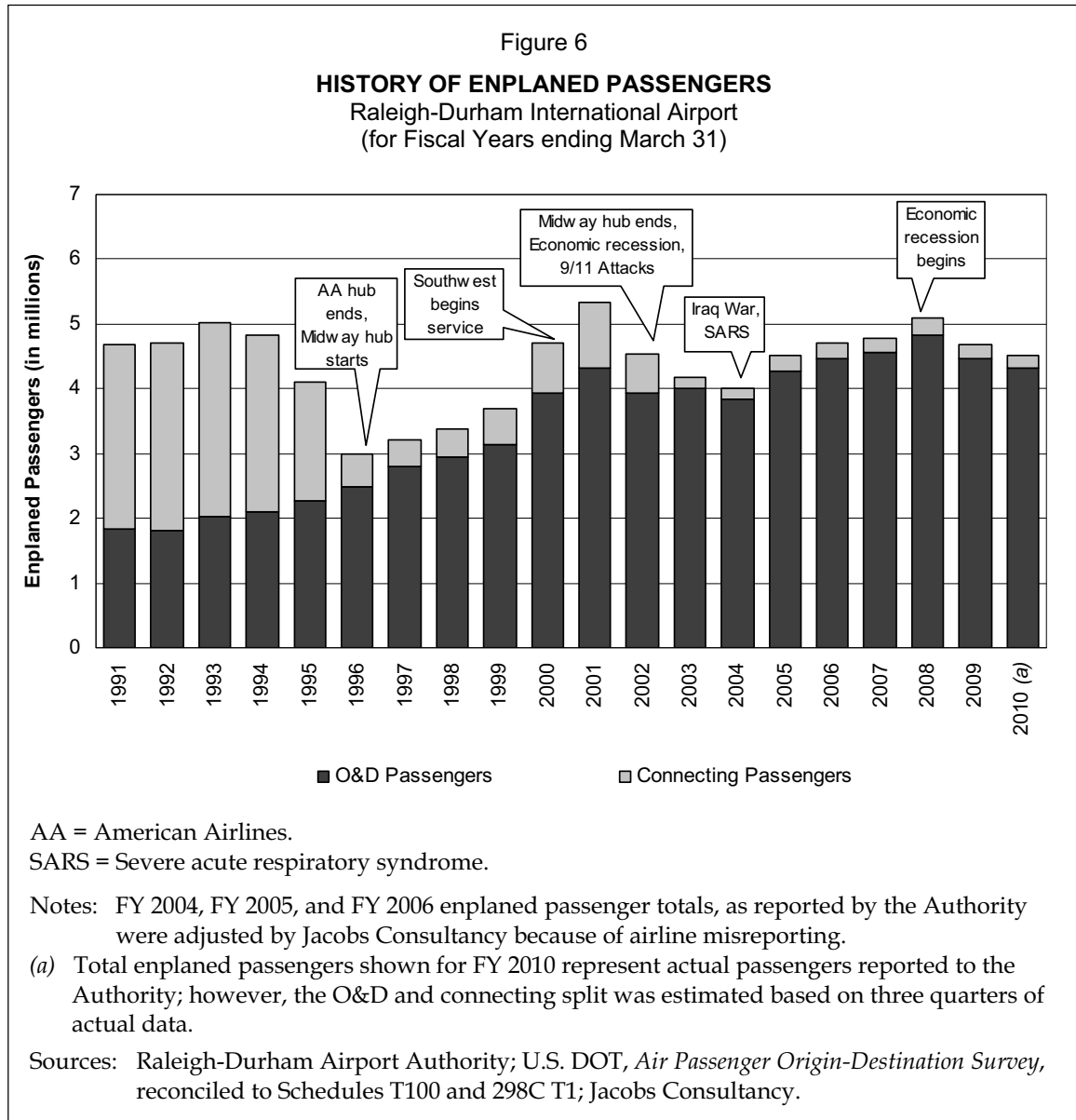
(a) Represents half of total passengers.

Source: Airports Council International, *Worldwide Airport Traffic Report*, 2009;

\*O&D passengers are those passengers who originate or terminate their journeys at RDU and include both residents of and visitors to the Raleigh-Durham area.

## Passenger Trends

Passenger traffic at RDU has fluctuated through the years in response to airline strategic decisions unique to RDU; cyclical economic activity which generally affected passenger traffic on a national basis; and extraordinary events such as the 1991 Gulf War, the September 11 terrorist attacks, and the Iraq War (see Figure 6).



Between FY 2008 and FY 2010, traffic levels at RDU and the United States declined as a result of a national economic recession exacerbated by a record-setting spike in oil prices and turmoil in the U.S. housing and credit markets. During this period, passenger traffic declined from 5.1 million in FY 2008 to 4.7 million in FY 2009 and to

4.5 million in FY 2010. The decline in passenger traffic at RDU from FY 2008 to FY 2010 of 11.1% compares to a decline of 8.3% for the nation based on Air Transport Association data for the same period.

**History as a Hub Airport.** From FY 1991 to FY 2002 the most significant factors influencing passenger traffic levels at the Airport were strategic decisions by airlines to establish and dismantle hub operations at RDU.

In the late 1980s, American Airlines constructed Terminal C (replaced by Terminal 2) at the Airport and established hubbing operations which significantly stimulated connecting passenger traffic and, to a lesser degree, O&D traffic at RDU. As a result, by FY 1993, passenger traffic reached 5.0 million enplanements, up from 1.4 million only seven years earlier. From FY 1991 through FY 1995, connecting passengers accounted for between 45% and 61% of total passengers. However, by FY 1996, American had dismantled its hub at RDU and passenger volume declined sharply to 3.0 million enplanements, with connecting passengers representing 17% of passengers. As American was pulling back at RDU, Midway Airlines relocated its hubbing operation from Chicago's Midway Airport in March 1995 and subleased gates from American in Terminal C.

During the five years from FY 1996 to FY 2001, RDU experienced a second period of rapid enplanement growth, driven both by the expansion of Midway Airline's hub at the Airport and by introduction of service by Southwest Airlines in June 1999. While Midway Airlines operated its hub at RDU, connecting passengers represented 13% to 19% of total passengers. By FY 2003, Midway Airlines passenger traffic at RDU had fallen to 140,000 enplaned passengers from a peak of over 1.6 million in FY 2001. As Midway Airlines dismantled its hub at RDU, connecting passengers at the Airport fell from a peak (under the Midway Airlines hub) of nearly 1.0 million in FY 2001 to approximately 156,000 in FY 2004. However, the combination of the national economic recession in 2001, the September 11 terrorist attacks, the Iraq war, the global warnings about severe acute respiratory syndrome (SARS), and the demise of Midway resulted in declines in passenger traffic again at RDU, falling from a record 5.3 million enplanements in FY 2001 to 4.0 million in FY 2004.

The Airport's percentage share of connecting versus O&D traffic changed rapidly during the period FY 2001 to FY 2004. In FY 2001, O&D passengers represented approximately 81% of total passengers and connecting passengers accounted for the remaining 19%. By FY 2004, the Airport's share of O&D passengers increased to approximately 96% of total passenger traffic while the connecting share fell to only 4%. The percentage shares of O&D and connecting passengers has remained generally consistent at 95% to 96% O&D and 4% to 5% connecting from FY 2004 through FY 2010.

**Historical Growth of O&D Traffic Base.** Although historically RDU has experienced a high degree of variability in its connecting traffic, the Airport's O&D

traffic base has produced a long-term trend of growth including some periods of unusually rapid growth (see Table 11). From FY 1991 to FY 2010, O&D passengers increased from 1.8 million to 4.3 million which equates to an annual rate of 4.6%. From FY 1991 to FY 1999, O&D passenger traffic increased 6.9% annually. O&D passenger traffic jumped approximately 38% from FY 1999 to FY 2001, in conjunction with the ramp up of the Midway Airlines hub and the introduction of low cost carrier service by Southwest Airlines in FY 2000. From FY 2000 to FY 2008, total O&D passengers increased at an annual rate of 2.6% but then declined at an annual rate of 5.4% from FY 2008 to FY 2010. Even with this recent decline in O&D passenger activity, O&D passengers increased at an annual rate of 1.0% from FY 2000 to FY 2010.

A significant portion of the growth in O&D passengers over the last decade is a result of new service by Southwest Airlines and other low cost carriers (LCCs), including AirTran and Jet Blue. Southwest Airlines began serving RDU at the beginning of FY 2000 and by FY 2001 had achieved a 10.6% enplaned passenger market share with nearly 0.6 million enplanements. Almost all of Southwest Airlines' traffic at RDU is O&D passengers. Southwest Airlines has continued its growth at RDU and in FY 2010 achieved an Airport leading enplaned passenger market share of 22.4% and over 1.0 million enplaned passengers.

AirTran began service at RDU in FY 1999 and has grown to a 2.9% market share in FY 2010. Jet Blue began service at RDU in FY 2007 and has increased its market share to 3.4% in FY 2010. Collectively, total enplaned passengers on LCCs increased from 0.8 million in FY 2003 to 1.3 million in FY 2010 which equates to annual growth of 7.3%. LCCs accounted for a combined 28.7% enplaned passenger market share at RDU in FY 2010.

Mainline carriers and their regional affiliates account for the majority of enplanements at the Airport (approximately 71% in FY 2010). Combined, total enplanements on mainline carriers and their regional affiliates increased from 3.2 million in FY 2003 to 3.7 million in FY 2008 and have declined to 3.2 million in FY 2010.

**Table 11**  
**ENPLANED PASSENGER TRENDS**  
Raleigh-Durham International Airport  
(for Fiscal Years ending March 31; passengers in thousands)

	2000	2005	2006	2007	2008	2009	2010 <i>(a)</i>	CAGR		% Change
								2000-2005	2005-2010	2009-2010
<b>Total enplaned passengers</b>	<b>4,703</b>	<b>4,517</b>	<b>4,699</b>	<b>4,768</b>	<b>5,082</b>	<b>4,685</b>	<b>4,518</b>	<b>(0.8%)</b>	<b>0.0%</b>	<b>(3.6%)</b>
Domestic	4,577	4,427	4,609	4,677	4,987	4,596	4,439	(0.7%)	0.1%	(3.4%)
International	126	90	90	91	96	89	79	(6.5)	(2.5)	(11.3)
O&D	3,926	4,277	4,461	4,560	4,835	4,474	4,315	1.7%	0.2%	(3.5%)
Connecting	777	239	238	209	248	211	203	(21.0)	(3.3)	(3.7)
As percent of total enplaned passengers:										
Domestic	97.3%	98.0%	98.1%	98.1%	98.1%	98.1%	98.3%			
International	2.7	2.0	1.9	1.9	1.9	1.9	1.7			
O&D	83.5%	94.7%	94.9%	95.6%	95.1%	95.5%	95.5%			
Connecting	16.5	5.3	5.1	4.4	4.9	4.5	4.5			

CAGR = Compound annual growth rate.

Notes: FY 2005, and FY 2006 enplaned passenger totals, as reported by the Authority were adjusted by Jacobs Consultancy because of airline misreporting.

Columns may not add to totals shown because of rounding.

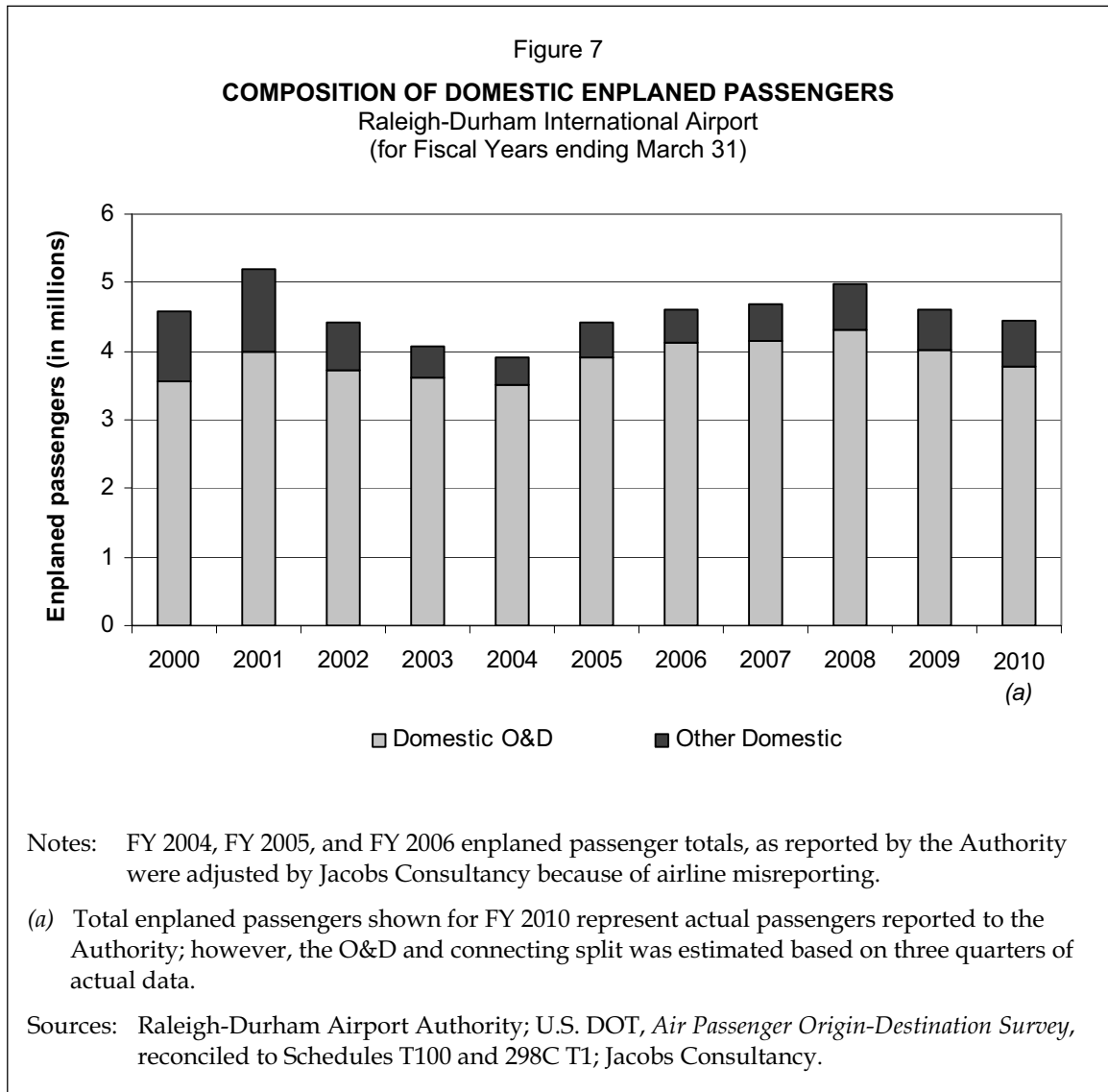
*(a)* Total enplaned passengers shown for FY 2010 represent actual passengers reported to the Authority; however, the O&D and connecting split was estimated based on three quarters of actual data.

Sources: Raleigh-Durham Airport Authority; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1; Jacobs Consultancy.

**Domestic Enplaned Passengers.** Since FY 2005, domestic enplaned passengers have accounted for at least 98% of total enplaned passengers at RDU. Consequently, domestic enplaned passenger trends tend to reflect trends for the Airport overall. Domestic enplaned passengers consist of:

- Passengers originating trips at RDU and ending at a domestic destination (domestic O&D)
- Passengers originating trips at RDU, connecting at another domestic airport, and ending at an international destination (domestic to international O&D)
- Passengers originating trips at another airport, connecting at RDU, and ending at another airport (connecting O&D)
- Charter passengers

As presented on Figure 7, domestic O&D passengers have historically accounted for a large majority of domestic enplaned passengers; in FY 2010, domestic O&D passengers represented approximately 85% of total domestic enplaned passengers.



**Domestic O&D.** A key strength of the Airport is its large and relatively stable base of domestic O&D passenger traffic. More than 64% of domestic O&D passengers at the Airport in FY 2009 traveled to the top 20 city-pair markets (see Table 12). The New York area represented the single largest domestic market for O&D passenger travel, accounting for 10.1% of the total. The second- and third-ranking markets (Chicago and Philadelphia) accounted for 5.2% and 4.9% of the total, respectively.

Between FY 2000 and FY 2009, domestic O&D traffic at RDU increased an average of 1.3% per year, while increasing an average of 1.5% per year in the top 20 markets. Passenger numbers at all but four of RDU's top 20 markets increased between FY 2000 and FY 2009. Seven of the top 20 markets averaged growth in excess of 3% per year. Traffic was stimulated in each of those markets by one or more of the following factors: a drop in the average fare paid, increased airline competition, and increased flight frequency. During this period, the average fare paid at the top 20 RDU markets declined by approximately 3%. The average fare paid declined in 12 of the top 20 markets between FY 2000 and FY 2009 (see Table 13).

From FY 2008 through FY 2010, domestic O&D traffic declined largely as a result of the recent economic recession. For the first 9 months (April through December) of FY 2009 and the same period of FY 2010, O&D traffic in all RDU markets declined 5.1%, but declined only 3.2% in the top 20 markets.\* During this same period, airfares declined an average of 11.8% for all RDU markets and 12.8% in the top 20 markets as airlines attempted to stimulate demand by lowering fares.

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\*April through December 2010 (9 months of FY 2010) is the most recent data available using U.S. DOT sources. As described later, Authority statistics are current through May 2010 (a complete FY 2010, and 2 months of FY 2011).

Table 12

**OUTBOUND O&D PASSENGERS IN THE AIRPORT'S  
TOP 20 DOMESTIC O&D PASSENGER MARKETS**

Raleigh-Durham International Airport  
(for Fiscal Years ending March 31, unless otherwise noted; ranked on 2009;  
passengers in thousands)

Rank	City market	2000	2009	April-December		Market as % of 2009 total	CAGR 2000-2009	% Change Apr.-Dec. 2008-2009
				2008	2009			
1	New York (a)	294	404	319	344	10.1%	3.6%	7.9%
2	Chicago (b)	197	208	171	154	5.2	0.6	(9.8)
3	Philadelphia	85	197	157	160	4.9	9.8	1.6
4	Wash. D.C./Baltimore (c)	228	192	149	140	4.8	(1.9)	(5.6)
5	Atlanta	270	181	139	137	4.5	(4.4)	(1.6)
6	Boston	123	149	119	129	3.7	2.1	8.3
7	Orlando	145	137	108	84	3.4	(0.7)	(21.8)
8	Los Angeles (d)	105	122	97	97	3.1	1.7	0.1
9	San Francisco (e)	100	112	90	82	2.8	1.3	(9.0)
10	Dallas/Fort Worth (f)	106	104	84	78	2.6	(0.2)	(7.3)
11	Tampa	84	100	78	73	2.5	2.0	(6.3)
12	Las Vegas	61	96	73	71	2.4	5.2	(2.4)
13	Fort Lauderdale	74	87	67	61	2.2	1.9	(8.8)
14	Nashville	78	83	65	58	2.1	0.6	(10.5)
15	Denver	53	80	62	63	2.0	4.6	2.0
16	Houston (g)	52	73	58	57	1.8	3.9	(0.6)
17	Detroit	65	69	56	50	1.7	0.6	(11.9)
18	Phoenix	47	66	52	47	1.7	3.8	(8.6)
19	Minneapolis/St. Paul	41	59	49	43	1.5	4.1	(11.9)
20	Seattle	45	57	48	44	1.4	2.7	(7.4)
<b>Total---top 20 markets</b>		<b>2,254</b>	<b>2,576</b>	<b>2,039</b>	<b>1,973</b>	<b>64.3%</b>	<b>1.5%</b>	<b>(3.2%)</b>
All other		1,311	1,431	1,145	1,048	35.7	1.0	(8.5)
<b>Total---all markets</b>		<b>3,565</b>	<b>4,007</b>	<b>3,185</b>	<b>3,022</b>	<b>100.0%</b>	<b>1.3%</b>	<b>(5.1%)</b>

CAGR=Compound annual growth rate.

Note: Columns may not add to totals shown because of rounding.

(a) Market includes Kennedy, LaGuardia, and Newark airports.

(b) Market includes O'Hare and Midway airports.

(c) Market includes Dulles, Reagan, and Baltimore airports.

(d) Market includes Los Angeles, Burbank, Long Beach, Orange County, and Ontario airports.

(e) Market includes San Francisco, San Jose, and Oakland airports.

(f) Market includes Dallas/Fort Worth Airport and Love Field.

(g) Market includes Hobby and Bush airports.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.



Table 13

**AVERAGE ONE-WAY FARES PAID IN THE AIRPORT'S  
TOP 20 DOMESTIC O&D PASSENGER MARKETS**  
Raleigh-Durham International Airport  
(for Fiscal Years ending March 31, unless otherwise noted;  
ranked on 2009 domestic O&D passengers)

Rank	City market	2000	2009	April-December		CAGR	% Change
				2008	2009	2000-2009	Apr.-Dec. 2008-2009
1	New York (a)	\$ 160.02	\$ 119.19	\$ 125.68	\$ 97.85	(3.2%)	(22.1%)
2	Chicago (b)	102.91	116.78	120.14	115.41	1.4	(3.9)
3	Philadelphia	180.02	87.43	88.05	78.08	(7.7)	(11.3)
4	Wash. D.C./Baltimore (c)	86.02	121.35	124.14	112.90	3.9	(9.1)
5	Atlanta	93.72	120.32	122.86	100.90	2.8	(17.9)
6	Boston	139.46	136.34	145.12	109.12	(0.3)	(24.8)
7	Orlando	71.78	104.83	104.01	107.29	4.3	3.2
8	Los Angeles (d)	177.83	175.64	182.52	157.39	(0.1)	(13.8)
9	San Francisco (e)	265.73	182.79	191.77	173.63	(4.1)	(9.5)
10	Dallas/Fort Worth (f)	220.39	192.67	198.51	165.56	(1.5)	(16.6)
11	Tampa	89.18	103.18	103.78	100.14	1.6	(3.5)
12	Las Vegas	146.91	145.92	151.29	137.34	(0.1)	(9.2)
13	Fort Lauderdale	108.08	105.30	107.52	100.73	(0.3)	(6.3)
14	Nashville	82.65	110.55	112.62	115.51	3.3	2.6
15	Denver	185.03	153.22	162.80	136.14	(2.1)	(16.4)
16	Houston (g)	171.54	183.14	185.97	168.11	0.7	(9.6)
17	Detroit	153.78	148.03	149.59	143.66	(0.4)	(4.0)
18	Phoenix	159.86	154.67	159.09	146.26	(0.4)	(8.1)
19	Minneapolis/St. Paul	214.75	184.88	187.22	163.58	(1.6)	(12.6)
20	Seattle	160.23	174.15	180.79	160.61	0.9	(11.2)
	<b>Average---top 20 markets</b>	<b>\$ 136.20</b>	<b>\$ 132.35</b>	<b>\$ 136.79</b>	<b>\$ 119.34</b>	<b>(0.3%)</b>	<b>(12.8%)</b>
	All other	153.12	152.83	156.78	141.60	(0.0)	(9.7)
	<b>Average---all markets</b>	<b>\$ 142.42</b>	<b>\$ 139.67</b>	<b>\$ 143.98</b>	<b>\$ 127.06</b>	<b>(0.2%)</b>	<b>(11.8%)</b>

CAGR=Compound annual growth rate.

Notes: Average one-way fares paid are net of all taxes, fees, and PFCs and exclude ancillary fees charged by the airlines.  
Average fares include the dilutive effect of passengers traveling on frequent flyer reward program tickets.

(a) Market includes Kennedy, LaGuardia, and Newark airports.

(b) Market includes O'Hare and Midway airports.

(c) Market includes Dulles, Reagan, and Baltimore airports.

(d) Market includes Los Angeles, Burbank, Long Beach, Orange County, and Ontario airports.

(e) Market includes San Francisco, San Jose, and Oakland airports.

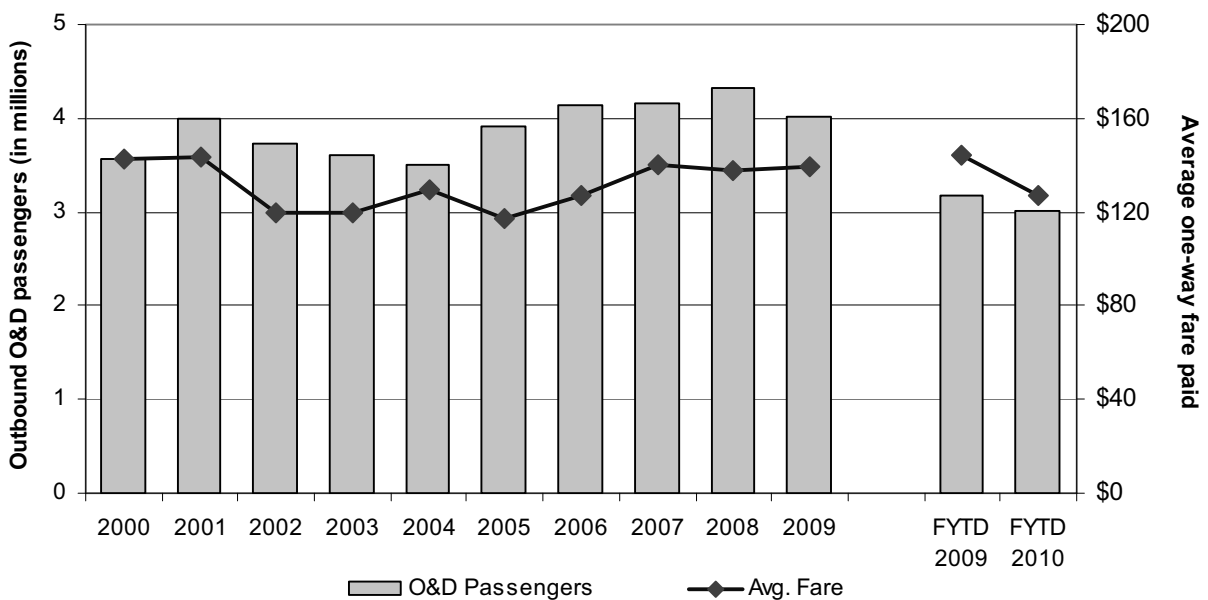
(f) Market includes Dallas/Fort Worth Airport and Love Field.

(g) Market includes Hobby and Bush airports.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

From FY 2000 through FY 2006, domestic airfares at RDU decreased significantly, corresponding with the initiation of service by Southwest Airlines in 1999. The average fare paid for domestic trips at RDU decreased from \$142 in FY 2000 to \$127 in FY 2006 (see Figure 8). At the same time, the length of the average passenger trip increased from about 890 to 960 miles. The result has been positive for air travelers, but a financial challenge for many of the airlines, with fare yield (average revenue per passenger mile) at the Airport decreasing 34% in nominal terms over the period. From FY 2007 through FY 2009, domestic airfares leveled off until decreasing approximately 12% to an average domestic one-way fare of \$127 through the first 9 months of FY 2010 compared with the corresponding months of FY 2009.

Figure 8  
**AVERAGE FARE PAID VS. AVERAGE PASSENGER TRIP DISTANCE  
 FOR DOMESTIC O&D PASSENGERS**  
 Raleigh-Durham International Airport  
 (for Fiscal Years ending March 31)



FYTD=Fiscal Year to date (April through December).

Note: Average one-way fares paid are net of all taxes, fees, and PFCs and exclude ancillary fees charged by the airlines. Average fares include the dilutive effect of passengers traveling on frequent flyer reward program tickets.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Airfares at RDU are substantially lower, on average, than at the other two major commercial service airports in North Carolina. During the first 9 months of FY 2010, for example, domestic fares at GSO averaged \$149 for a typical trip of roughly 935 miles, while passengers at CLT paid \$151, on average, for a typical 939-mile trip, and passengers at RDU paid \$127, on average, for a typical 952-mile trip.

**Other Domestic Enplaned Passengers.** Other domestic enplaned passengers include domestic to international O&D passengers, connecting O&D passengers, and charter passengers. As can be seen on Figure 7, these passengers accounted for about 15% of total domestic enplaned passengers in FY 2010.

**International Enplaned Passengers.** The number of enplaned passengers on international flights at RDU peaked in FY 2001 at 126,000, but since then has remained within a range of approximately 90,000 to 102,000 passengers. Annual international enplaned passengers ranged between 2% and 3% of the Airport total from FY 2000 through FY 2010. During this period, passengers boarded international flights destined primarily for two world areas: Europe and Canada.

Europe has historically accounted for the majority of international enplaned passengers at RDU. In FY 2009, 56,000 passengers boarded transatlantic flights at the Airport, representing 60% of total international enplaned passengers (see Table 14).

Canadian traffic accounted for an increasing share of international enplaned passengers at RDU after the signing of an Open Skies agreement between the United States and Canada in February 1995. In FY 2009, about 34,000 passengers (36% of international enplaned passengers at RDU) boarded flights bound for Canada.\*

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\*Prior to the introduction of nonstop service from RDU to Canada, all passengers traveled to Canada via connections at other U.S. airports. Consequently, these passengers were not counted in international enplaned passenger statistics for RDU. A relatively small proportion of travelers between RDU and Canada continue to board connecting flights at other U.S. airports.

Table 14

**ENPLANED PASSENGERS ON INTERNATIONAL FLIGHTS BY WORLD DESTINATION**Raleigh-Durham International Airport  
(for Fiscal Years ending March 31)

<u>Flight type</u>	2000	2009	April-November		CAGR	% Chg
			2008	2009	2000- 2009	Apr.-Nov. 2008- 2009
<b>Total--all intl. flights</b>	<b>85,158</b>	<b>93,527</b>	<b>69,619</b>	<b>57,955</b>	<b>1.0%</b>	<b>(16.8%)</b>
<b>Scheduled flights</b>	<b>79,494</b>	<b>91,835</b>	<b>68,230</b>	<b>57,234</b>	<b>1.6%</b>	<b>(16.1%)</b>
U.K. and Europe	44,585	55,715	41,930	36,547	2.5	(12.8)
Canada	21,041	33,523	25,444	19,149	5.3	(24.7)
S. Am., C. Am., & Mex.	45	2,279	757	1,218	54.7	60.9
Caribbean	13,823	299	80	320	(34.7)	300.0
Asia	-	19	19	-	n.a.	(100.0)
<b>Non-sched. (charter) flts.</b>	<b>5,664</b>	<b>1,692</b>	<b>1,389</b>	<b>721</b>	<b>(12.6%)</b>	<b>(48.1%)</b>

CAGR=Compound annual growth rate.

n.a. = Not applicable.

Note: Figures presented in this table differ slightly from Authority records as presented in Table 11.

Source: U.S. DOT, Schedule T100.

The published number of international passengers enplaning at RDU is understated. A large proportion of international-bound passengers at RDU are reported as domestic enplaned passengers because these passengers use domestic flights to travel to other U.S. gateway airports, where they connect with international flights to their destinations. In CY 2009 (the latest 12-month period for which O&D data are available), for example, 77,000 passengers boarded international flights at RDU; however, about 309,000 passengers departed from the Airport on domestic flights and connected to international destinations at other U.S. gateway airports. These passengers represent potential users of expanded international air service at RDU in the future.

**Airline Activity**

RDU is served by a diverse group of airlines. In July 2010, 30 airlines provided scheduled service at the Airport, consisting of 8 major/national domestic airlines, 16 regional/commuter airlines, 5 all-cargo airlines, and 1 foreign-flag airline (see Table 15).

Table 15

**AIRLINES PROVIDING SCHEDULED SERVICE AT THE AIRPORT**

Raleigh-Durham International Airport

(July 2010)

**Major/national passenger airlines**

AirTran (a)  
 American  
 Continental  
 Delta  
 JetBlue (a)  
 Southwest (a)  
 United  
 US Airways

**Regional/commuter passenger airlines**

American Connection (American Eagle, Chautauqua)  
 Continental Express (Chautauqua, Colgan Air, ExpressJet)  
 Delta Connection (Atlantic Southeast, Comair,  
 Chautauqua, Mesaba, Pinnacle)  
 Midwest  
 United Express (ExpressJet, Mesa, Shuttle America)  
 US Airways Express (Air Wisconsin, Chautauqua,  
 Mesa, PSA, Republic, Trans States)

**All-cargo airlines**

Air Transport International  
 Capital Cargo  
 Fed Ex  
 Martinaire  
 UPS

**Foreign-flag passenger airlines**

Air Canada Jazz

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Notes: Excludes airlines operating nonscheduled (i.e., charter) flights.  
 Delta and Northwest merged in October 2008 and operate as Delta.  
 In early May 2010, United and Continental announced their intent to merge.

(a) Low-cost carrier

Sources: *Official Airline Guide*; Raleigh-Durham Airport Authority.

Between FY 2000 and FY 2010, the degree of airline concentration decreased modestly at RDU and the mix of airlines representing the concentration changed. The share of total enplaned passengers accounted for by the two busiest airlines increased from 41% in FY 2000 (Midway Airlines and US Airways) to 44% in FY 2010 (Southwest and American airlines). Southwest enplaned the largest market share at RDU for the first time in FY 2009 and maintained that position in FY 2010. No one airline accounted for more than 24% of passengers between FY 2006 and FY 2010.

Market shares of enplaned passengers at RDU in FY 2000 and FY 2006 through FY 2010 are presented in Table 16, grouped by airline affiliation. Market shares were calculated for each airline group, rather than for the individual airlines, because each airline within the groups operates under the same brand. In FY 2010, the nine primary airline groups reporting passengers at RDU were: Southwest Airlines, American Airlines, Delta Air Lines, US Airways, Continental Airlines, United Airlines, JetBlue Airways, AirTran Airways, and Air Canada.

**Table 16**  
**AIRLINE MARKET SHARES OF TOTAL ENPLANED PASSENGERS**  
 Raleigh-Durham International Airport  
 (for Fiscal Years ending March 31; ranked by FY 2010 data)

Rank	Published airline <i>Operating airline</i>	2000		2006		2007		2008		2009		2010		% Change 2009- 2010
		Passengers	% of Total	Passengers	% of Total	Passengers	% of Total	Passengers	% of Total	Passengers	% of Total	Passengers	% of Total	
1	Southwest	327,353	7.0%	884,222	18.8%	947,658	19.9%	982,935	19.3%	1,006,247	21.5%	1,012,673	22.4%	0.6%
2	American	759,720	16.2	1,110,052	23.6	1,139,890	23.9	1,161,483	22.9	1,001,046	21.4	956,143	21.2	(4.5)
	<i>American</i>	620,786		636,170		661,093		729,074		622,915		523,184		(16.0)
	<i>American Connection</i>	138,934		473,882		478,797		432,409		378,131		432,959		14.5
4	Delta (a)	685,870	14.6	866,779	18.4	804,164	16.9	801,029	15.8	742,995	15.9	954,039	21.1	28.4
	<i>Delta</i>	622,790		491,909		486,507		492,583		508,663		682,696		34.2
	<i>Delta Connection</i>	63,080		374,870		317,657		308,446		234,332		271,343		15.8
3	US Airways (b)	852,384	18.1	645,491	13.7	694,883	14.6	872,787	17.2	817,249	17.4	829,229	18.4	1.5
	<i>US Airways</i>	736,873		408,262		391,058		392,262		374,985		380,666		1.5
	<i>US Airways Express</i>	115,511		237,229		303,825		480,525		442,264		448,563		1.4
5	Continental	217,644	4.6	290,413	6.2	323,886	6.8	317,501	6.2	274,484	5.9	271,532	6.0	(1.1)
	<i>Continental</i>	183,833		124,081		133,934		164,370		124,245		106,349		(14.4)
	<i>Continental Express</i>	33,811		166,332		189,952		153,131		150,239		165,183		9.9
6	United	247,869	5.3	243,139	5.2	224,345	4.7	144,348	2.8	192,565	4.1	178,071	3.9	(7.5)
	<i>United</i>	144,581		-		-		144,348		166,569		117,294		(29.6)
	<i>United Express</i>	103,288		243,139		224,345		-		25,996		60,777		133.8
7	JetBlue	-	-	-	-	83,762	1.8	139,057	2.7	141,066	3.0	152,583	3.4	8.2
8	AirTran	91,298	1.9	156,488	3.3	166,071	3.5	173,880	3.4	147,364	3.1	130,365	2.9	(11.5)
9	Air Canada	68,344	1.5	35,884	0.8	36,465	0.8	39,838	0.8	33,772	0.7	27,913	0.6	(17.3)
	<i>Air Canada</i>	35,241		27,965		66		-		-		1,739		n.a.
	<i>Air Canada Jazz</i>	33,103		7,919		36,399		39,838		33,772		26,174		(22.5)
	America West (b)	-	-	103,559	2.2	44,749	0.9	34,078	0.7	-	-	-	-	n.a.
	ExpressJet	-	-	-	-	-	-	97,977	1.9	18,545	0.4	-	-	(100.0)
	Independence Air	-	-	41,806	0.9	-	-	-	-	-	-	-	-	n.a.
	Midway	1,063,827	22.6	-	-	-	-	-	-	-	-	-	-	n.a.
	Midwest	32,304	0.7	-	-	-	-	24,434	0.5	12,918	0.3	-	-	(100.0)
	Northwest (a)	218,741	4.7	311,309	6.6	296,394	6.2	284,056	5.6	289,536	6.2	-	-	(100.0)
	<i>Northwest</i>	204,646		247,688		232,224		219,538		218,013		-	-	(100.0)
	<i>Northwest Express</i>	14,095		63,621		64,170		64,518		71,523		-	-	(100.0)
10	Charter and other	137,582	2.9	9,780	0.2	5,965	0.1	9,035	0.2	6,994	0.1	5,774	0.1	(17.4)
	Total---all airlines	4,702,936	100.0%	4,698,922	100.0%	4,768,232	100.0%	5,082,438	100.0%	4,684,781	100.0%	4,518,322	100.0%	(3.6%)

n.a. = not applicable.

Note: Columns may not add to totals shown because of rounding.

(a) Northwest Airlines merged with Delta Air Lines in October 2008 and began operating under a single Delta Air Lines operating agreement in January 2010. The two airlines are presented as Delta beginning in FY 2010.

(b) America West merged with US Airways in September 2005 and began operating under a single US Airways operating agreement in September 2007. The two airlines are presented as US Airways beginning in FY 2009

Source: Raleigh-Durham Airport Authority.

Southwest initiated service at RDU in June 1999 and, in FY 2006, enplaned the second-highest number of passengers at the Airport; in FY 2009, Southwest took over the market share lead from American. In FY 2010, Southwest accounted for 22.4% of total enplaned passengers at RDU and maintained its market share lead over American, which enplaned 21.2% of passengers.

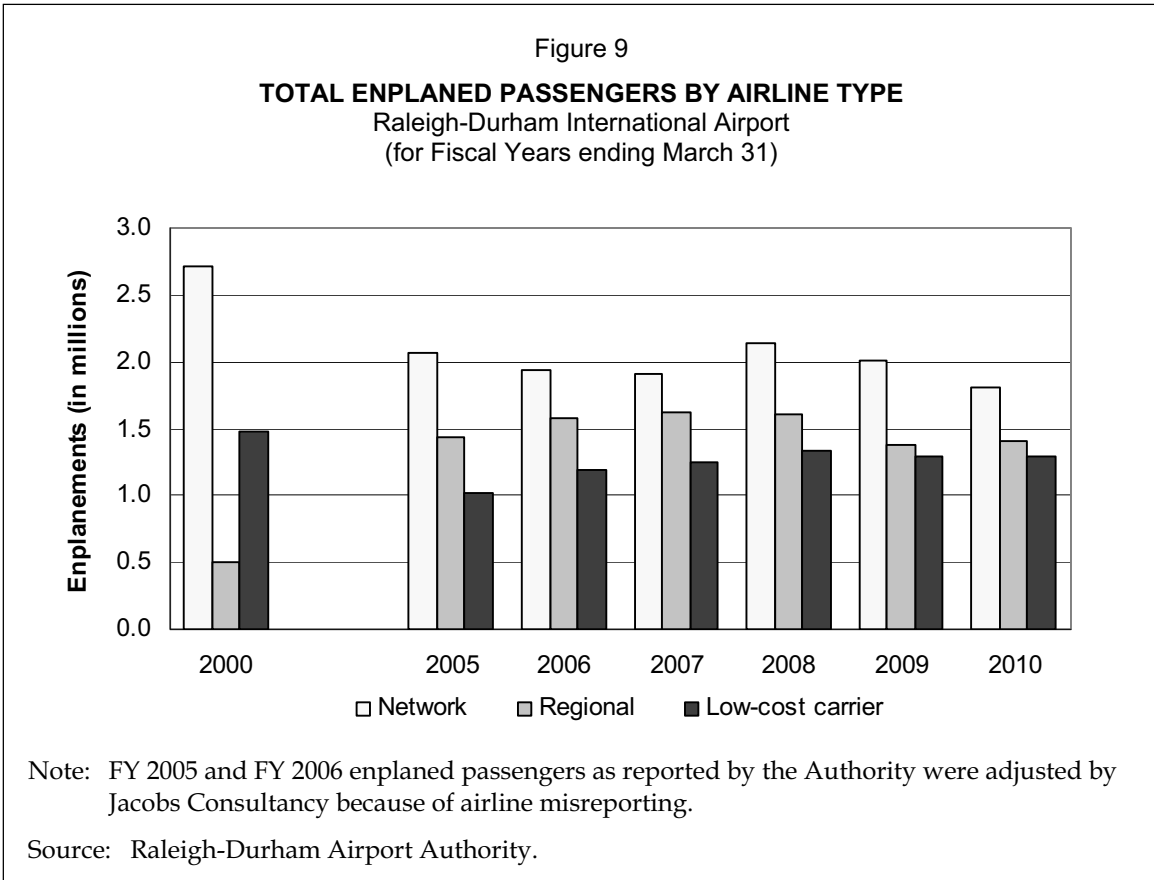
Delta Air Lines and its regional affiliates (following its merger with Northwest) ranked third in terms of enplaned passengers in FY 2010, accounting for 21.1% of total enplaned passengers at RDU.

In FY 2010, US Airways and its affiliates went from third place to fourth place in terms of numbers of enplaned passengers at RDU, accounting for 18.4% of enplaned passengers at the Airport in FY 2010.

In July 2006, JetBlue Airways began serving the Airport with daily nonstop flights to John F. Kennedy International Airport in New York, later expanding to offer daily nonstop service to Boston and Fort Lauderdale as well.

Regional/commuter airlines accounted for a relatively minor share of all passengers enplaned at RDU in FY 2000, but by FY 2005, they accounted for about one-third of all passengers enplaned at RDU (see Figure 9). The major network airlines enplaned 40% of total enplaned passengers at RDU in FY 2010, while the low-cost carriers (LCCs) accounted for 29% of total enplaned passengers in FY 2010. The share of LCC enplaned passengers at RDU in FY 2010 (29%) was roughly equivalent to the national average.

The regional affiliates account for a substantial proportion of the many airline groups' traffic at RDU. In FY 2010, for example, American Eagle and American's other regional affiliates accounted for 45% of American's enplaned passengers at RDU. Continental Express affiliates accounted for 61% of Continental's passenger traffic at the Airport, and the regional affiliates of US Airways and Delta accounted for 54% and 28%, respectively, of passengers carried by their groups at RDU in FY 2010.



**Passenger Air Service Trends**

Because changes in air service, airfares, and the routes on which service is offered affect the number of passengers enplaned, air service trends were examined as part of the airline traffic analysis and forecasting process. For comparison, published flight schedules for June 2000, 2005, 2009, and 2010 were used.

**Domestic Service.** Between June 2000 and June 2005, the number of daily departing flights and number of cities served nonstop from RDU decreased 17% and 29%, respectively (see Table 17), largely as a result of Midway dismantling its hub and terminating service at RDU. While service additions by other airlines did not completely offset the loss of Midway, a portion of Midway’s service was replaced.

Service reductions in recent years reflect a number of factors. All of the major network airlines have been struggling financially. Significantly higher fuel prices have exacerbated those financial pressures, even for the LCCs. In their quest for profitability, the major network airlines have been selectively cutting capacity throughout their route systems, both by reducing mainline jet operations and by transferring service on poorer-performing routes to their affiliated regional carriers to achieve higher load factors, improved pricing power, and better yields.



Table 17

**DAILY SCHEDULED DOMESTIC PASSENGER SERVICE**Raleigh-Durham International Airport  
(for the third week in June of years noted)

	2000	2005	2009	2010	Change		
					2000- 2005	2005- 2009	2009- 2010
<b>NUMBER OF CITIES SERVED NONSTOP</b>	<b>42</b>	<b>30</b>	<b>28</b>	<b>27</b>	<b>(12)</b>	<b>(2)</b>	<b>(1)</b>
<b>By Aircraft Type:</b>							
Total Jet	37	27	28	27	(10)	1	(1)
<i>Mainline Jet</i>	26	19	19	19	(7)	-	-
<i>Regional Jet</i>	23	18	17	17	(5)	(1)	-
Turboprop	11	4	1	1	(7)	(3)	-
<b>By Stage Length:</b>							
Long-haul (>1,800 miles)	-	3	3	3	3	-	-
Medium-haul (600-1,800 miles)	13	11	10	11	(2)	(1)	1
Short-haul (<600 miles)	29	16	15	13	(13)	(1)	(2)
<b>AVERAGE DAILY DEPARTING FLIGHTS</b>	<b>269</b>	<b>223</b>	<b>189</b>	<b>175</b>	<b>(46)</b>	<b>(34)</b>	<b>(14)</b>
<b>By Aircraft Type:</b>							
Total Jet	215	215	185	169	-	(30)	(16)
<i>Mainline Jet</i>	130	87	80	77	(43)	(7)	(3)
<i>Regional Jet</i>	85	128	105	92	43	(23)	(13)
Turboprop	54	8	4	6	(46)	(4)	2
<b>By Stage Length:</b>							
Long-haul (>1,800 miles)	211	153	135	123	(58)	(18)	(12)
Medium-haul (600-1,800 miles)	58	63	49	49	5	(14)	-
Short-haul (<600 miles)	-	7	5	3	7	(2)	(2)

Source: *Official Airline Guide*.

A comparison of jet flights operated in the top 20 domestic O&D city pair markets at RDU reveals changes in both the level of service and the degree of competition over the last 10 years (see Table 18). Most notably, a gradual concentration of air service has occurred in RDU's major markets; whereas 61% of all flights served the top 20 O&D markets in June 2000, those markets accounted for nearly 83% of all flights 10 years later.

From June 2000 to June 2010, domestic scheduled jet service at RDU decreased from 215 to 169 daily flights. In the Airport's top 20 markets, however, jet flights increased 8%. These increases in jet service in RDU's top 20 markets were offset by a 67% decrease in jet flights to other cities served from the Airport.

In June 2010, daily nonstop jet service was offered to 18 of the Airport's top 20 domestic O&D markets; only San Francisco and Seattle were not offered daily nonstop jet service from RDU.

The level of competition in the Airport's top 20 markets in June 2010 is also shown in Table 18. Two or more airlines operated competing nonstop jet service in 7 of RDU's top 20 markets. A further 11 markets were served nonstop by only one airline.

**Table 18**  
**COMPARISON OF NONSTOP JET SERVICE IN THE AIRPORT'S**  
**TOP 20 DOMESTIC CITY MARKETS**  
Raleigh-Durham International Airport  
(for the third week in June of years noted)

Rank (a)	City market	Nonstop distance (miles)	Airlines offering nonstop service (b)	Number of airlines serving (c)				Average daily jet flight departures			
				2000	2005	2009	2010	2000	2005	2009	2010
1	New York (d)	425	AA,B6,CO,DL,US	5	4	5	5	20	40	36	32
2	Chicago (e)	650	AA,UA,WN	3	3	3	3	13	15	13	13
3	Philadelphia	339	US,WN	2	2	2	2	10	12	13	11
4	Wash. D.C./Baltimore (f)	230	AA,UA,US,WN	4	5	5	4	18	30	27	24
5	Atlanta	360	DL,FL	3	2	2	2	18	16	15	15
6	Boston	612	AA,B6,DL	3	2	3	3	10	11	11	10
7	Orlando	529	WN	3	3	1	1	9	9	4	4
8	Los Angeles (g)	2,241	DL	-	-	-	1	-	-	-	1
9	San Francisco (h)	2,382	-	-	-	-	-	-	-	-	-
10	Dallas/Fort Worth (i)	1,054	AA	1	1	1	1	7	8	6	5
11	Tampa	585	WN	2	2	1	1	6	4	3	3
12	Las Vegas	2,030	WN	-	2	1	1	-	2	2	1
13	Fort Lauderdale	676	B6,WN	1	1	2	2	5	5	2	2
14	Nashville	451	WN	1	1	1	1	5	5	5	4
15	Denver	1,442	WN	-	-	1	1	-	-	1	1
16	Houston (j)	1,046	CO	1	1	1	1	3	5	5	5
17	Detroit	512	DL	1	1	1	1	5	4	4	5
18	Phoenix	1,896	WN	-	2	2	1	-	4	2	1
19	Minneapolis/St. Paul	991	DL	1	1	1	1	3	3	2	4
20	Seattle	2,354	-	-	-	-	-	-	-	-	-
	Top 20 markets			9	10	9	8	131	173	151	141
	Other markets							84	42	35	28
	Total---all markets			11	10	9	9	215	215	185	169

Note: Columns may not add to totals shown because of rounding.

- (a) Ranked by domestic outbound O&D passengers for the 12 months ended March 31, 2009.
- (b) For the third week of June 2010. Airline key: AA=American, B6=JetBlue, CO=Continental, DL=Delta/Northwest, FL=AirTran, UA=United, US=US Airways, WN=Southwest.
- (c) Each mainline airline and its regional code-sharing affiliates were counted as one airline.
- (d) Market includes Kennedy, LaGuardia, and Newark airports.
- (e) Market includes O'Hare and Midway airports.
- (f) Market includes Dulles, Reagan, and Baltimore airports.
- (g) Market includes Los Angeles, Burbank, Long Beach, Orange County, and Ontario airports.
- (h) Market includes San Francisco, San Jose, and Oakland airports.
- (i) Market includes Dallas/Fort Worth Airport and Love Field.
- (j) Market includes Hobby and Bush airports.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

**International Service.** In June 2010, 36 weekly flights were provided to international destinations from RDU. Flights to Toronto accounted for the majority, with Air Canada Jazz providing 28 weekly flights. American operates a daily transatlantic flight to London's Heathrow Airport and Delta has a seasonal weekly flight to Cancun, Mexico.

## **FORECASTS OF ENPLANED PASSENGERS AND LANDED WEIGHT**

The forecasts of enplaned passengers at RDU for FY 2011 through FY 2016 are discussed in this section. The number of enplaned passengers at RDU is forecast to increase an average of 2.3% per year, from 4.5 million in FY 2010 to 5.2 million in FY 2016, as illustrated on Figure 10.

In developing the airline traffic forecasts, it was assumed that, over the long term, the number of enplaned passengers at RDU will increase as a function of growth in the economy of the CSA and continued airline competition. It was assumed that airline service at RDU will not be constrained by the availability of aviation fuel, limitations in the capacity of the air traffic control system or the Airport, charges for the use of aviation facilities, or government policies or actions that restrict growth.

The forecasts of airline traffic at RDU were developed taking into account analyses of (1) historical trends in passenger traffic at the Airport, (2) recent trends in monthly passenger traffic at RDU, (3) historical and projected economic indicators for the CSA, the State, and the U.S., and (4) flight schedules filed by the airlines as published in the *Official Airline Guide*.

### **Near-Term Growth**

After two fiscal years of enplaned passenger declines, growth in the number of enplaned passengers is forecast at RDU in FY 2011. This growth is predicated on three primary assumptions:

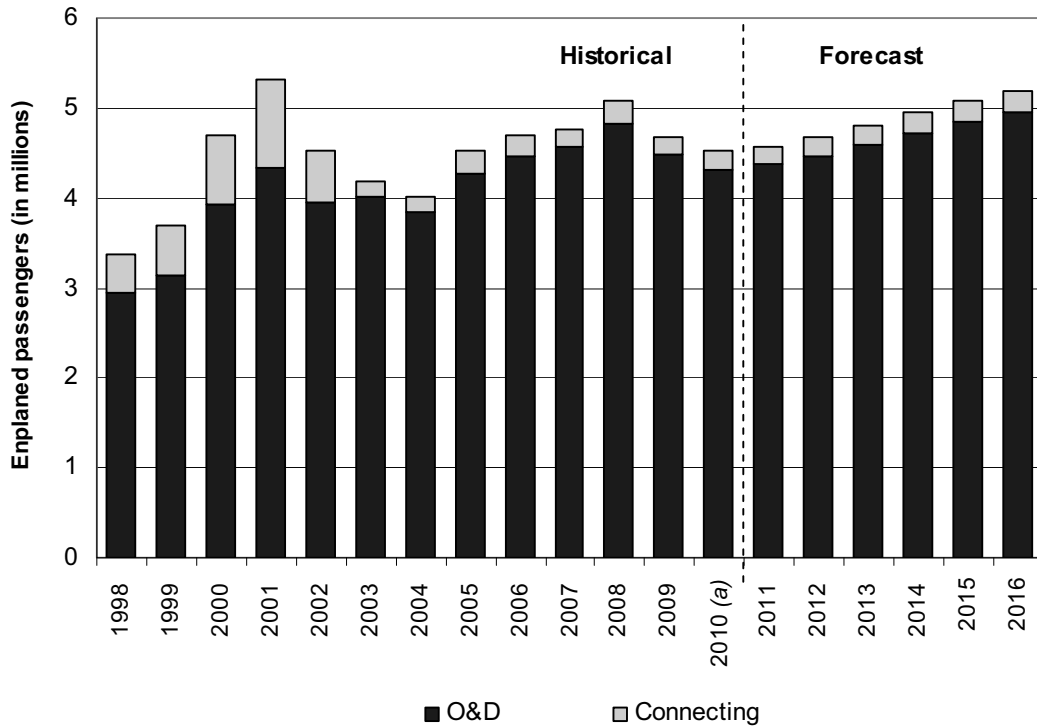
1. Given that growth in airline travel tends to follow economic growth, the modest economic recovery and expansion that is generally forecast to take place during 2010 will lead to a gradual strengthening of air travel demand at RDU in FY 2011.
2. The number of departing seats at RDU in FY 2011 is projected to increase by 0.8% when compared with FY 2010 (see Figure 11). This projection is based on the latest *Official Airline Guide* schedule for FY 2011, as adjusted for data that has not yet been released.
3. The load factor (total enplanements divided by total scheduled seats) for FY 2011 is based on the actual load factor for FY 2010 of approximately 77%. The assumed load factor of 77% is less than the 82% average load factor at RDU for first two months of FY 2011.

Figure 10

**HISTORICAL AND FORECAST ENPLANED PASSENGERS**

Raleigh-Durham International Airport  
(for Fiscal Years ending March 31)

The forecasts presented in this chart were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.



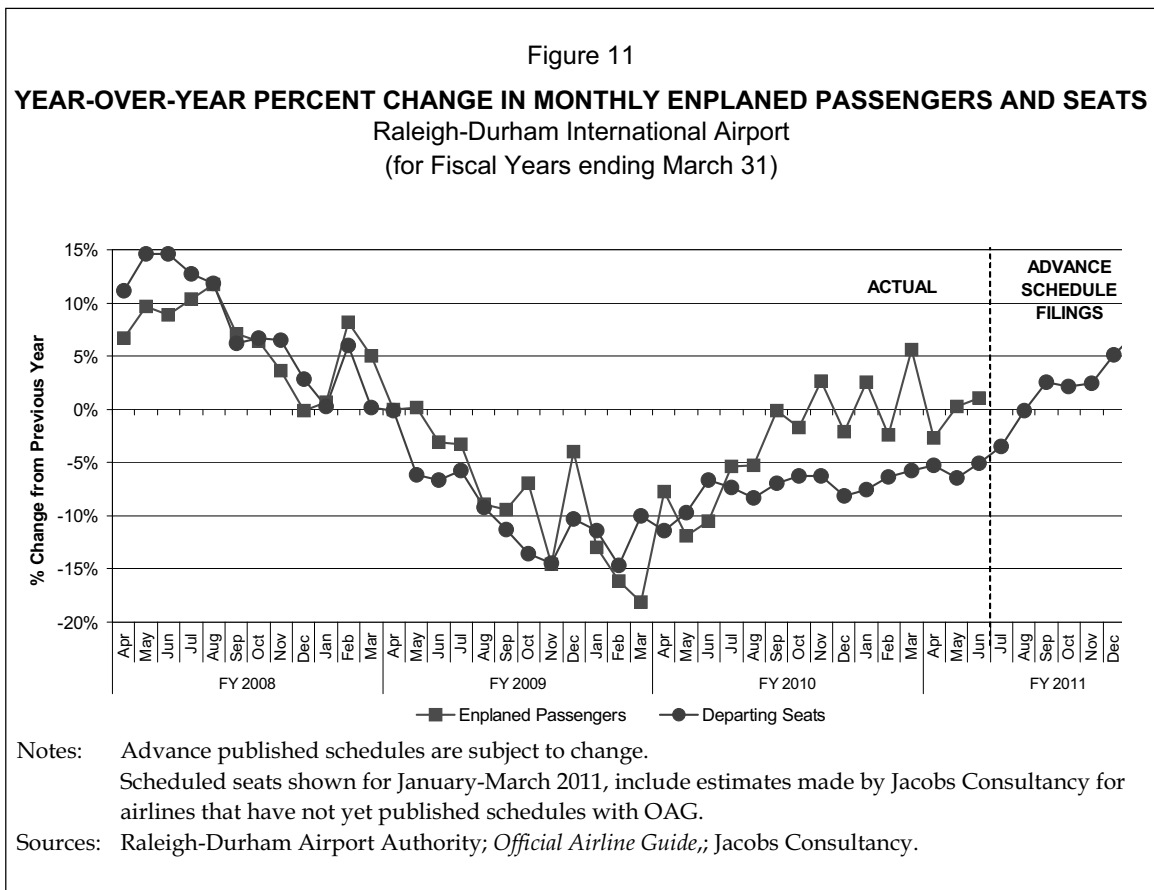
Notes: FY 2004, FY 2005, and FY 2006 enplaned passenger totals, as reported by the Authority were adjusted by Jacobs Consultancy because of airline misreporting.

(a) Total enplaned passengers shown for FY 2010 represent actual passengers reported to the Authority; however, the O&D and connecting split was estimated based on three quarters of actual data.

Sources: Historical—Raleigh-Durham Airport Authority; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Forecast—Jacobs Consultancy.

Figure 11 presents recent year over year changes in enplaned passengers and departing seats, as well as a projection for FY 2011 departing seats that relies substantially upon advance schedule filings in the *Official Airline Guide*. As shown, advance scheduling filings are projected to resume year over year growth in August 2010. Additionally, there are some indications that traffic at RDU is beginning to reverse course from the fall-off that began in FY 2008. The magnitude of passenger declines began to abate more quickly than capacity reductions, resulting in load factor increases at RDU. Over the last six months of FY 2010, total enplaned passengers were up by 0.7% over the same period in FY 2009. Total enplanements for FY 2011 are forecast to increase by 1.3%.



### Longer-Term Growth

In FY 2012 and beyond, the airline traffic forecasts for RDU were based on the following primary assumptions:

1. U.S. and global economic growth will support future increases in passenger traffic. The economy of the CSA will continue to increase faster over the long term than that of the U.S. consistent with the projected growth in key economic indicators presented in the earlier section, "Economic Outlook."

2. Demand for passenger travel to/from the CSA will remain strong based on the strength of the local economy, the area's population growth, and the CSA's relative attractiveness as a business destination.
3. The level of airline service will continue to improve at RDU, particularly in medium and long-haul domestic markets (as demonstrated by recent service additions by JetBlue to Boston, Delta to Los Angeles, Midwest to Milwaukee and Southwest to St. Louis) thereby stimulating passenger traffic in those markets.
4. RDU will continue to serve primarily domestic O&D passengers and a small but growing share of international O&D passengers.
5. Southwest Airlines will continue its current market share leadership followed closely by American and Delta. AirTran and JetBlue are expected to expand their market share at RDU based on the continued popularity of their service and relatively low fares.
6. No major act of terrorism, war, disease, or other extraordinary unforeseen event will materially affect airline travel at RDU or in the U.S. during the forecast period.
7. Increases in fuel prices will not affect the ability of the airlines to serve RDU or offer competitive airfares.

### **Passenger Forecast Trends**

Our forecast of 5.2 million total enplanements at RDU in FY 2016, compared with 4.5 million in FY 2010, implies an annual growth rate averaging 2.3 percent in the years FY 2010 through FY 2016. We anticipate the recovery in traffic to begin slowly with 1.3% growth forecast for FY 2011 and 2.0% growth in FY 2012. Between FY 2013 and FY 2014, we forecast a 3.0% average annual increase as the economic recovery strengthens. Following FY 2014 we forecast the growth rates to slow to 2.5% in FY 2015 and 2.3% in FY 2016. We expect load factors at the Airport to remain near the current level of approximately 77%, reflecting the carriers' current focus on cautious capacity (scheduled seats) management. The forecast is provided in Table 19.

For comparison, the FAA, in its annual Terminal Area Forecast (TAF) released in December 2009, forecast enplanement growth at RDU averaging 2.7% per year over the 2010 through 2016 period (compared to 2.3% in this Report). From 2012 to 2016, the TAF forecasts annual enplanement growth of 3.4% at RDU (compared to 2.7% in this Report).

### **Aircraft Landed Weight Trends and Forecast**

The forecast for aircraft landed weight is based on the same assumptions in regard to the timing of the economic recovery as used to develop the enplaned passenger forecast, as adjusted for expected minor changes to average aircraft size expected to occur over the forecast period FY 2011 to FY 2016.

In FY 2010, 5.9 billion pounds of aircraft landed weight were reported by airlines operating at RDU. The passenger airlines accounted for 92% (5.5 billion pounds) of the RDU total; the all-cargo airlines accounted for the remainder (see Table 20). Total aircraft landed weight at RDU is forecast to increase from 5.9 billion pounds in FY 2010 to 6.4 billion pounds in FY 2016, at an average rate of 1.2% per year.

Table 19

**HISTORICAL AND FORECAST ENPLANED PASSENGERS**

Raleigh-Durham International Airport  
(for Fiscal Years ending March 31)

The forecasts presented in this table were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

<u>Fiscal Year</u>	<u>Total</u>	<u>% Change from prior year</u>
Historical		
2000	4,703	
2001	5,326	13.3%
2002	4,527	(15.0)
2003	4,183	(7.6)
2004	4,005	(4.2)
2005	4,517	12.8
2006	4,699	4.0
2007	4,768	1.5
2008	5,082	6.6
2009	4,685	(7.8)
2010	4,518	(3.6)
Forecast		
2011	4,575	1.3
2012	4,667	2.0
2013	4,807	3.0
2014	4,951	3.0
2015	5,075	2.5
2016	5,189	2.3
	<u>CAGR</u>	
2010-2016	2.3%	
2010-2012	1.6%	
2012-2014	3.0	
2014-2016	2.4	

CAGR=Compound annual growth rate.

Note: FY 2004, FY 2005, and FY 2006 domestic enplaned passenger totals as reported by the Authority were adjusted by Jacobs Consultancy because of airline misreporting.

Sources: Historical—Raleigh-Durham Airport Authority records; U.S. Department of Transportation, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Forecast—Jacobs Consultancy.



Table 20

**HISTORICAL AND FORECAST AIRCRAFT LANDED WEIGHT**

Raleigh-Durham International Airport  
(for Fiscal Years ending March 31)

The forecasts presented in this table were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

Fiscal Year	Passenger airlines		All-cargo airlines		Total
	Landed Wt.	% of Total	Landed Wt.	% of Total	Landed Wt.
Historical					
2000	7,105.0	92.2%	604.2	7.8%	7,709.2
2001	8,537.1	92.5	689.9	7.5	9,227.1
2002	6,690.2	92.8	518.2	7.2	7,208.4
2003	6,110.6	91.9	538.2	8.1	6,648.9
2004	5,544.5	90.5	579.3	9.5	6,123.8
2005	6,287.5	92.0	550.3	8.0	6,837.8
2006	6,030.0	91.2	580.0	8.8	6,610.0
2007	6,177.8	91.8	550.1	8.2	6,727.9
2008	6,590.8	92.6	530.0	7.4	7,120.8
2009	5,957.5	92.1	508.7	7.9	6,466.2
2010	5,458.0	92.1	467.3	7.9	5,925.2
Forecast					
2011	5,464.0	92.0	471.9	8.0	5,935.9
2012	5,511.0	92.0	479.0	8.0	5,990.0
2013	5,612.0	92.0	488.6	8.0	6,100.6
2014	5,715.0	92.0	498.4	8.0	6,213.4
2015	5,792.0	92.0	505.8	8.0	6,297.8
2016	5,856.0	91.9	513.4	8.1	6,369.4
Compound annual growth rate					
2010-2016	1.2%		1.6%		1.2%
2010-2012	0.5%		1.2%		0.5%
2012-2014	1.8		2.0		1.8
2014-2016	1.2		1.5		1.2

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

Sources: Historical—Raleigh-Durham Airport Authority records.  
Forecast—Jacobs Consultancy

## FINANCIAL ANALYSIS

### FRAMEWORK FOR AIRPORT FINANCIAL OPERATIONS

The Authority accounts for Airport financial operations according to Generally Accepted Accounting Principles (GAAP) for governmental entities, federal regulations and Authority ordinances related to airlines rates, and requirements of the Indenture, as discussed below.

#### Organization and Management

The Airport is owned and operated by the Authority. The Authority, a public authority of the State of North Carolina, was created and empowered by Chapter 168 of the State's *Public-Local Laws*, enacted by the State General Assembly in March 1939, and enabling the cities of Raleigh and Durham and the counties of Wake and Durham to jointly establish, operate, maintain, and develop the Airport and to appoint members to its governing board.

An eight-member Board governs the Authority, and consists of two representatives from each of the cities of Raleigh and Durham and the counties of Wake and Durham. Board members are appointed for concurrent 2-year terms by their respective governmental units.

The Authority has many of the same powers as North Carolina local governmental units. For example, the Authority can exercise the power of eminent domain to condemn privately held land and make it property of the Authority; however, the Authority does not have the power to impose taxes.

Before the Authority issues any form of debt, it must obtain the approval of the Local Government Commission, a division of the North Carolina Department of the State Treasurer, which oversees bond issuances by governmental units of the State.

The Airport Director is the Chief Executive Officer of the Authority. He reports to the Board, hires and supervises all subordinate staff members, and manages the day-to-day activities of the Airport. The Authority has its own police and firefighting units, whose jurisdictions extend to approximately one mile outside the Airport's property boundary.

#### Indenture

The proposed 2010A Bonds are to be issued under the terms and conditions of the Master Trust Indenture executed by the Authority in 2001, as amended, authorizing the issuance of Airport Revenue Bonds (Bonds) and an Eleventh Supplemental Indenture authorizing the issuance of the proposed 2010A Bonds (together, the Indenture). Prior to the issuance of the 2010A Bonds, the principal amount of the Authority's Bonds outstanding – including the 2001 Bonds, the 2005 Bonds, the 2007 Bonds, and the 2008 Bonds – was \$710.2 million.

Bonds issued under the Indenture are payable from and secured by a pledge of and lien on the Net Revenues (Revenues less M&O Expenses) of the Authority.

In Section 5.04 of the Master Trust Indenture (referred to as the Rate Covenant), the Authority covenants to establish, fix, prescribe, and collect rates, tolls, fees, rentals, and charges in connection with the Airport so that Net Revenues in each Fiscal Year (1) will at least equal the amount necessary in that Fiscal Year to (a) pay debt service on all parity Bonds, (b) make required deposits to any Debt Service Reserve Fund under the Master Trust Indenture or any Supplemental Indenture, (c) pay any reimbursement owed to any issuer of a credit facility or a standby purchase agreement for any Bonds, and (d) pay debt service and fund any required reserve fund payments on any Subordinated Obligations, and (2) together with any Transfer, will equal at least 125% of Aggregate Annual Debt Service on Outstanding Bonds.\*

To issue additional Bonds other than refunding Bonds, under Section 2.11(a) of the Master Trust Indenture (the "Additional Bonds Test"), the Authority must provide the Trustee, among other things, evidence indicating that the Authority is in compliance with the Rate Covenant and either:

a Consultant retained by the Authority has provided to the Trustee a certificate stating that, based upon reasonable assumptions, projected Net Revenues will be sufficient to satisfy the rate covenant set forth in Section 5.04 (disregarding any Bonds or Subordinated Obligations that have been paid or discharged or will be paid or discharged immediately after the issuance of the additional Bonds proposed to be issued) for each of the next five full Fiscal Years following issuance of the additional Bonds, or each full Fiscal Year from issuance of the additional Bonds through two full Fiscal Years following completion of the Projects financed by the additional Bonds proposed to be issued, whichever is later; provided, that if Capitalized Interest on any Bonds and proposed additional Bonds is to be applied in the last Fiscal Year of the period described in this sentence, the Consultant shall extend the test through the first full Fiscal Year for which there is no longer Capitalized interest, or

an Authorized Authority Representative has provided to the Trustee a certificate stating that Net Revenues for the most recent Fiscal Year preceding the date of issuance of the proposed Series of Bonds were no less than 125% of Maximum Aggregate Annual Debt Service on all

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\*For purposes of the Rate Covenant, the amount of any Transfer taken into account may not exceed 25% of Aggregate Annual Debt Service on Outstanding Bonds in such Fiscal Year.

Bonds that would be Outstanding after the issuance of the additional Bonds proposed to be issued.

To issue refunding Bonds, the Authority must either meet the requirements set forth in the "Additional Bonds Test" or, under Section 2.11(b) of the Master Trust Indenture (the "Refunding Bonds Test"), demonstrate that the Aggregate Annual Debt Service in each Fiscal Year will be lower as a result of the refunding. The Authority has elected to meet the Additional Bonds Test outlined in Section 2.11(a) of the Master Trust Indenture for the issuance of the proposed 2010A Bonds.

### **Airline Agreements, Rates, and Charges**

**Airport Operating and Use Agreements.** All of the scheduled airlines operating at the Airport, with the exception of American Airlines, have entered into month-to-month letter operating agreements (the Operating Agreements) with the Authority providing for the operation of a scheduled airline passenger business at the Airport and, for most of the airlines, the leasing of space in Terminal 1 or 2. These month-to-month airline Operating Agreements govern the rights and responsibilities of the airlines at the Airport.

Under the Operating Agreements, the airlines are required to pay rent to the Authority for leased space in the terminals and for the use of Authority-owned common use systems and equipment. The rent payments are determined based on the amount of square footage leased by an airline for ticket counter space, gate space, baggage handling and claim space, security checkpoint space, and administrative office space. The cost to provide security checkpoints, baggage claim space, Authority-owned common-use systems and equipment, and law enforcement services is prorated among the airlines. The cost to provide utility services is also included in the airlines' fixed rental rates. Any operating airline whose senior corporate rating is below investment grade is required to post payment collateral equal to 90 days of estimated Airport rentals, fees, and charges. Any such operating airline that is unable to post the payment collateral through a bond or letter of credit must pay its rentals, fees, and charges one month in advance.

The former Terminal C (replaced by Terminal 2) was constructed by American Airlines as a regional hub facility and was placed into service in 1987. The Authority purchased American Airlines' leasehold interest in Terminal C and related facilities pursuant to an agreement dated May 23, 2002. The current lease with American Airlines provides, among other things, that (1) American is subject to the same terminal rental rates as all other airlines, as adopted by the Authority through its annual Budget Ordinance, (2) Leased Premises are to be rented by American in Terminal 2 for its preferential use, (3) the Authority has the right to relocate the Leased Premises during the term of the lease to allow for the renovation, expansion, and redevelopment of Terminal 2, (4) a rent credit equal to \$2,162,500 as of March 31, 2010 (as adjusted by changes to the Authority's terminal rental rate structure and American Airlines' Leased Premises, if any) will be applied at the rate

of \$25,000 per month, and (5) the lease term will be 15 years, expiring on June 15, 2017. In addition, American is entitled to flow up to 38 million gallons of jet fuel through the fuel farm annually without incurring uplift charges through the lease term.

**Airline Rates and Charges and the Budget Ordinance.** Prior to the beginning of each Fiscal Year, the Authority adopts a Budget Ordinance that provides the basis for the rentals, fees, and charges paid by the airlines and other Airport tenants, and includes the Authority's detailed revenue and operating expense budget for the Fiscal Year. The Authority also annually adopts a capital Budget Ordinance for all capital projects.

The Authority has established multiple cost centers, referred to as "complexes," to track revenues and expenses to be used in the calculation of airline and nonairline rates and charges. The Authority accounts for all operating revenues, and for direct M&O Expenses, on the basis of these complexes. In addition, the Authority incurs certain expenses, which are allocated to the complexes based on estimated use by complex. The Authority uses a time tracking system for personnel expenses and direct labor to facilitate this allocation.

The complexes are described below:

- ***Terminal 1.*** The passenger terminal building and extension, including the connecting corridor, a boiler/chiller house and associated facilities, a service court, an aircraft maintenance building, associated curbside entrance areas, and adjoining landscaped areas.
- ***Terminal 2.*** The passenger terminal building, associated curbside entrance areas, and adjoining landscaped areas, as well as miscellaneous facilities, including adjacent aircraft apron areas, an air cargo building, and an in-flight catering kitchen. When Phase 1 of Terminal 2 was completed, the Authority also began separately tracking the operating, maintenance, and capital costs of Authority-provided airline operations systems and equipment within this complex.
- ***Fuel Farm.*** Bulk fuel storage farm and a hydrant fuel distribution system owned and operated by the Authority. Prior to April 1, 2007, these facilities were operated by a management company under a management agreement.
- ***Airfield.*** The runways, taxiways, aprons (except aprons adjacent to the cargo buildings, and general aviation facilities), approach and runway protection zones, safety areas, infield areas, landing and navigational aids, service roads, electrical vaults, fencing, and land areas at the Airport required by or related to aircraft operations (landings, takeoffs, and taxiing).

- ***Ground Transportation.*** A taxicab service area and passenger terminal area roadways and ramps.
- ***Parking.*** The public vehicle parking garages, Park & Ride lots, and other public and employee parking areas.
- ***Rental Car.*** Rental car service facilities, ready/return areas, and storage facilities.
- ***General Aviation.*** The hangars, buildings, and apron areas serving or occupied by the Airport's fixed base operators, corporate/private aircraft operators, and other general aviation users. This complex also includes a general aviation terminal to serve the general aviation community.
- ***North Cargo Area.*** The buildings occupied by DHL, FedEx, and UPS Air Cargo, and associated car and truck parking areas, and apron area adjacent to the buildings.
- ***South Cargo Area.*** The buildings occupied by Schenker, Inc. (formerly BAX Global), freight forwarders, and concessionaires, among other tenants.
- ***Utilities.*** All underground water and sewer lines on Airport property to the faces of buildings; fire hydrants, vaults, sewer pump stations, and associated emergency power supplies and valves; landscaping irrigation systems.
- ***Other.*** Miscellaneous facilities that are not included in the other complexes, including buildings and areas occupied by the North Carolina Department of Transportation, the Authority's maintenance building, the Authority's operations center, and the RDU Center (the Authority's administration building).

## **CAPITAL PROGRAM**

### **Capital Improvement Program**

The Authority has developed a multiyear CIP for the Airport for FY 2011-FY 2016. The CIP includes \$209 million in expenditures over the multiyear period, as summarized in Exhibit 1.1. Completion of Terminal 2 represents the largest project in the CIP, with \$89 million of expenditures remaining. The Terminal 1 project and associated roadway improvements represent the next largest project in the CIP, with a \$63 million budget. The Terminal 2 and Terminal 1 projects are described in more detail below.

The CIP represents the Authority's plan for significant capital improvements expected to be undertaken through FY 2016. Cost estimates were provided by the Authority and its consultants and include allowances for design, construction management, and contingencies.

As summarized in Exhibit 1.2, the Authority intends to fund the costs of the CIP through a combination of internally generated cash flow, PFCs, AIP grants-in-aid, State grants, and existing Bond proceeds.

The Authority reassesses its capital needs at least annually and will modify the CIP as necessary to accommodate security needs, fulfill management's financial performance targets (including cost per enplaned passenger, unrestricted cash on hand, and debt service coverage), and other factors, which could result in increases or decreases to the CIP, or extend the timing to complete certain projects. The Authority has included projects in the CIP planning period that may or may not proceed during the period depending upon demand, availability of funding, and other considerations (Demand Driven Projects). Such Demand Driven Projects are outside the scope of the CIP and include a consolidated rental car facility and related roadway infrastructure improvements, which together total \$110 million. Construction of the CRCF and related roadway improvements would not begin until FY 2016 at the earliest, and is expected to be funded primarily using the proceeds of bonds supported by CFC Bonds and Authority funds.

With the exception of the Demand Driven Projects, forecast Authority funding, debt service, M&O Expenses, and revenues for CIP projects are included in the financial forecasts accompanying this Report.

**Terminal 2 Project.** Terminal 2 is being developed on the site of the former Terminal C, which was originally designed and constructed for operation as an airline hub by American Airlines. As a hub terminal, the prior configuration and available space (security, ticketing, and baggage claim facilities) were insufficient to accommodate the current use of the facility for O&D passengers. In addition, its configuration was designed for use by a single airline rather than multiple airlines.

The Authority determined that the old Terminal C would be replaced by a new Terminal 2, which is the primary project included in the CIP. The project budget is \$582 million, with \$89 million remaining to be spent in FY 2011 and FY 2012 (or 42% of the total cost of the CIP). The sources of funding for the \$89 million are the proceeds from Bonds on hand (\$22 million), PFC pay-as-you-go revenues (\$47 million), and Authority funds (\$20 million). To date, the Authority has funded the Terminal 2 project with the proceeds of the previously issued Bonds, Authority funds, and a Transportation Security Administration (TSA) grant. The TSA has provided funding for about 40% of the security infrastructure components of the project, or \$7 million.

The Terminal 2 project was undertaken in two discrete phases. Phase 1 consisted of the demolition of the north concourse and part of the existing processor building, and construction of the foundation, central energy plant, new north concourse, and part of the new processor. Phase 1 was placed into service in October 2008.

When Phase 1 of the Terminal 2 project was completed, the remainder of Terminal C and the south concourse were closed for demolition. Phase 2 was initiated in August 2008 and is scheduled to be complete by January 2011. Phase 2 consists of the demolition of the remainder of the existing processor building and south concourse, construction of the second part of the processor building, and construction of the replacement south concourse.

Additional detail about Terminal 2 was presented earlier in the Airline Traffic Analysis section of the Report.

The Terminal 2 project also required several improvements to airside facilities, including the relocation of Taxiway D and new apron areas to park aircraft at Terminal 2, all of which are complete.

**Terminal 1 Project.** The Authority has developed a conceptual plan for the reconfiguration and redevelopment of Terminal 1. As airlines relocate to the newly completed Terminal 2, the airlines remaining in Terminal 1 will be consolidated into the southern processing area (former Terminal A), and the northern processing area (former Terminal B) will be decommissioned, including the demolition of the baggage claim hall. The project will include renovation of the ticket lobby, relocation of Southwest Airlines from the northern processing area, redevelopment of the security checkpoint, new vertical circulation cores and patterns, improvements to passenger amenities throughout the terminal, redeveloped concessions airside and landside, and improvements to the curbside operation.

This project is budgeted to cost \$63 million, including the associated roadway improvements, and construction could begin late in FY 2011. The Authority estimates that the Terminal 1 project could be complete by late FY 2013. The Authority intends to pay for the Terminal 1 project with internally generated funds.



## **Plan of Refunding**

Exhibit 2.0 presents a summary of the estimated sources and uses of funds for the refunding plan. The Authority intends to issue the fixed rate 2010A Bonds to refund the outstanding 2008A/B Bonds, outstanding in the aggregate principal amount of \$216,870,000. In connection with the refunding, the Authority intends to terminate the related outstanding interest rate exchange agreements (swaps), which have a notional amount of \$216,872,500. Jefferies & Company, Inc., the Authority's financial advisor, provided the estimated plan of refunding on the basis of certain assumptions, including: (1) an estimated swap termination amount of \$23,435,000 and (2) an all-in interest rate cost of 4.55%.

Information contained in this Report related to the Plan of Refunding for the Series 2008A/B Bonds is preliminary and subject to change. Depending on market conditions on or before the sale date for the 2010A Bonds, it is possible that the Authority may decide to only redeem a portion of the 2008A/B Bonds. See the "Plan of Refunding" within the Official Statement to which this Report is attached.

The Authority intends, but is not obligated, to use its own available funds to redeem all of the outstanding 2001B Bonds in the aggregate principal amount of \$10,395,000 (plus a 1% premium thereon) on May 1, 2011. The Authority will also consider, depending on market conditions at the time, refunding all or a portion of the 2001A Bonds in order to achieve debt service savings. For the purposes of this Report the redemption of the 2001B Bonds is assumed, but the refunding for savings of the 2001A Bonds is not assumed.

## **Passenger Facility Charges**

PFCs are imposed on enplaned passengers by airport sponsors to generate revenues for airport projects that increase capacity, enhance competition among and between air carriers, enhance safety or security, or mitigate noise impacts. PFCs were established by Title 49 U.S.C. §40117, and authorized airport sponsors to collect PFCs in the amount of \$1.00 to \$3.00 per eligible enplaning originating and connecting passenger. The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21) increased the maximum PFC level airport sponsors could collect to \$4.50 per enplaning passenger. In return for the right to assess PFCs in the amount of \$1.00 to \$3.00, large and medium hub airports must forego up to 50% of their AIP entitlement funds. Large and medium-hub airports (such as RDU) that collect a PFC of \$4.00 or \$4.50 must forego 75% of their AIP entitlement funds.

The Authority currently collects a \$4.50 PFC per enplaning passenger under existing approved applications by the FAA. The Authority has \$772.7 million in approved PFC applications and amendments, primarily related to the Terminal 2 project (including bond capital, interest, and financing approval).

PFCs do not constitute Revenues as defined under the Indenture. The Authority is required to deposit PFCs, to the extent received including any investment earnings

thereon, up to the amount irrevocably committed in each Fiscal Year, in the PFC Revenue Fund. If PFCs received in a Fiscal Year are less than the specified level of irrevocable commitment, the Authority may, but is not obligated to, apply or use uncommitted PFCs from prior Fiscal Years. To the extent that PFCs are irrevocably committed or otherwise applied to pay debt service, Annual Debt Service is reduced by the amount so committed or otherwise applied for the purposes of determining Aggregate Annual Debt Service payable from Net Revenues and in calculating compliance with the Rate Covenant.

Exhibit 4.0 presents historical and forecast PFC collections, interest earnings, and the application of PFC revenues to pay debt service and eligible project costs. As shown on the exhibit:

- The Authority has \$70.8 million of PFCs on hand as of March 31, 2010.
- During the forecast period, 94% of passengers are forecast to be eligible to pay a PFC. The estimated percentage of eligible passengers paying a PFC has been at or above 94% in recent years (in FY 2009, the ratio was 94.4%).
- In FY 2011 through FY 2014, the Authority expects to collect less PFCs than the specified level of irrevocable commitment in the Seventh and Eighth Supplemental Indentures. However, the Authority expects to use PFCs from prior Fiscal Years to fund the specified level of irrevocable commitment during the period.
- In FY 2015 and FY 2016, the Authority expects to collect more PFCs than have been irrevocably committed in the Eighth and proposed Eleventh Supplemental Indentures. In addition to amounts irrevocably committed, the Authority expects to apply annual collections and, if necessary, PFCs from prior Fiscal Years to reduce Aggregate Annual Debt Service for the purposes of calculating compliance with the Rate Covenant.
- Finally, in FY2011 and FY2012 the Authority intends to apply \$47 million in pay-as-you-go PFCs (from the accumulated balance of \$70.8 million noted above) to complete portions of the Terminal 2 project. There are no other projects in the CIP for which PFCs are a funding source.

### **Debt Service Requirements**

Exhibit 3.0 presents historical and forecast Annual Debt Service and Aggregate Annual Debt Service on the Outstanding Bonds and the proposed 2010A Bonds. To the extent that PFCs are irrevocably committed or otherwise applied to pay debt service, Annual Debt Service is reduced by the amount so committed or otherwise applied for the purposes of determining Aggregate Annual Debt Service payable from Net Revenues and in calculating compliance with the Rate Covenant.

The planned redemption of the 2001B Bonds on May 1, 2011 is reflected in the Exhibit, however no savings are assumed for a potential refunding of the 2001A Bonds.

Annual Debt Service was provided by Jefferies & Company, Inc., the Authority's financial advisor. Regarding the proposed 2010A Bonds, Jefferies & Company, Inc., assumed that there would be no capitalized interest, the first interest payment would be made on November 1, 2010, principal payments would begin on May 1, 2011, and the final maturity would be May 1, 2036. Exhibit 3.0 shows the Annual Debt Service. There are currently no Subordinated Obligations.

## **EXPENSES AND REVENUES**

### **Expenses**

M&O Expenses of the Authority are defined as the total maintenance and operation expenses of the Authority, excluding depreciation expenses, allowances for any amortization of financing expenses, and maintenance and operation expenses of any Special Facilities.

Exhibit 5.0 presents historical, budgeted, and forecast M&O Expenses by type of expense and by complex for FY 2009 through FY 2016. FY 2009 M&O Expenses were obtained from the financial records of the Authority, which were reconciled to the Authority's audited financial statements. FY 2010 estimated M&O Expenses were provided by the Authority using 12 months of unaudited data. The FY 2011 budgeted M&O Expenses were obtained from the Authority's operating budget and were used as the base year in the forecast.

The Authority has included 290 full-time authorized positions in its FY 2011 budget (see Table 21). As of April 2010, the Authority had 267 active full-time employees.

Table 21

**AUTHORIZED FULL-TIME AIRPORT POSITIONS**

Raleigh-Durham Airport Authority  
FY 2011 Budget

Department	Authorized positions
Airport Director's office	7
Finance, business and administration	26
Information services	19
Law enforcement (a)	34
Operations	93
Facilities, engineering, and maintenance	86
Major capital improvement program	4
Marketing, customer and visitor services	<u>21</u>
	290

(a) There are 39 additional authorized part-time law enforcement employees.

Source: Raleigh-Durham Airport Authority records.

The Authority seeks to improve the efficiency of operations and recently completed a grant-funded program of converting runway and taxiway lighting to light emitting diode (LED) technology. LED lighting offers substantial operational savings over traditional quartz lighting, reducing energy costs by up to 60% and saving on maintenance because of less frequent lamp replacement. The Airport is one of the first airports in the nation to use LED lighting on its airfield.

Forecast M&O Expenses are based on actual historical trends, the FY 2011 budget, assumptions about Authority staffing levels, and assumed increases in the unit costs of labor, services, utilities, and supplies as a result of price inflation. In particular, it was assumed that:

- The unit costs of labor, services, utilities, and supplies would increase an average of approximately 3% per year in FY 2012 and FY 2013, and 5% per year thereafter.
- Incremental additional expenses to operate Phase 2 of Terminal 2 are included in the FY 2011 budget.
- The assumed M&O Expenses growth of 3% per year in FY 2012 and FY 2013 and 5% per year thereafter includes all expected increases in Authority staffing; increases in materials, supplies, and services; and any incremental

M&O Expenses associated with future Airport CIP projects during the forecast period.\*

In February 2001, the Authority formally adopted a budgeted operating reserve policy that provided that the Authority maintain an unencumbered reserve amount equal to one times the current Fiscal Year's budgeted cash operating expenditures. This M&O Expense reserve is retained in the Surplus Fund. In 2005, the Authority revised this policy to cap the M&O Expense reserve at \$35 million. The Authority plans to revise the cap from \$35 million to \$50 million in FY 2011 (which would increase the amount to more than one year of M&O Expenses based on the FY 2011 budget).

### **Revenues**

Revenues are generally defined as all income, receipts, earnings, and revenues received by the Authority from the operation and ownership of the Airport, as determined in accordance with GAAP, subject to certain specific exclusions, including (1) PFCs, (2) Special Facility Revenue, (3) gifts, grants, and other income restricted to purposes inconsistent with the payment of debt service on Bonds, and (4) certain insurance proceeds.

Exhibit 6.0 presents historical and forecast Revenues by type of revenue and by complex for FY 2009 through FY 2016. FY 2009 Revenues were taken from the financial records of the Authority, which were reconciled to the Authority's audited financial statements. FY 2010 estimated Revenues were provided by the Authority using 12 months of unaudited data. The FY 2011 budgeted Revenues were taken from the Authority's operating budget and were used as the base year data in the forecasts. Revenues for FY 2010 and FY 2016 are summarized in Table 22.

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\*The financial forecasts in this Report do not include any incremental debt service, Revenues, or M&O Expenses associated with potential Demand Driven Projects.

Table 22  
**FORECAST REVENUES**  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

	<u>FY2010</u>		<u>FY2016</u>	
	<u>Total</u>	<u>Percent of Total</u>	<u>Total</u>	<u>Percent of Total</u>
Passenger airline revenues				
Terminal revenues				
Terminal rentals	\$ 9,545,559	10.5%	\$ 11,675,844	10.9%
Equipment charges	4,192,492	4.6%	5,062,507	4.7%
Other	1,783,814	2.0%	1,707,942	1.6%
Landing fees	<u>12,164,579</u>	<u>13.4%</u>	<u>13,263,991</u>	<u>12.4%</u>
Subtotal passenger airline revenues	\$ 27,686,444	30.5%	\$ 31,710,284	29.7%
Enplaned passengers	4,518,000		5,075,000	
Airline CPE	\$ 5.92		\$ 5.81	
Nonairline revenues				
Airfield revenues	\$ 335,211	0.4%	\$ 354,907	0.3%
Terminal concessions	5,589,750	6.1%	6,848,637	6.4%
Parking	34,686,949	38.2%	45,249,464	42.4%
Rental car	11,604,879	12.8%	13,079,211	12.3%
Cargo	2,004,795	2.2%	2,248,413	2.1%
Fuel farm	961,740	1.1%	1,034,408	1.0%
General aviation	1,398,821	1.5%	1,627,818	1.5%
Ground transportation	387,856	0.4%	468,673	0.4%
Interest income	3,750,839	4.1%	698,194	0.7%
Other	<u>2,512,472</u>	<u>2.8%</u>	<u>3,419,674</u>	<u>3.2%</u>
Subtotal nonairline revenues	\$ 63,233,312	69.5%	\$ 75,029,399	70.3%
Total Revenues	\$ 90,919,756	100.0%	\$ 106,739,683	100.0%

Source: Raleigh-Durham Airport Authority and Jacobs Consultancy.

**Airline Revenues.** Airline revenues consist of landing fees, terminal rentals, equipment charges, and miscellaneous terminal fees from the passenger airlines. Airline revenues are estimated to account for approximately 30.5% of Revenues in FY 2010 and 29.7% in FY 2016.

Recent historical and budgeted rate schedules are presented in Table 23 below.

Table 23			
<b>BUDGETED AIRLINE LANDING FEE AND TERMINAL RENTAL RATES</b>			
Raleigh-Durham Airport Authority (for Fiscal Years ending March 31)			
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Landing fee rate (per 1,000 lbs. of weight)			
All airlines, all operators	\$1.5896	\$2.0540	\$1.9214
Terminal rental rates (per sq. ft. per year)			
Class I space (ticket counter)	\$88.00	\$88.00	\$88.00
Class II space (holdroom/bag claim)	66.00	66.00	66.00
Class III space (office)	44.00	44.00	44.00
Class IV space (bag makeup/tug corridor)	22.00	22.00	22.00
<hr/>			
Source: Raleigh-Durham Airport Authority.			

Under the existing rate-making policy, the Authority calculates landing fee rates according to a cost center compensatory methodology. The Authority allocates certain indirect M&O Expenses to the complexes (described earlier), including Authority administration, facilities maintenance, law enforcement, emergency services, and Airport operations on the basis of direct labor costing systems. The Airfield cost base is defined as the sum of direct and indirect (1) M&O Expenses, (2) debt service payments attributable to the Airfield, (3) depreciation and return on investment for Airport cash-funded Airfield facilities, and (4) a 6% return on investment for the cost of Airfield land acquired with Authority funds.

As shown in Exhibit 6.1, the total Airfield cost is determined each Fiscal Year and then allocated between airline and general aviation users. The airline share is divided by the forecast landed weight of passenger and cargo aircraft to determine the required airline landing fee rate per 1,000-pound units of landed weight.

Airline space rental rates in Terminals 1 and 2 are established taking into consideration (1) the costs incurred by the Authority in operating and maintaining Terminals 1 and 2 and (2) nonairline revenues generated in the terminals. Terminal rental rates are established for different classes of space.

Historically, the Authority has revised terminal rental rates infrequently to provide a degree of rate stability for the airlines.\* The Authority intends to maintain current terminal rental rates through FY 2013 and then increase rates in FY 2014 to \$100, \$75, \$50, and \$25 for Class I, II, III, and IV space, respectively.

Airline equipment charges are related to common use equipment and systems in Terminal 2, including passenger loading bridges, the flight and baggage information system, resource management center, and baggage claim. Rates are set using various methodologies to recover the capital and maintenance costs of the equipment and systems.

Exhibit 6.2 shows the forecast of airline revenues for Terminal 1 and Terminal 2, airline equipment and other charges, and other miscellaneous airline terminal fees. As stated earlier in this Report, American Airlines is entitled to a rent credit to be applied to its terminal rentals.

Exhibit 6.3 shows historical and forecast airline costs per enplaned passenger at the Airport from FY 2009 through FY 2016. As shown, the cost per enplaned passenger decreases from an estimated high of \$5.92 in FY 2010 to remain below \$6.00 throughout the forecast period.

**Commercial Revenues.** The major sources of commercial revenue are terminal concessions, public parking, and rental cars, which, in FY 2010, are estimated to account for 57% of Revenues. Table 24 shows the major sources of commercial revenues and the revenue per enplaned passenger by type of revenue. Forecasts of commercial revenues were based on the provisions of existing agreements, historical trends in revenue per enplaned passenger, forecast increases in enplaned passengers, and other factors.

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\*The last terminal rate increase was 10% per class implemented on April 1, 2006 (the beginning of FY 2007). Prior to that, the terminal rate was last increased in FY 2002.



Table 24  
**COMMERCIAL REVENUES**  
Raleigh-Durham Airport Authority  
FY 2010

	<u>Total</u>	<u>Revenues per Enplaned Passenger</u>
Terminal Concessions		
Food and beverage	\$ 2,460,548	\$ 0.54
News and gift	1,799,783	0.40
Advertising	752,690	0.17
Other	<u>576,729</u>	<u>0.13</u>
Subtotal Terminal Concessions	\$ 5,589,750	\$ 1.24
Parking	34,686,949	7.68
Rental Cars	<u>11,604,879</u>	<u>2.57</u>
Total Commercial Revenues	\$ 51,881,578	\$ 11.48

Source: Raleigh-Durham Airport Authority.

**Terminal Concessions.** The Authority has entered into agreements with concessionaires to provide various services and food, beverage, and retail sales. The concessions are predominantly located within terminal areas beyond passenger security screening checkpoints. The agreements provide for payment of the greater of specified minimum annual guarantees or rents calculated as a percentage of sales.

Two primary concessionaires operate food and beverage services in the terminals, and two others provide retail services. Other concessionaires provide additional sales and services, including advertising and currency exchange. The Authority has made provisions or intends to make provisions in the agreements to adjust leased premises as terminal space is modified.

In-terminal concessions generated \$5.6 million in revenues during FY 2010, equal to 6% of total FY 2010 Revenues.

**Parking.** The Authority manages all public parking facilities at the Airport. Four structured and multiple surface lots throughout the Airport provide 20,350 public parking spaces. Airport customers have several parking options, including "hourly" and "daily" parking in the garages, and "Park & Ride" lots with shuttle bus service to the terminals. The hourly and daily parking garages are located between Terminals 1 and 2. There are 11,018 parking spaces within walking

distance of the terminals. Park & Ride Lots 3 and 4, with 6,354 spaces, are open year round, while Lots 2 and 5, with 2,751 spaces, are used for overflow parking only during the year-end holiday periods. There are 227 spaces for general aviation patrons. Park & Ride Lot 1 closed with the opening of Parking Garage 4. There is no material off-Airport parking competition.

Parking revenues reached a historical peak of \$39.5 million in FY 2008, but decreased in FY 2009 to \$36.5 million, and again in FY 2010 to \$34.0 million (see Table 25). These decreases were primarily attributed to the overall economic events that affected the number of passengers at the Airport. Over the period, the number of O&D passengers decreased 11%, the number of exiting vehicles that were parked decreased 16%, and parking revenues decreased 14%.

At the end of FY 2010, parking revenues began to rebound. During the first 6 months of FY 2010 (April to September 2009), parking revenues were 13% lower than during the same period of FY 2009. However, during the second 6 months of FY 2010 (October 2009 to March 2010), parking revenues were slightly above those for the same period of FY 2009, with 4 of 6 months showing positive growth.

Table 25  
**PUBLIC PARKING RATES, EXITS, AND REVENUES**  
Raleigh-Durham Airport Authority  
FY 2009 and FY 2010

Parking facility	FY 2009			FY 2010		
	Daily rates	Exits	Revenues	Daily rates	Exits	Revenues
Hourly	\$24.00	830,257	\$ 2,631,261	\$24.00	792,160	\$ 2,363,346
Daily	10.00	873,179	28,452,766	10.00	794,896	26,796,193
Park & Ride	6.00	171,525	5,438,434	6.00	151,798	4,825,832
General Aviation	3.00	14,580	60,139	3.00	13,408	53,556
Total		1,889,541	\$36,582,600		1,752,262	\$34,038,927

Notes: Parking revenues as reported above are for public parking only and are obtained from the revenue control system. Figures differ from reconciled actual results as reported in the Authority's Comprehensive Annual Financial Report (CAFR) due to other non public parking revenues and miscellaneous accounting adjustments.

Source: Raleigh-Durham Airport Authority records.

Parking revenues are forecast to gradually increase in proportion with increases in O&D passengers through FY 2016. In addition, the Authority will continue to evaluate potential increases in parking rates during the forecast period. For purposes of this Report, a \$2.00 rate increase in the Daily lots was assumed to be implemented in January 2012. The Authority is considering this potential rate

increase, as well as other options and revenue opportunities that would effectively result in a revenue increase of the same amount on or before January 2012. Therefore, the Authority believes a \$2.00 rate increase is a reasonable assumption for the purposes of this Report.

**Rental Car.** Eight rental car brands maintain service centers on the Airport – Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National, and Thrifty – operating in an area that is remote from the terminals and accessed via individual company shuttle buses.

Under the terms of the agreements between the Authority and the on-Airport rental car companies, the Authority receives a percentage rent equal to 10% of gross automobile rental revenues, subject to minimum annual guarantees. Rental car companies operating off-Airport pay the Authority a 8% privilege fee for Airport-related activity only.

Gross rental car revenues earned by the on-Airport rental car companies reached a historical peak of \$129.6 million in FY 2008, but decreased in FY 2009 to \$123.2 million, and again in FY 2010 to \$108.6 million. These decreases were primarily attributed to the overall economic events that affected the number of passengers at the Airport. Over the period, enplaned O&D passengers decreased 11%, and gross rental car revenues decreased 16%. The decrease in gross revenues affected the Authority's revenues at almost the same rate, with a 15% reduction in Airport revenues over the period.

Rental car revenues are forecast to increase in proportion to O&D passenger growth. As indicated in the Capital Improvement Program section above, the Authority plans to develop a CRCF at some point in the future. The costs and revenues associated with such a facility are not incorporated into the financial forecasts contained in this Report.

**Other Revenues.** The major sources of other revenues to the Authority consist of cargo building and ground rentals, ground transportation fees, fuel farm fees, general aviation rentals, interest income, and other miscellaneous revenues. These revenues are generally forecast to increase with the consumer price index or with enplaned passengers throughout the forecast period.

The Authority receives apron, building, and ground rental revenues from its tenants in the North Cargo Area and South Cargo Area. ABX Air, Federal Express, DB Schenker (formerly BAX Global), UPS Air Cargo, and UPS Supply Chain (formerly Emery Worldwide), along with certain passenger airlines (American, Delta, Southwest) and numerous freight forwarders, lease space from the Authority.

The Authority receives ground transportation concession fees from taxicabs and shuttle providers and automatic vehicle identification per trip fees.

The Authority acquired the bulk fuel storage farm, hydrant pipeline fueling system, remote fuel pickup facility and feed pipeline, and related facilities and equipment from American Airlines in June 2002. The Authority receives a fee for fueling operations from all users but American Airlines, as described earlier.

The Authority's general aviation revenues are derived primarily from ground and facility rentals. Major tenants include Landmark Aviation, the North Carolina Department of Transportation, TAC Air, and Jetcraft Inc.

Miscellaneous other terminal revenues include janitorial and utility rentals, TSA rentals, U.S. Postal Service, and other miscellaneous revenues. Other revenue includes rent for employee parking facilities, a service station and convenience store operated by Sheetz, the North Carolina Department of Transportation, and other miscellaneous revenues.

Interest income decreased from \$5.59 million in FY 2009, is estimated to have decreased to \$3.75 million in FY 2010, and is budgeted at \$2.05 million in FY 2011. Interest income is forecast as a function of the Authority's cash balances in surplus and reserve funds and an assumed weighted average annual interest rate of 0.5% over the forecast period.

## **RECONCILIATION OF HISTORICAL FINANCIAL RESULTS**

The Authority reports its financial operations as a governmental enterprise activity in accordance with GAAP for governmental entities. Table 26 presents a summary and reconciliation of the historical financial results of the Authority between Generally Accepted Accounting Principles (GAAP) as used in the Basic Financial Statements and the Master Trust Indenture.

Table 26

**RECONCILIATION OF HISTORICAL FINANCIAL RESULTS**Raleigh-Durham Airport Authority  
(For Fiscal Years ending March 31)

	2008	2009	2010
<b>Statement of Revenues, Expenses, and Changes in Fund Net Assets (GAAP)</b>			
Operating Revenues*	\$ 88,358,763	\$ 86,232,190	\$ 87,168,917
Operating Expenses*	(36,202,078)	(42,129,717)	(44,009,519)
Depreciation	(33,505,153)	(39,245,679)	(47,523,955)
Operating Income	\$ 18,651,532	\$ 4,856,794	\$ (4,364,557)
Non Operating Revenues (expenses)			
Investment Income*	\$ 8,507,396	\$ 5,592,912	\$ 3,750,839
Passenger Facility Charges**	24,006,372	19,710,529	18,940,075
Net increase (decrease) in fair value of investments	771,553	(40,516)	(404,147)
Loss on swap termination	-	(4,543,541)	-
Bond Interest Expense, net	(15,239,195)	(15,989,551)	(22,663,862)
Other, net	206,670	626,545	487,820
Total Net Non Operating Revenues (expenses)	\$ 18,252,796	\$ 5,356,378	\$ 110,725
Income before Capital Contributions	\$ 36,904,328	\$ 10,213,172	\$ (4,253,832)
Capital Contributions	50,000	5,677,385	11,518,926
Increase in Net Assets/Net Earnings (GAAP)	\$ 36,954,328	\$ 15,890,557	\$ 7,265,094
<b>Master Trust Indenture (MTI)</b>			
Revenues	\$ 96,866,159	\$ 92,774,321	\$ 90,919,756
Maintenance and Operation Expenses of the Authority	(36,202,078)	(42,129,717)	(44,009,519)
Net Revenues (MTI)	\$ 60,664,081	\$ 50,644,604	\$ 46,910,237
<b>Reconciliation (GAAP to MTI)</b>			
Increase in Net Assets/Net Earnings (GAAP)	\$ 36,954,328	\$ 15,890,557	\$ 7,265,094
Add Back (Subtract):			
Depreciation	33,505,153	39,245,679	47,523,955
Passenger Facility Charges	(24,006,372)	(19,710,529)	(18,940,075)
Net increase (decrease) in fair value of investments	(771,553)	40,516	404,147
Loss on swap termination	-	4,543,541	-
Bond interest	15,239,195	15,989,551	22,663,862
Other, net	(206,670)	(626,545)	(487,820)
Arbitrage Earnings to be rebated	-	949,219	-
Capital Contributions	(50,000)	(5,677,385)	(11,518,926)
Net Revenues (MTI)	\$ 60,664,081	\$ 50,644,604	\$ 46,910,237

(a) Included in the definition of "Revenues" or "Maintenance and Operation Expenses of the Authority" and in the calculation of "Net Revenues" in the MTI.

(b) Only under certain circumstances may PFCs be included in the definition of "Revenues" in the MTI.

Please refer to the Basic Financial Statements, accompanying notes, and management discussion and analysis for additional comments on individual line items.

Please refer to the Master Trust Indenture for definitions of "Revenues," "Maintenance and Operation Expenses of the Authority," and "Net Revenues."

Sources: The Authority's Comprehensive Annual Financial Report and the Master Trust Indenture, as amended.

## **APPLICATION OF REVENUES**

### **Airport Revenues**

The Authority covenants in Section 4.02 of the Indenture that all Revenues will be deposited into the Revenue Fund and, from the Revenue Fund, deposited into the various funds and accounts in the following order of priority, as required in the Indenture and as shown on Figure 12:

1. *Maintenance and Operation Expenses of the Authority.* Revenues shall be set aside in the Revenue Fund to be used to pay the current M&O Expenses of the Authority.
2. *Debt Service Funds.* Revenues shall be transferred by the Authority to the Debt Service Funds, at the times and in the manner provided in the Master Trust Indenture, to provide for the scheduled principal and interest payments on the Authority's Outstanding Bonds.
3. *Debt Service Reserve Funds.* Revenues shall be transferred by the Authority to any Debt Service Reserve Fund as specified in a Supplemental Indenture to be used in the manner provided in the Master Trust Indenture.
4. *Subordinated Obligation Debt Service Funds.* Revenues shall be transferred by the Authority to the Subordinated Obligation Debt Service Fund, as needed, to pay principal and interest on Subordinated Obligations.
5. *Subordinated Obligation Debt Service Reserve Funds.* Revenues shall be transferred by the Authority to the Subordinated Obligation Debt Service Reserve Fund, as needed, to be used in the manner provided in the Master Trust Indenture and as specified in Supplemental Indentures.
6. *Revenue Fund.* Remaining amounts are retained in the Revenue Fund and may be used for Airport CIP projects. Amounts remaining in the Revenue Fund at the end of each Fiscal Year may then be credited to the Surplus Fund (as described in the Indenture) or to any other fund or account.
7. *Surplus Fund.* Amounts in the Surplus Fund can be used for any lawful Authority purpose, including Airport CIP projects, replenishing any of the other funds and accounts created under the Indenture, redeeming or defeasing Outstanding Bonds, Transfers to the Revenue Fund in an amount up to 25% of Aggregate Annual Debt Service on Outstanding Bonds (for Rate Covenant calculations), or to maintain separate internally held reserves such as the M&O Expense reserve described below. Amounts in the Surplus Fund are held outside the lien of the Master Trust Indenture.

Exhibit 7.0 presents the forecast application of Revenues as required under the Indenture for FY 2011 through FY 2016. Exhibit 7.0 indicates compliance with the first part of the Rate Covenant.

In addition to satisfying the first part of the Rate Covenant, annual revenues and surplus funds are adequate for the additional purposes management intends to fulfill and as are identified in the forecast:

- Fund a \$15 million deposit to the M&O Reserve Account (as noted above, the Authority plans to increase the M&O Reserve from \$35 million to \$50 million in FY 2011).
- Fund the \$131 million Authority share of projects identified in the CIP.
- Fund the defeasance of the 2001B Bonds in FY2012.
- Supplement the PFC Revenue Fund, if necessary, by paying Annual Debt Service from Net Revenues should the PFCs be insufficient to meet the specified level of irrevocable commitment.

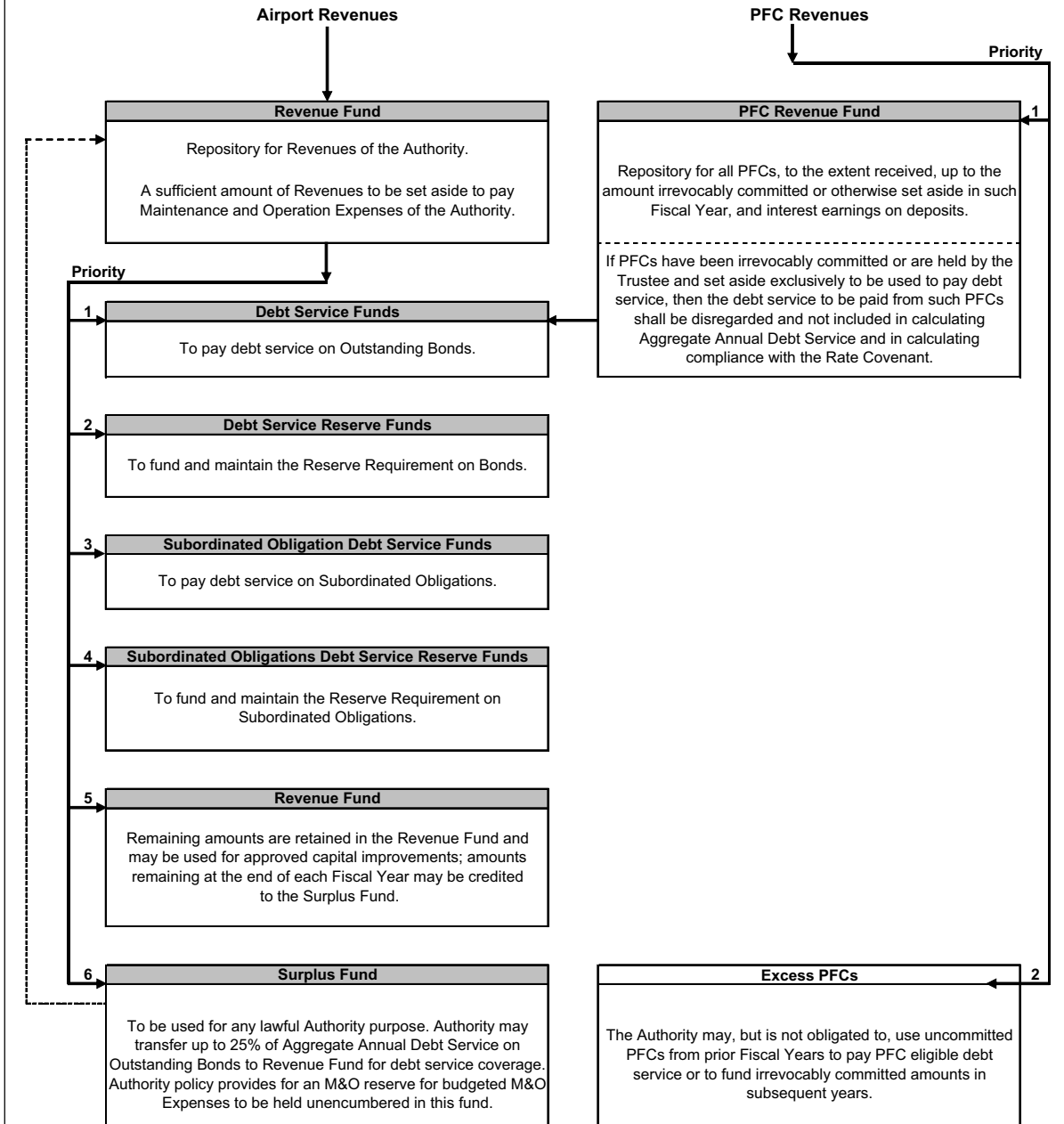
#### **PFC Revenues**

PFCs do not constitute Revenues as defined under the Indenture. The Authority has established a PFC Revenue Fund as a repository for certain committed PFC revenues. The Authority is required to deposit PFCs, to the extent received including any investment earnings thereon, up to the amount irrevocably committed in each Fiscal Year, in the PFC Revenue Fund. On or before the third Business Day prior to each Interest Payment Date, irrevocably committed PFCs are to be transferred by the Authority from the PFC Revenue Fund to the applicable Debt Service Fund. The Authority may, but is not obligated to, apply or use uncommitted PFCs from prior Fiscal Years to fund irrevocably committed amounts of PFCs in subsequent years. To the extent that PFCs are irrevocably committed or otherwise applied to pay debt service, Annual Debt Service is reduced by the amount so committed or otherwise applied for the purposes of determining Aggregate Annual Debt Service payable from Net Revenues and in calculating compliance with the Rate Covenant.

Exhibit 4.0 presents the forecast application of PFC revenues for FY 2011 through FY 2016. PFCs are adequate to meet the needs identified in the forecast:

- Fund the specified level of irrevocable commitments in the Seventh, Eighth, and Eleventh Supplemental Indentures, as well as the Authority's intent to apply additional PFCs in FY2015 and FY2016.
- Fund \$47 million in pay-as-you-go PFCs to complete portions of the Terminal 2 project. There are no other projects in the CIP for which PFCs are a funding source.

Figure 12  
**APPLICATION OF REVENUES**  
 Raleigh-Durham Airport Authority



Source: Raleigh-Durham Airport Authority.



## **DEBT SERVICE COVERAGE AND RATE COVENANT COMPLIANCE**

Exhibit 8.0 presents the forecasts of Net Revenues, Annual Debt Service, PFC revenues irrevocably committed or otherwise applied to the payment of debt service, Aggregate Annual Debt Service, and debt service coverage with and without the Transfer for FY 2011 through FY 2016. As shown, debt service coverage with the Transfer is forecast to be at least 125% in each year of the forecast period. Therefore, the second part of the Rate Covenant provision of the Indenture is also forecast to be met in each year of the forecast period.

Exhibit 1.1  
Capital Improvement Program - Costs by Year  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

	Total Costs	Budget FY2011	Forecast FY2012	FY2013	FY2014	FY2015	FY2016
<b>A. Non-Construction Projects: Subtotal</b>	\$ 15,671,885	\$ 3,475,040	\$ 3,216,845	\$ 2,430,000	\$ 1,975,000	\$ 1,925,000	\$ 2,650,000
<b>B. Terminal 2</b>							
Terminal 2 Communications Plan	\$ 108,148	\$ 58,148	\$ 50,000	\$ -	\$ -	\$ -	\$ -
Terminal 2 Renovation & Expansion	88,056,315	70,000,000	18,056,315	-	-	-	-
Terminal 2 Artworks	707,694	707,694	-	-	-	-	-
<b>Subtotal 2005-2007 Airport Revenue Bond Projects</b>	\$ 88,872,157	\$ 70,765,842	\$ 18,106,315	\$ -	\$ -	\$ -	\$ -
<b>C. Terminal 1</b>							
Terminal 1 Bypass Roadway Improvements	\$ 23,360,000	\$ -	\$ -	\$ 860,000	\$ 12,000,000	\$ 10,500,000	\$ -
Terminal 1 Interior Reconfiguration & Renovation	40,000,000	1,820,000	6,390,000	23,800,000	7,990,000	-	-
<b>Subtotal Terminal Area Projects</b>	\$ 63,360,000	\$ 1,820,000	\$ 6,390,000	\$ 24,660,000	\$ 19,990,000	\$ 10,500,000	\$ -
<b>D. Non-Terminal Area Projects</b>							
Authority Buildings Tenant Space Improvements	\$ 304,442	\$ 54,442	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Airport Structures Condition Inspection & Repairs	606,449	106,449	100,000	100,000	100,000	100,000	100,000
Service Station/Convenience Store Site Development	1,163,335	1,163,335	-	-	-	-	-
Authority Office Building Expansion	3,460,187	-	-	500,000	2,960,187	-	-
West Side Airfield Electrical Rehabilitation & Airfield Lighting & Signing Improvements	3,851,500	3,851,500	-	-	-	-	-
Airport Facilities Improvements	4,512,000	762,000	750,000	750,000	750,000	750,000	750,000
Future CONRAC Area Land Use Planning	1,000,000	250,000	250,000	250,000	250,000	-	-
<b>Subtotal Non-Terminal Area Projects</b>	\$ 14,897,913	\$ 6,187,726	\$ 1,150,000	\$ 1,650,000	\$ 4,110,187	\$ 900,000	\$ 900,000
<b>E. Future CIP Projects</b>							
Reconstruct T/W F Northeast of T/W C	\$ 7,000,000	\$ 200,000	\$ 6,800,000	\$ -	\$ -	\$ -	\$ -
Replace Pavement Joint Seals R/W 5L-23R, T/Ws C & E	750,000	-	-	-	100,000	650,000	-
Runway 5L-23R Touchdown Zones Pavement Rehab	6,250,000	-	-	-	500,000	5,750,000	-
Renovate & Expand Emergency Services Station	3,400,000	-	-	350,000	3,050,000	-	-
Terminal 2 Lobby Reconfiguration for Self-service Bag Drop	2,500,000	-	-	-	-	-	2,500,000
Terminal 2 Additional Operations Space Upfit	1,500,000	-	-	-	-	1,500,000	-
Terminals 1 & 2 AOIS Equipment Replacement/Addition	2,900,000	-	-	850,000	850,000	850,000	350,000
Secure Area Access Control & CCTV System Upgrade	1,000,000	-	-	-	-	-	1,000,000
Enterprise Reporting System Upgrade	1,000,000	-	200,000	200,000	200,000	200,000	200,000
Parking Revenue Control System Replacement	300,000	-	-	-	-	-	300,000
<b>Subtotal Future CIP Projects</b>	\$ 26,600,000	\$ 200,000	\$ 7,000,000	\$ 1,400,000	\$ 4,700,000	\$ 8,950,000	\$ 4,350,000
<b>TOTAL ALL PROJECTS</b>	\$ 209,401,955	\$ 82,448,608	\$ 35,863,160	\$ 30,140,000	\$ 30,775,187	\$ 22,275,000	\$ 7,900,000
<b>F. Demand Driven Projects /1</b>							
Consolidated Rental Car Facility (financed by CRFC bonds)	\$ 75,000,000						
Relocate Pleasant Grove Church Road & Construct Partial Interchanges @ Aviation Parkway/Nelson Road & Airport Boulevard/Pleasant Grove Church Road	35,000,000						
<b>Subtotal Demand-Driven Projects</b>	\$ 110,000,000						

Sources: Raleigh-Durham Airport Authority.

Notes: 1. Demand Driven Projects may or may not proceed during the period, depending upon demand, availability of funding and other considerations.  
Demand Driven Projects are outside the scope of the CIP and are excluded from the forecasts contained in subsequent exhibits.

Exhibit 1.2  
Capital Improvement Program - Source of Funding  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

	Total Funding	Existing Bonds	AIP Entitlement	PFC Paygo	State Grants	Authority Funds
<b>A. Non-Construction Projects: Subtotal</b>	\$ 15,671,885	\$ -	\$ -	\$ -	\$ -	\$ 15,671,885
<b>B. 2005-2007 Airport Revenue Bond Projects</b>						
Terminal 2 Communications Plan	\$ 108,148	\$ -	\$ -	\$ -	\$ -	\$ 108,148
Terminal 2 Renovation & Expansion	88,056,315	21,549,679	-	47,000,000	-	19,506,636
Terminal 2 Artworks	707,694	-	-	-	-	707,694
<b>Subtotal 2005-2007 Airport Revenue Bond Projects</b>	\$ 88,872,157	\$ 21,549,679	\$ -	\$ 47,000,000	\$ -	\$ 20,322,478
<b>C. Terminal Area Projects</b>						
Terminal 1 Bypass Roadway Improvements	\$ 23,360,000	\$ -	\$ -	\$ -	\$ -	\$ 23,360,000
Terminal 1 Interior Reconfiguration & Renovation	40,000,000	-	-	-	-	40,000,000
<b>Subtotal Terminal Area Projects</b>	\$ 63,360,000	\$ -	\$ -	\$ -	\$ -	\$ 63,360,000
<b>D. Non-Terminal Area Projects</b>						
Authority Buildings Tenant Space Improvements	\$ 304,442	\$ -	\$ -	\$ -	\$ -	\$ 304,442
Airport Structures Condition Inspection & Repairs	606,449	-	-	-	-	606,449
Service Station/Convenience Store Site Development	1,163,335	-	-	-	-	1,163,335
Authority Office Building Expansion	3,460,187	-	-	-	-	3,460,187
West Side Airfield Electrical Rehabilitation & Airfield Lighting & Signing Improvements	3,851,500	-	2,610,100	-	848,800	392,600
Airport Facilities Improvements	4,512,000	-	-	-	-	4,512,000
Future CONRAC Area Land Use Planning	1,000,000	-	-	-	-	1,000,000
<b>Subtotal Non-Terminal Area Projects</b>	\$ 14,897,913	\$ -	\$ 2,610,100	\$ -	\$ 848,800	\$ 11,439,013
<b>E. Future CIP Projects</b>						
Reconstruct T/W F Northeast of T/W C	\$ 7,000,000	\$ -	\$ 5,250,000	\$ -	\$ 875,000	\$ 875,000
Replace Pavement Joint Seals R/W 5L-23R, T/Ws C & E	750,000	-	-	-	-	750,000
Runway 5L-23R Touchdown Zones Pavement Rehab	6,250,000	-	-	-	-	6,250,000
Renovate & Expand Emergency Services Station	3,400,000	-	-	-	-	3,400,000
Terminal 2 Lobby Reconfiguration for Self-service Bag Drop	2,500,000	-	-	-	-	2,500,000
Terminal 2 Additional Operations Space Upfit	1,500,000	-	-	-	-	1,500,000
Terminals 1 & 2 AOIS Equipment Replacement/Addition	2,900,000	-	-	-	-	2,900,000
Secure Area Access Control & CCTV System Upgrade	1,000,000	-	-	-	-	1,000,000
Enterprise Reporting System Upgrade	1,000,000	-	-	-	-	1,000,000
Parking Revenue Control System Replacement	300,000	-	-	-	-	300,000
<b>Subtotal Future CIP Projects</b>	\$ 26,600,000	\$ -	\$ 5,250,000	\$ -	\$ 875,000	\$ 20,475,000
<b>TOTAL ALL PROJECTS</b>	\$ 209,401,955	\$ 21,549,679	\$ 7,860,100	\$ 47,000,000	\$ 1,723,800	\$ 131,268,376

Sources: Raleigh-Durham Airport Authority.

Exhibit 2.0  
Plan of Refunding /1  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

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	2010A Bonds
<b>Sources</b>	
Par Amount of Bonds	\$ 238,785,000
Reoffering Premium	12,093,580
Transfer from Prior Issue DSRF	<u>8,137,500</u>
<b>Total Sources</b>	<b>\$ 259,016,080</b>
 <b>Uses</b>	
Costs of Issuance	\$ 1,943,925
Deposit to Debt Service Reserve Fund (DSRF)	16,758,750
Deposit to Current Refunding Fund	216,872,500
Fund Termination Payment /2	23,435,000
Rounding Amount	<u>5,905</u>
<b>Total Uses</b>	<b>\$ 259,016,080</b>

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Source: Jefferies & Company, Inc.

- Notes: 1. Preliminary and subject to change  
2. Estimated swap termination amount; assumes an all-in interest rate of 4.55%

Exhibit 3.0  
Annual Debt Service  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	Actual 2009	Actual 2010	Forecast 2011	2012	2013	2014	2015	2016
<b>Bonds</b>								
Series 2001A	\$ 10,760,975	\$ 10,763,375	\$ 10,763,175	\$ 10,762,375	\$ 10,762,875	\$ 10,763,925	\$ 10,763,950	\$ 10,762,425
Series 2001B /1	4,475,619	3,800,419	3,796,419	223,809	-	-	-	-
Series 2005A	1,961,788	1,961,788	1,961,788	1,961,788	1,961,788	1,961,788	1,961,788	1,961,788
Series 2005B	5,491,825	7,095,970	7,099,040	7,097,571	7,091,833	7,091,813	7,092,813	7,093,088
Series 2006	556,763	-	-	-	-	-	-	-
Series 2007	7,467,875	7,467,875	7,467,875	10,161,575	10,158,150	10,160,400	10,160,025	10,162,400
Series 2008 /2	11,800,000	15,559,622	10,603,257	4,312,800	4,323,400	4,336,100	4,345,800	4,357,400
Series 2010A /3	-	-	2,332,675	16,375,538	16,380,900	16,377,725	16,374,550	16,378,000
<b>Annual Debt Service</b>	\$ 42,514,844	\$ 46,649,049	\$ 44,024,229	\$ 50,895,456	\$ 50,678,946	\$ 50,691,751	\$ 50,698,926	\$ 50,715,101
<b>Less PFCs Applied to Debt Service /4</b>								
Under 7th and 8th Supplemental Indentures	(13,981,935)	(18,940,075)	(19,233,117)	(19,409,908)	(19,921,763)	(20,497,433)	(1,000)	(1,000)
Under 11th Supplemental Indenture	-	-	-	-	-	-	(5,000,000)	(5,000,000)
Additional PFCs Applied	-	(1,135,092)	(3,208,883)	(3,536,092)	(3,712,237)	(3,848,567)	(19,345,000)	(19,345,000)
<b>Aggregate Annual Debt Service</b>	\$ 28,532,909	\$ 26,573,882	\$ 21,582,229	\$ 27,949,456	\$ 27,044,946	\$ 26,345,751	\$ 26,352,926	\$ 26,369,101
<b>Debt Service on Subordinated Obligations</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Debt Service /5</b>	\$ 28,532,909	\$ 26,573,882	\$ 21,582,229	\$ 27,949,456	\$ 27,044,946	\$ 26,345,751	\$ 26,352,926	\$ 26,369,101

Source: Raleigh-Durham Airport Authority, except as noted.

- Notes:
- The Authority intends to defease, using cash, the Series 2001B Bonds in FY2012.
  - Historical: actual FY 2011 debt service of hedged Series 2008A-B Bonds and unhedged Series 2008C Bonds from April 1, 2010 through July 1, 2010.  
Forecast: assumes hedged Series 2008A-B debt service at an interest rate of 4.34% from July 1, 2010 through the refunding date; assumes unhedged Series 2008C at an interest rate of 4.0% from July 1, 2010 to maturity.
  - Series 2010A debt service was provided by the Authority's financial advisor, Jefferies & Company, Inc. and assumes an estimated swap termination amount of \$23,435,000 and an all-in interest rate of 4.55%.
  - In FY 2011 through FY 2014, the Authority expects to collect less PFCs than have been irrevocably committed in the 7th and 8th Supplemental Indentures. However, the Authority expects to use PFCs from prior Fiscal Years to fund irrevocably committed amounts during the period.
  - Historical debt service may differ from audited numbers due to interest earnings on funds deposited.

Exhibit 4.0  
Application and Use of PFC Revenues  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	Actual 2009	Actual 2010	Forecast 2011	2012	2013	2014	2015	2016
<b>PFC Collections</b>								
Enplaned passengers	4,684,698	4,518,000	4,575,000	4,667,000	4,807,000	4,951,000	5,075,000	5,189,000
Percent of PFC eligible passengers	94.4%	93.5%	94.0%	94.0%	94.0%	94.0%	94.0%	94.0%
PFC eligible enplaned passengers	4,422,469	4,223,585	4,300,500	4,386,980	4,518,580	4,653,940	4,770,500	4,877,660
PFC rate per enplaned passenger	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50
less: PFC airline collection fee	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)
Net PFC collection rate	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39	\$ 4.39
PFC collections	\$ 19,414,637	\$ 18,541,537	\$ 18,879,195	\$ 19,258,842	\$ 19,836,566	\$ 20,430,797	\$ 20,942,495	\$ 21,412,927
<b>PFC Cashflow</b>								
PFC Fund beginning balance	\$ 73,609,528	\$ 74,428,717	\$ 70,784,420	\$ 30,213,083	\$ 17,039,444	\$ 13,327,208	\$ 9,478,640	\$ 6,122,529
<b>Deposits:</b>								
PFC collections	\$ 19,414,637	\$ 18,541,537	\$ 18,879,195	\$ 19,258,842	\$ 19,836,566	\$ 20,430,797	\$ 20,942,495	\$ 21,412,927
Interest earnings	295,892	398,538	353,922	151,065	85,197	66,636	47,393	30,613
<b>Total annual PFC Revenues</b>	\$ 19,710,529	\$ 18,940,075	\$ 19,233,117	\$ 19,409,908	\$ 19,921,763	\$ 20,497,433	\$ 20,989,888	\$ 21,443,540
Total annual PFC Revenues plus beginning balance	\$ 93,320,057	\$ 93,368,792	\$ 90,017,537	\$ 49,622,991	\$ 36,961,208	\$ 33,824,640	\$ 30,468,529	\$ 27,566,069
<b>Annual use of PFC Revenues:</b>								
Pay-as-you-go expenditures and reimbursements								
PFC Paygo from CIP			\$ (37,362,454)	\$ (9,637,546)	\$ -	\$ -	\$ -	\$ -
PFCs Applied to Debt Service /1								
Under 7th and 8th Supplemental Indentures			(19,233,117)	(19,409,908)	(19,921,763)	(20,497,433)	(1,000)	(1,000)
Under 11th Supplemental Indenture			-	-	-	-	(5,000,000)	(5,000,000)
Additional PFCs Applied			(3,208,883)	(3,536,092)	(3,712,237)	(3,848,567)	(19,345,000)	(19,345,000)
<b>PFC Revenue Fund Ending Balance</b>	\$ 74,428,717	\$ 70,784,420	\$ 30,213,083	\$ 17,039,444	\$ 13,327,208	\$ 9,478,640	\$ 6,122,529	\$ 3,220,069

Source: Historical provided by Raleigh-Durham Airport Authority and Forecast provided by Jacobs Consultancy, except as noted.

Notes: 1. See Exhibit 3.0 for sources and notes related to debt service.

Exhibit 5.0  
Historical and Forecast Maintenance and Operations Expenses  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	Actual 2009	Actual 2010	Budget 2011	Forecast 2012	2013	2014	2015	2016
<b>Expenses by Department</b>								
Operations	\$ 1,004,747	\$ 984,061	\$ 1,027,921	\$ 1,058,759	\$ 1,090,521	\$ 1,145,047	\$ 1,202,300	\$ 1,262,415
Parking	2,756,988	2,416,808	2,629,507	2,708,392	2,789,644	2,929,126	3,075,582	3,229,362
Ground transportation	1,362,263	1,356,898	1,292,422	1,331,195	1,371,130	1,439,687	1,511,671	1,587,255
Visitors services	611,002	689,040	721,887	743,544	765,850	804,142	844,350	886,567
Airport Maintenance	3,592,662	3,715,429	3,572,650	3,679,830	3,790,224	3,979,736	4,178,722	4,387,659
Fleet Maintenance	1,228,746	1,113,008	1,113,688	1,147,099	1,181,512	1,240,587	1,302,617	1,367,747
Emergency services	1,461,996	1,523,960	1,477,755	1,522,088	1,567,750	1,646,138	1,728,445	1,814,867
Law enforcement	3,008,371	2,848,365	3,191,151	3,286,886	3,385,492	3,554,767	3,732,505	3,919,130
Terminal Services	222,382	227,699	240,285	247,494	254,918	267,664	281,047	295,100
Fuel Farm	932,042	903,815	921,471	949,115	977,589	1,026,468	1,077,791	1,131,681
Traffic control	1,360,422	1,344,484	1,382,321	1,423,791	1,466,504	1,539,830	1,616,821	1,697,662
Communications	814,682	727,856	679,266	699,644	720,633	756,665	794,498	834,223
Administration and Management								
Airport Authority & Director	1,640,666	1,621,308	1,593,428	1,641,231	1,690,468	1,774,991	1,863,741	1,956,928
Customer Svc. & Organ. Support	925,405	883,953	952,881	981,467	1,010,911	1,061,457	1,114,530	1,170,256
Administration	907,435	819,627	943,142	971,436	1,000,579	1,050,608	1,103,139	1,158,296
Business	364,008	274,474	315,784	325,258	335,015	351,766	369,354	387,822
Audit	364,081	378,806	390,806	402,530	414,606	435,336	457,103	479,958
Information Technology	1,604,393	1,801,843	2,011,185	2,071,521	2,133,666	2,240,349	2,352,367	2,469,985
Finance	954,384	1,071,836	1,089,525	1,122,211	1,155,877	1,213,671	1,274,354	1,338,072
Major CIP	433,304	294,858	594,905	612,752	631,135	662,691	695,826	730,617
Noise	176,608	194,347	188,679	194,339	200,170	210,178	220,687	231,721
Facilities & Environmental	904,083	860,805	941,796	970,050	999,151	1,049,109	1,101,564	1,156,643
Total Administration and Management	\$ 8,274,367	\$ 8,201,857	\$ 9,022,131	\$ 9,292,795	\$ 9,571,579	\$ 10,050,158	\$ 10,552,666	\$ 11,080,299
Total by Department	\$ 26,630,670	\$ 26,053,280	\$ 27,272,455	\$ 28,090,629	\$ 28,933,348	\$ 30,380,015	\$ 31,899,016	\$ 33,493,966
<b>Expenses by Complex</b>								
Airfield	\$ 1,219,431	\$ 898,300	\$ 726,500	\$ 748,295	\$ 770,744	\$ 809,281	\$ 849,745	\$ 892,232
Terminal 1	3,530,207	3,341,317	3,394,975	3,496,824	3,601,729	3,781,815	3,970,906	4,169,452
Terminal C	4,385,986	-	-	-	-	-	-	-
Terminal 2	-	6,868,437	8,237,900	8,485,037	8,739,588	9,176,568	9,635,396	10,117,166
Cargo Complex	186,893	201,489	273,800	282,014	290,474	304,998	320,248	336,260
General Aviation	355,341	354,391	415,700	428,171	441,016	463,067	486,220	510,531
Ground Transportation	1,441,695	1,509,254	1,284,550	1,323,087	1,362,779	1,430,918	1,502,464	1,577,587
Parking	1,622,765	1,582,649	1,616,025	1,664,506	1,714,441	1,800,163	1,890,171	1,984,680
Rental Car	19,155	18,803	18,750	19,313	19,892	20,886	21,931	23,027
Utilities	735,543	810,666	936,450	964,544	993,480	1,043,154	1,095,311	1,150,077
Fuel Farm	138,813	287,709	131,400	135,342	139,402	146,372	153,691	161,376
Central Energy Plant	935,543	951,410	1,012,025	1,042,386	1,073,657	1,127,340	1,183,707	1,242,893
Other	927,675	1,131,814	1,065,575	1,097,542	1,130,469	1,186,992	1,246,342	1,308,659
Total by Complex	\$ 15,499,047	\$ 17,956,239	\$ 19,113,650	\$ 19,687,060	\$ 20,277,671	\$ 21,291,555	\$ 22,356,133	\$ 23,473,939
<b>Total</b>	\$ 42,129,717	\$ 44,009,519	\$ 46,386,105	\$ 47,777,688	\$ 49,211,019	\$ 51,671,570	\$ 54,255,148	\$ 56,967,906
% Increase	16.4%	4.5%	5.4%	3.0%	3.0%	5.0%	5.0%	5.0%

Source: Historical provided by Raleigh-Durham Airport Authority and Forecast provided by Jacobs Consultancy.

Exhibit 6.0  
Historical and Forecast Revenues  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	Actual 2009	Actual 2010	Budget 2011	Forecast 2012	2013	2014	2015	2016
<b>Airfield</b>								
Landing Fees								
Passenger Airlines	\$ 9,499,113	\$ 11,241,544	\$ 10,440,786	\$ 10,460,342	\$ 10,380,442	\$ 10,595,081	\$ 11,193,533	\$ 12,195,624
Cargo Airlines	<u>778,476</u>	<u>923,035</u>	<u>895,319</u>	<u>909,182</u>	<u>904,497</u>	<u>923,246</u>	<u>977,888</u>	<u>1,068,367</u>
Total Landing Fees	\$ 10,277,589	\$ 12,164,579	\$ 11,336,105	\$ 11,369,524	\$ 11,284,939	\$ 11,518,327	\$ 12,171,421	\$ 13,263,991
Fuel Flowage Fees	323,971	316,953	304,000	310,080	316,282	322,607	329,059	335,641
Other	<u>12,986</u>	<u>18,258</u>	<u>17,450</u>	<u>17,799</u>	<u>18,155</u>	<u>18,518</u>	<u>18,888</u>	<u>19,266</u>
<b>Total Airfield</b>	<b>\$ 10,614,546</b>	<b>\$ 12,499,790</b>	<b>\$ 11,657,555</b>	<b>\$ 11,697,403</b>	<b>\$ 11,619,375</b>	<b>\$ 11,859,452</b>	<b>\$ 12,519,369</b>	<b>\$ 13,618,898</b>
<b>Terminals</b>								
Airline Terminal Revenues								
Terminal Rentals	\$ 9,545,559	\$ 9,545,559	\$ 9,867,669	\$ 10,468,971	\$ 10,238,743	\$ 11,675,844	\$ 11,675,844	\$ 11,675,844
Equipment Charges	2,020,172	4,192,492	4,415,590	4,699,502	4,751,207	4,776,671	4,916,437	5,062,507
Other	<u>1,364,282</u>	<u>1,783,814</u>	<u>1,542,396</u>	<u>1,568,612</u>	<u>1,605,254</u>	<u>1,642,901</u>	<u>1,676,414</u>	<u>1,707,942</u>
Total Airline Terminal Revenues	\$ 12,930,013	\$ 15,521,865	\$ 15,795,655	\$ 16,737,085	\$ 16,595,204	\$ 18,095,416	\$ 18,268,696	\$ 18,446,294
Non Airline Revenues								
Food and Beverage	\$ 2,250,434	\$ 2,460,548	\$ 2,452,409	\$ 2,548,368	\$ 2,672,121	\$ 2,801,883	\$ 2,924,916	\$ 3,046,208
Retail	1,615,569	1,799,783	1,826,816	1,899,314	1,993,097	2,091,464	2,184,651	2,276,482
Advertising	771,589	752,690	636,200	661,718	694,802	729,512	762,373	794,746
Other Nonairline	<u>870,463</u>	<u>620,729</u>	<u>620,997</u>	<u>639,731</u>	<u>662,323</u>	<u>685,842</u>	<u>708,577</u>	<u>731,201</u>
Total Non Airline Revenues	\$ 5,508,055	\$ 5,589,750	\$ 5,536,422	\$ 5,749,131	\$ 6,022,343	\$ 6,308,701	\$ 6,580,517	\$ 6,848,637
Miscellaneous Other	<u>\$ 2,021,583</u>	<u>\$ 2,172,295</u>	<u>\$ 2,384,647</u>	<u>\$ 2,480,293</u>	<u>\$ 2,604,303</u>	<u>\$ 2,734,404</u>	<u>\$ 2,857,577</u>	<u>\$ 2,978,918</u>
<b>Total Terminals</b>	<b>\$ 20,459,651</b>	<b>\$ 23,283,910</b>	<b>\$ 23,716,724</b>	<b>\$ 24,966,509</b>	<b>\$ 25,221,850</b>	<b>\$ 27,138,521</b>	<b>\$ 27,706,789</b>	<b>\$ 28,273,848</b>
<b>Other</b>								
Parking	\$ 37,362,806	\$ 34,686,949	\$ 34,177,900	\$ 36,084,167	\$ 41,918,322	\$ 43,174,041	\$ 44,255,354	\$ 45,249,464
Rental Car	12,788,821	11,604,879	11,448,954	11,620,711	11,969,334	12,328,413	12,698,264	13,079,211
Air Cargo	1,989,512	2,004,795	2,036,457	2,077,186	2,118,730	2,161,104	2,204,327	2,248,413
Fuel Farm	927,232	961,740	960,200	974,603	989,222	1,004,060	1,019,121	1,034,408
General Aviation	1,387,739	1,398,821	1,474,365	1,503,852	1,533,929	1,564,608	1,595,900	1,627,818
Ground Transportation	238,220	387,856	424,492	432,982	441,641	450,474	459,484	468,673
Miscellaneous	<u>463,663</u>	<u>340,177</u>	<u>399,206</u>	<u>407,190</u>	<u>415,334</u>	<u>423,641</u>	<u>432,113</u>	<u>440,756</u>
<b>Total Other</b>	<b>\$ 55,157,993</b>	<b>\$ 51,385,217</b>	<b>\$ 50,921,574</b>	<b>\$ 53,100,691</b>	<b>\$ 59,386,513</b>	<b>\$ 61,106,341</b>	<b>\$ 62,664,563</b>	<b>\$ 64,148,744</b>
<b>Total Operating Revenues</b>	<b>\$ 86,232,190</b>	<b>\$ 87,168,917</b>	<b>\$ 86,295,853</b>	<b>\$ 89,764,604</b>	<b>\$ 96,227,739</b>	<b>\$ 100,104,315</b>	<b>\$ 102,890,721</b>	<b>\$ 106,041,489</b>
<b>Non-Operating Revenues (Expenses)</b>								
Interest Income	\$ 5,592,912	\$ 3,750,839	\$ 2,050,000	\$ 881,674	\$ 781,385	\$ 734,451	\$ 694,682	\$ 698,194
Arbitrage Earnings to be rebated	<u>949,219</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<b>\$ 6,542,131</b>	<b>\$ 3,750,839</b>	<b>\$ 2,050,000</b>	<b>\$ 881,674</b>	<b>\$ 781,385</b>	<b>\$ 734,451</b>	<b>\$ 694,682</b>	<b>\$ 698,194</b>
<b>Total Revenues</b>	<b>\$ 92,774,321</b>	<b>\$ 90,919,756</b>	<b>\$ 88,345,853</b>	<b>\$ 90,646,278</b>	<b>\$ 97,009,124</b>	<b>\$ 100,838,766</b>	<b>\$ 103,585,403</b>	<b>\$ 106,739,683</b>

Source: Historical provided by Raleigh-Durham Airport Authority and Forecast provided by Jacobs Consultancy.



Exhibit 6.1  
Airline Landing Fees  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

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	Budget 2009	Budget 2010	Budget 2011	Forecast 2012	2013	2014	2015	2016
<b>Land &amp; Capital Improvements</b>								
Return on investment on land	\$ 906,302	\$ 906,302	\$ 906,302	\$ 906,302	\$ 906,302	\$ 906,302	\$ 906,302	\$ 906,302
Existing Facilities								
Depreciation	1,276,002	1,722,957	1,786,461	1,577,020	1,573,476	1,573,476	1,571,990	1,563,370
Interest	729,570	1,113,095	1,220,948	1,091,703	1,024,991	958,751	892,201	826,227
New facilities Depreciation and Interest	-	-	-	-	113,741	116,900	549,748	1,437,559
Debt service /1	3,016,961	2,973,060	2,759,108	2,755,509	2,789,442	2,824,648	2,860,080	2,895,351
Subtotal	\$ 5,928,835	\$ 6,715,414	\$ 6,672,819	\$ 6,330,533	\$ 6,407,952	\$ 6,380,077	\$ 6,780,320	\$ 7,628,809
<b>Operating Expenses</b>								
Airfield Complex	\$ 1,461,366	\$ 1,167,475	\$ 1,117,361	\$ 1,150,881	\$ 775,004	\$ 813,754	\$ 854,442	\$ 897,164
Noise Section	194,972	180,170	188,679	194,339	200,170	210,178	220,687	231,721
Maintenance Department	706,113	613,049	608,553	626,810	645,614	677,895	711,789	747,379
Law Enforcement Department	100,185	90,917	90,500	93,215	96,011	100,812	105,853	111,145
Emergency Services Department	1,472,176	1,473,614	1,471,084	1,515,217	1,560,673	1,638,707	1,720,642	1,806,674
Operations Department	327,489	291,321	304,725	313,867	323,283	339,447	356,419	374,240
Indirect Expense (Administrative)	1,959,677	1,645,574	1,762,821	1,815,706	1,870,177	1,963,686	2,061,870	2,164,963
Subtotal	\$ 6,221,977	\$ 5,462,120	\$ 5,543,723	\$ 5,710,034	\$ 5,470,931	\$ 5,744,478	\$ 6,031,702	\$ 6,333,287
<b>Total Airfield Requirements</b>	\$ 12,150,812	\$ 12,177,534	\$ 12,216,541	\$ 12,040,568	\$ 11,878,883	\$ 12,124,555	\$ 12,812,022	\$ 13,962,096
Less: GA and military share /1	(729,049)	(730,652)	(610,827)	(602,028)	(593,944)	(606,228)	(640,601)	(698,105)
Plus: Prior years carry forward	(294,791)	877,256	(269,609)	(69,015)	-	-	-	-
<b>Net Airfield Requirements</b>	\$ 11,126,972	\$ 12,324,138	\$ 11,336,105	\$ 11,369,524	\$ 11,284,939	\$ 11,518,327	\$ 12,171,421	\$ 13,263,991
<b>Air carrier landed weight (1,000 lbs)</b>								
Passenger				5,511,018	5,611,651	5,715,387	5,791,835	5,856,387
Cargo				479,002	488,970	498,034	505,986	513,034
<b>Total Landed Weight</b>	7,000,000	6,000,000	5,900,000	5,990,020	6,100,620	6,213,421	6,297,821	6,369,421
<b>Landing fee rate per 1,000-lb unit</b>	\$ 1.59	\$ 2.05	\$ 1.92	\$ 1.90	\$ 1.85	\$ 1.85	\$ 1.93	\$ 2.08
<b>Landing Fees</b>								
Passenger				\$ 10,460,342	\$ 10,380,442	\$ 10,595,081	\$ 11,193,533	\$ 12,195,624
Cargo				909,182	904,497	923,246	977,888	1,068,367
<b>Total</b>	\$ 11,126,972	\$ 12,324,138	\$ 11,336,105	\$ 11,369,524	\$ 11,284,939	\$ 11,518,327	\$ 12,171,421	\$ 13,263,991

Source: Historical provided by Raleigh-Durham Airport Authority and Forecast provided by Jacobs Consultancy.

Notes: 1. Historically General Aviation (GA) and military landed weight has represented approximately 5-6% of total landed weight and the Authority expects this trend to continue.

Exhibit 6.2  
Airline Terminal Revenues  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	Actual 2009	Actual 2010	Budget 2011	Forecast 2012	2013	2014	2015	2016
<b>AIRLINE TERMINAL RENTALS</b>								
Rental Rates per square foot								
Class I (Ticket Counter)	\$ 88.00	\$ 88.00	\$ 88.00	\$ 88.00	\$ 88.00	\$ 100.00	\$ 100.00	\$ 100.00
Class II (Holdroom)	66.00	66.00	66.00	66.00	66.00	75.00	75.00	75.00
Class III (Office)	44.00	44.00	44.00	44.00	44.00	50.00	50.00	50.00
Class IV (Bag Makeup)	22.00	22.00	22.00	22.00	22.00	25.00	25.00	25.00
Space Related Rental Revenues								
Exclusive Rented Space								
Class I (Ticket Counter)	\$ 348,447	\$ 348,447	\$ 348,681	\$ 349,855	\$ 335,060	\$ 380,750	\$ 380,750	\$ 380,750
Class II (Holdroom)	4,613,470	4,613,470	4,602,511	4,208,367	4,037,928	4,588,555	4,588,555	4,588,555
Class III (Office)	1,533,787	1,533,787	1,723,874	2,009,333	1,964,339	2,232,203	2,232,203	2,232,203
Class IV (Bag Makeup)	512,411	512,411	466,964	234,809	234,809	266,828	266,828	266,828
Subtotal	\$ 7,008,115	\$ 7,008,115	\$ 7,142,030	\$ 6,802,363	\$ 6,572,135	\$ 7,468,335	\$ 7,468,335	\$ 7,468,335
Joint Use Space								
Class II (Bag Claim)	\$ 2,270,539	\$ 2,270,539	\$ 2,421,426	\$ 3,175,859	\$ 3,175,859	\$ 3,608,931	\$ 3,608,931	\$ 3,608,931
Class IV (Tug Corridor)	566,905	566,905	604,212	790,749	790,749	898,578	898,578	898,578
Subtotal	\$ 2,837,445	\$ 2,837,445	\$ 3,025,638	\$ 3,966,608	\$ 3,966,608	\$ 4,507,509	\$ 4,507,509	\$ 4,507,509
Total Space Related Rental Revenues	\$ 9,845,559	\$ 9,845,559	\$ 10,167,669	\$ 10,768,971	\$ 10,538,743	\$ 11,975,844	\$ 11,975,844	\$ 11,975,844
Less: American Airlines Rent Credit /1	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)
Airline Terminal Rentals	\$ 9,545,559	\$ 9,545,559	\$ 9,867,669	\$ 10,468,971	\$ 10,238,743	\$ 11,675,844	\$ 11,675,844	\$ 11,675,844
<b>AIRLINE EQUIPMENT AND OTHER TERMINAL CHARGES</b>								
Passenger Loading Bridges/Jetbridges			\$ 1,028,333	\$ 1,091,300	\$ 1,091,300	\$ 1,091,300	\$ 1,091,300	\$ 1,091,300
Land Rent for American Flight Kitchen			69,466	69,466	69,466	69,466	69,466	69,466
Outbound Baggage Conveyor			38,010	38,010	38,010	38,010	38,010	38,010
Airport Operation Information System (AOIS)			936,983	960,407	984,417	1,009,028	1,034,254	1,060,110
Resource Management Center (RMC)			941,481	1,104,651	1,096,965	1,037,080	1,087,845	1,141,095
Baggage Claim M&O Recovery			1,145,031	1,179,382	1,214,763	1,275,502	1,339,277	1,406,240
Baggage Claim Capital Recovery			256,286	256,286	256,286	256,286	256,286	256,286
<b>Total Airline Equipment and Other Terminal Charges</b>	\$ 2,020,172	\$ 4,192,492	\$ 4,415,590	\$ 4,699,502	\$ 4,751,207	\$ 4,776,671	\$ 4,916,437	\$ 5,062,507
<b>OTHER TERMINAL CHARGES</b>								
Janitorial	\$ 437,343	\$ 418,208	\$ 414,500	\$ 416,573	\$ 418,655	\$ 420,749	\$ 422,852	\$ 424,967
L/E Reimbursements	106,404	106,221	147,896	152,333	156,903	161,610	166,458	171,452
FIS Fees	615,285	786,285	780,000	795,685	819,554	844,105	865,246	884,682
Gate Usage Fees	205,250	473,100	200,000	204,022	210,142	216,437	221,858	226,842
<b>Total Other Terminal Charges</b>	\$ 1,364,282	\$ 1,783,814	\$ 1,542,396	\$ 1,568,612	\$ 1,605,254	\$ 1,642,901	\$ 1,676,414	\$ 1,707,942
<b>TOTAL AIRLINE TERMINAL REVENUES</b>	\$ 12,930,013	\$ 15,521,865	\$ 15,825,655	\$ 16,737,085	\$ 16,595,204	\$ 18,095,416	\$ 18,268,696	\$ 18,446,294

Source: Historical provided by Raleigh-Durham Airport Authority and Forecast provided by Jacobs Consultancy.

Notes: 1. Per the American Lease rental credits are provided in the amount of \$25,000 per month (or such larger amount if rental rates are adjusted) during the 6th through 15th years in the Term of the Agreement which commenced in June 2002.

Exhibit 6.3  
 Airline Cost per Enplaned Passenger  
 Raleigh-Durham Airport Authority  
 (for Fiscal Years ending March 31)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	Actual 2009	Actual 2010	Forecast 2011	2012	2013	2014	2015	2016
Airline Landing Fees /1	\$ 9,499,113	\$ 11,241,544	\$ 10,440,786	\$ 10,460,342	\$ 10,380,442	\$ 10,595,081	\$ 11,193,533	\$ 12,195,624
Airline Terminal Revenues								
Terminal Rentals	\$ 9,545,559	\$ 9,545,559	\$ 9,867,669	\$ 10,468,971	\$ 10,238,743	\$ 11,675,844	\$ 11,675,844	\$ 11,675,844
Equipment Charges	2,020,172	4,192,492	4,415,590	4,699,502	4,751,207	4,776,671	4,916,437	5,062,507
Other	1,364,282	1,783,814	1,542,396	1,568,612	1,605,254	1,642,901	1,676,414	1,707,942
Total Airline Terminal Revenues	\$ 12,930,013	\$ 15,521,865	\$ 15,825,655	\$ 16,737,085	\$ 16,595,204	\$ 18,095,416	\$ 18,268,696	\$ 18,446,294
Total Airline Costs	\$ 22,429,126	\$ 26,763,409	\$ 26,266,441	\$ 27,197,427	\$ 26,975,646	\$ 28,690,497	\$ 29,462,228	\$ 30,641,918
Enplaned Passengers	4,684,698	4,518,000	4,575,000	4,667,000	4,807,000	4,951,000	5,075,000	5,189,000
Total Airline Costs per Enplaned Passenger	\$ 4.79	\$ 5.92	\$ 5.74	\$ 5.83	\$ 5.61	\$ 5.79	\$ 5.81	\$ 5.91

Source: Historical provided by Raleigh-Durham Airport Authority and Forecast provided by Jacobs Consultancy.

Notes: 1. Historically the Authority has not differentiated Airline Landing Fees from other landing fees (e.g. Cargo). The Historical values are approximated based upon landed weight and the applicable landing fee for that period.

Exhibit 7.0  
Forecast Application of Revenues  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	Forecast					
	2011	2012	2013	2014	2015	2016
<b>Revenues (excluding PFC Revenues)</b>	\$ 88,345,853	\$ 90,646,278	\$ 97,009,124	\$ 100,838,766	\$ 103,585,403	\$ 106,739,683
<b>Application of Revenues</b>						
Maintenance and Operation Expenses	\$ 46,386,105	\$ 47,777,688	\$ 49,211,019	\$ 51,671,570	\$ 54,255,148	\$ 56,967,906
Debt Service Funds /1	44,024,229	50,895,456	50,678,946	50,691,751	50,698,926	50,715,101
Less: Passenger Facility Charges applied	(22,442,000)	(22,946,000)	(23,634,000)	(24,346,000)	(24,346,000)	(24,346,000)
Debt Service Reserve Fund	-	-	-	-	-	-
Subordinated Obligation Debt Service Fund	-	-	-	-	-	-
Subordinated Obligation Debt Service Reserve Fund	-	-	-	-	-	-
Surplus Fund						
M&O Reserve Account	-	15,000,000	-	-	-	-
Capital Improvement Account	20,377,519	(80,866)	20,753,159	22,821,445	22,977,329	23,402,676
<b>Total Revenues Applied</b>	\$ 88,345,853	\$ 90,646,278	\$ 97,009,124	\$ 100,838,766	\$ 103,585,403	\$ 106,739,683

Source: Jacobs Consultancy.

Notes: 1. See Exhibit 3.0 for sources and notes related to debt service.

Exhibit 8.0  
Forecast Net Revenue and Debt Service Coverage  
Raleigh-Durham Airport Authority  
(for Fiscal Years ending March 31)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

		Forecast 2011	2012	2013	2014	2015	2016
<b>Revenues</b>		\$ 88,345,853	\$ 90,646,278	\$ 97,009,124	\$ 100,838,766	\$ 103,585,403	\$ 106,739,683
<b>Less: Maintenance and Operation Expenses</b>		<u>(46,386,105)</u>	<u>(47,777,688)</u>	<u>(49,211,019)</u>	<u>(51,671,570)</u>	<u>(54,255,148)</u>	<u>(56,967,906)</u>
<b>Net Revenues</b>	[A]	\$ 41,959,748	\$ 42,868,590	\$ 47,798,105	\$ 49,167,196	\$ 49,330,255	\$ 49,771,777
<b>Transfer</b>	[B = D * 25%]	<u>5,395,557</u>	<u>6,987,364</u>	<u>6,761,237</u>	<u>6,586,438</u>	<u>6,588,232</u>	<u>6,592,275</u>
<b>Net Revenues + Transfer</b>	[C]	\$ 47,355,305	\$ 49,855,954	\$ 54,559,341	\$ 55,753,634	\$ 55,918,486	\$ 56,364,053
<b>Annual Debt Service on Bonds /1</b>							
Series 2001A		\$ 10,763,175	\$ 10,762,375	\$ 10,762,875	\$ 10,763,925	\$ 10,763,950	\$ 10,762,425
Series 2001B		3,796,419	223,809	-	-	-	-
Series 2005A		1,961,788	1,961,788	1,961,788	1,961,788	1,961,788	1,961,788
Series 2005B		7,099,040	7,097,571	7,091,833	7,091,813	7,092,813	7,093,088
Series 2007		7,467,875	10,161,575	10,158,150	10,160,400	10,160,025	10,162,400
Series 2008		10,603,257	4,312,800	4,323,400	4,336,100	4,345,800	4,357,400
Series 2010A		<u>2,332,675</u>	<u>16,375,538</u>	<u>16,380,900</u>	<u>16,377,725</u>	<u>16,374,550</u>	<u>16,378,000</u>
<b>Annual Debt Service on Bonds</b>		\$ 44,024,229	\$ 50,895,456	\$ 50,678,946	\$ 50,691,751	\$ 50,698,926	\$ 50,715,101
<b>Less PFCs Applied to Debt Service /1</b>							
Under 7th and 8th Supplemental Indentures		(19,233,117)	(19,409,908)	(19,921,763)	(20,497,433)	(1,000)	(1,000)
Under 11th Supplemental Indenture		-	-	-	-	(5,000,000)	(5,000,000)
Additional PFCs Applied		<u>(3,208,883)</u>	<u>(3,536,092)</u>	<u>(3,712,237)</u>	<u>(3,848,567)</u>	<u>(19,345,000)</u>	<u>(19,345,000)</u>
<b>Aggregate Annual Debt Service on Bonds</b>	[D]	\$ 21,582,229	\$ 27,949,456	\$ 27,044,946	\$ 26,345,751	\$ 26,352,926	\$ 26,369,101
<b>Debt Service Coverage (excluding Transfer)</b>	[A / D]	1.94	1.53	1.77	1.87	1.87	1.89
<b>Debt Service Coverage (including Transfer)</b>	[C / D]	2.19	1.78	2.02	2.12	2.12	2.14

Source: Jacobs Consultancy.

Notes: 1. See Exhibit 3.0 for sources and notes related to debt service.

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**APPENDIX B**

**FINANCIAL STATEMENTS OF THE AUTHORITY**

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RALEIGH–DURHAM AIRPORT AUTHORITY  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
Years Ended March 31, 2010 and 2009

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## **Overview**

The management discussion and analysis (“MD&A”) provides an overview of the Raleigh-Durham Airport Authority’s (the “Authority”) activities during the fiscal years ended March 31, 2010 and March 31, 2009. The Authority’s basic financial statements consist of three components; 1) Management’s Discussion and Analysis, 2) financial statements, and 3) notes to the financial statements. In addition to the management’s discussion and analysis, management has prepared the accompanying Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows.

The MD&A is intended to aid the reader in interpreting the Authority’s relative financial position as of the above referenced date. Condensed key financial as well as non-financial information will be highlighted for the reader.

## **Required Financial Statements**

The Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statements of Net Assets include all of the Authority’s assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year’s revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Assets. These statements can be used to measure the success of the Authority’s operations over the past year, its financial position and can be used to determine the Authority’s overall profitability, financial strength and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority’s cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

## **Notes to Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements are on pages 17 to 37 of this report.

## **Background**

The Raleigh-Durham International Airport (the “Airport”) is located in Wake County, between the Cities of Raleigh and Durham approximately 10 miles from the downtown areas of each of Raleigh and Durham. Interstate 40, a major thoroughfare, is located immediately to the southwest of the Airport and US Highway 70, another major thoroughfare, located immediately to the northeast of the Airport. William B. Umstead State Park is located to the immediate east of the Airport.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended March 31, 2010 and 2009

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**Background (Continued)**

The Airport consists of approximately 5,100 acres, approximately 2,075 of which are developed. The Airport at year end had two active terminals, 1 and 2. Terminal 1 consists of approximately 296,000 square feet of floor space, including 23 passenger contact gates. The older Terminal C, being no longer in service, was demolished subsequent to the opening of Terminal 2 on October 26, 2008. Thus, Terminal 2 currently consists of approximately 550,000 square feet of floor space, including 19 passenger gates. Terminal 2 is currently being expanded (South Concourse) to approximately 900,000 square feet of floor space, with a total of 36 passenger gates. The South Concourse of Terminal 2 will open January 23, 2011. The Airport has two primary runways and one secondary runway. In the fiscal years ended March 31, 2010 and 2009, 9.0 and 9.4 million passengers, respectively, used the Airport.

**Passenger Facility Charges**

In February 2003, the Authority received final approval from the Federal Aviation Administration (FAA) to begin charging a \$3 passenger facility charge ("PFC") effective May 1<sup>st</sup>, 2003. In fiscal year 2004-2005, the Authority received approval from the FAA to increase this charge from \$3.00 to \$4.50 per eligible enplanement effective October 1<sup>st</sup>, 2004. PFC cash balances decreased 1.2% or \$.8 million for the fiscal year ending March 31, 2010 versus the prior year. These PFC balances are restricted for use on FAA approved projects as reimbursement of capital costs or to offset PFC eligible debt service.

Annual PFC revenue decreased \$4.3 million or 17.9% for FY 2008-2009, relative to the prior year. In addition, a portion of PFCs are irrevocably committed to offset Authority debt service beginning FY 2005-2006. This irrevocable commitment for the fiscal years ending March 31, 2010, 2009, and 2008, is \$20,074,167, \$13,981,935, and \$9,249,487, respectively. Irrevocable commitments to the extent not applied to debt service are carried forward for future application.

**Financial Highlights, and Analysis**

**Net Assets**

Current assets increased 13.3%, or \$16.6 million from the prior year due to increases in cash and cash equivalents offset by a decrease in short-term investments. The primary reason for this increase in cash and cash equivalents was due to decreases in non-bond funded capital cash flow requirements. See **Cash Flows** for a detailed explanation of this increase.

Non-current assets, consisting of restricted assets, decreased 42.1% or \$98.4 million. This decrease was related to the spend down of bond proceeds related to the construction of Terminal 2.

Airport and facilities, net increased \$73.5 million or 8.3% primarily due to continued construction costs related to Terminal 2 South Concourse.

The combined effect of the above items was to decrease Total Assets for the year by .7% or \$8.3 million.

Current liabilities increased by \$14 thousand or .03% due to a slight increase in current maturities of long-term debt.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended March 31, 2010 and 2009

**Net Assets (Continued)**

Non-current liabilities decreased by \$15.5 million or 2.2% primarily due to the reductions in long-term debt related to scheduled principal payments (\$15.8 million).

The combined effect of these items was to increase net assets during the fiscal year by \$7.3 million or 1.5%. Net assets at March 31, 2010 and March 31, 2009 are presented in the following table:

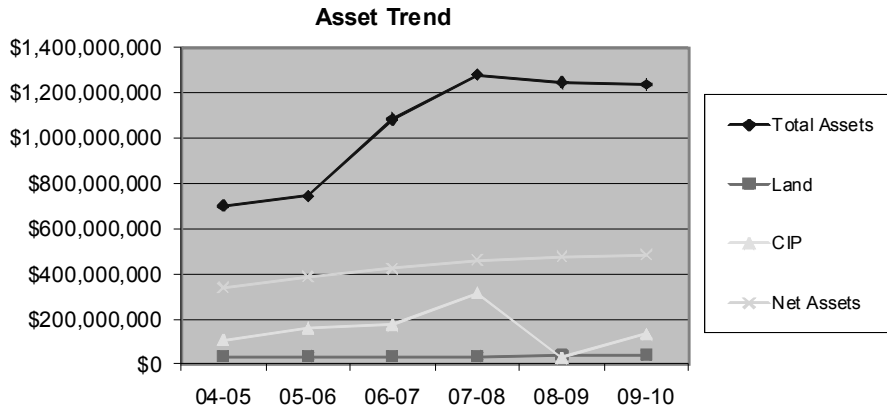
**Condensed Statement of Net Assets**

	<u>March 31, 2010</u>	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Current Assets	\$ 141,783,809	\$ 125,190,123	\$ 141,045,993
Airport and facilities, net	959,918,360	886,440,114	787,356,929
Other noncurrent assets	<u>135,068,795</u>	<u>233,399,073</u>	<u>350,627,296</u>
Total assets	<u>1,236,770,964</u>	<u>1,245,029,310</u>	<u>1,279,030,218</u>
Current liabilities	46,266,012	46,252,012	59,613,845
Noncurrent liabilities	<u>706,128,320</u>	<u>721,665,763</u>	<u>758,195,392</u>
Total liabilities	<u>752,394,332</u>	<u>767,917,775</u>	<u>817,809,237</u>
Invested in capital assets, net of related debt	302,289,837	310,905,473	298,851,847
Restricted Assets	73,514,625	74,648,717	73,829,528
Unrestricted assets	<u>108,572,170</u>	<u>91,557,348</u>	<u>88,539,606</u>
Net assets	<u>\$ 484,376,632</u>	<u>\$ 477,111,538</u>	<u>\$ 461,220,981</u>

The following graph depicts the trend in net assets, airport and facilities, land and construction in progress ("CIP"). Airport and facilities assets include land, construction in progress, and depreciable capital assets, net of accumulated depreciation. Total Assets fell .7% or \$8.3 million during the fiscal year. CIP increased \$106.2 million or 384.1% due to the construction of the South Concourse phase of the Terminal 2 project. Net assets increased \$7.3 million or 1.5% for the reasons aforementioned.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 Years Ended March 31, 2010 and 2009

**Net Assets (Continued)**



**Revenues, Expenses, and Change in Net Assets**

For the fiscal year ended March 31, 2010, the Authority experienced a 1.1% increase, or \$.94 million, in operating revenues due primarily to increased Airfield revenues (\$1.9 million) and Terminal revenues (\$2.8 million). Largely offsetting these increases were decreased parking revenue (\$2.6 million) and decreased rental car revenue (\$1.2 million) each compared to the prior year. This overall increase in operating revenue was realized despite a decrease in enplaned passengers of 166 thousand (-3.6%) for the fiscal year ended March 31, 2010, relative to the prior fiscal year. The Authority's rates and charges to air carriers remained at the low end of comparable airports. In addition, the Authority's airline derived revenue remained diversified with no carrier accounting for more than 10% of operating revenues for the fiscal year ended March 31, 2010.

Operating Expenses (excluding depreciation) increased 4.5%, or \$1.9 million, for the fiscal year ended March 31, 2010 relative to the prior year. This increase was primarily due to increases in Airport facilities costs associated with the full year operation of Terminal 2 (5 months of operational costs were in FY 2008-2009). Depreciation expense increased 21.1% or \$8.3 million during the fiscal year ended March 31, 2010. This increase was due to the full year addition of phase 1, Terminal 2 to depreciation expense (\$9.5 million) vs. half year depreciation in the prior year. Thus, total Operating expenses (including depreciation), increased 12.5%, or \$10.2 million. The combined effect of the above items was a 190% or \$9.2 million decrease in Operating Income relative to the prior period. Nearly all of this decrease in Operating Income was directly related to increased depreciation of the Terminal 2 phase 1 asset.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 Years Ended March 31, 2010 and 2009

**Revenues, Expenses, and Change in Net Assets (Continued)**

Non-operating revenues (expenses) in total decreased \$5.2 million or 97.9% due to the following: Investment interest income decreased \$1.8 million or 32.9% due to declining interest rates. Passenger Facility Charges (PFC) revenue also decreased \$.8 million or 3.9%, both for the period ending March 31, 2010 compared to the prior year. Bond interest expense, net increased \$6.7 million or 41.7%, primarily due to the expensing of interest related to the Series 2007 Bonds. As a result, \$7.3 million of interest costs related to the Terminal project were not capitalized as in the prior year. Finally a \$4.5 million loss on swap termination was realized in FY 2008-2009 (Feb- 09) related to the Lehman Brothers bankruptcy and subsequent required a termination of a \$150 million Lehman Brothers swap with the Authority. No corresponding loss on swap terminations was experienced in FY 2009-2010. **(See NOTE 5 Long-Term Debt)**

Capital Contributions increased \$5.8 million or 103% compared to the prior year due to increased Federal Grant revenue. The Authority PFC program collection level of \$4.50 requires a corresponding reduction of 75% in federal entitlement grant revenue. Thus, the increase in Net Assets of \$7.26 million for the period ending March 31, 2010 represented a decrease of \$8.6 million or 54% from the prior year increase. The following table depicts these changes for the fiscal years ended March 31, 2010 and March 31, 2009:

Operating expenses	44,009,519	42,129,717	36,202,078
Depreciation	47,523,955	39,245,679	33,505,153
Total operating expense	<u>91,533,474</u>	<u>81,375,396</u>	<u>69,707,231</u>
Operating income	<u>(4,364,557)</u>	<u>4,856,794</u>	<u>18,651,532</u>
Total non-operating revenues(expenses)	110,725	5,356,378	18,252,797
Capital contributions	<u>11,518,926</u>	<u>5,677,385</u>	<u>50,000</u>
Increase in net assets	<u>\$ 7,265,094</u>	<u>\$ 15,890,557</u>	<u>\$ 36,954,329</u>

**RALEIGH-DURHAM AIRPORT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 Years Ended March 31, 2010 and 2009

**Cash Flows**

The Authority's overall liquidity position improved during the fiscal year with an increase in unrestricted cash and investments of \$18.1 million or 15.3%. This increase was primarily due to reduced capital cash requirements (net of bond and grant funds) of the Authority's Capital Program. This net capital cash requirement for FY 2010 was reduced by \$16.8 million relative to the prior fiscal year.

Restricted cash decreased \$98.1 million or 42.5% due almost entirely to the spend down of Terminal 2 bond proceeds (\$96.2 million). Both current PFC cash balances and bond proceeds are restricted for use on the Terminal 2 or related debt service.

With regard to the Statement of Cash Flows, cash provided by operating activities (\$44.1 million) decreased slightly (\$447 thousand, 1.0%) from the prior fiscal year. Cash provided by investing activities increased \$2.3 million or 15.7% relative to the prior fiscal year.

Cash used by capital and related financing activities for FY 2009-2010 was \$127.7 million. In the preceding year, cash used by capital and financing activities was \$184.5 million. This resulted in a reduction of approximately \$56.9 million in cash used in capital and related activities between the two years presented. The two major components of this decrease were less construction spending on the Terminal project versus the prior year reflecting the completion of phase 1 in late October 2008 (\$34.9 million), and the prior year payoff of the Series 2002 bonds (\$22.5 million) which did not have a corresponding use of cash in FY 2009-2010. In addition, there was also no loss on swap termination (\$4.5 million) in the current period. The net decrease was partially offset with an increase in contributed capital (federal and state grants) of \$7.7 million.

Positive operating results and increased investment activities could not offset the large spend down of bond proceeds due to the partial completion (phase 1) of Terminal 2. Thus, total cash and cash equivalents at the end of FY 2009-2010 decreased \$66.2 million. For the year ended March 31, 2009, cash and cash equivalents decreased \$125.0 million during the fiscal year also due to the spending of bond proceeds related to the Terminal project. The following is a summary of the change in cash and cash equivalents for the fiscal years ended March 31, 2010 and March 31, 2009:

**Condensed Statement of Cash Flows**

	<u>March 31, 2010</u>	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Net cash provided from:			
Operating activities	\$ 44,074,283	\$ 44,521,075	\$ 41,169,502
Capital and related financing activities	(127,650,050)	(184,535,146)	32,304,622
Investing activities	<u>17,333,111</u>	<u>14,984,787</u>	<u>11,585,540</u>
Net increase	(66,242,656)	(125,029,284)	85,059,664
Cash and cash equivalents at beginning of year	<u>276,230,560</u>	<u>401,259,844</u>	<u>316,200,180</u>
Cash and cash equivalents at end of year	<u>\$ 209,987,904</u>	<u>\$ 276,230,560</u>	<u>\$ 401,259,844</u>

RALEIGH–DURHAM AIRPORT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended March 31, 2010 and 2009

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### **Cash Flows (Continued)**

During the year, the Authority continued to maintain its cash reserve policy to set aside and reserve an operating cash reserve of one times the current fiscal year's annual Operating Budgeted Expenses (excluding depreciation). This policy caps the amount of this cash reserve at \$35 million. For FY 2009-2010, this cash reserve was maintained at the policy cap of \$35 million. Authority policy requires that this reserve not be expended, encumbered, or budgeted for any purpose in executing Authority fiscal policy without Board approval and notification of bond rating agencies that maintain bond ratings for the Authority.

### **Economic Outlook and Capital Development**

In 2000, the Authority, in response to record setting growth, was considering an extensive redevelopment plan for Terminal A that would ultimately have expanded Terminal A from 23 gates to as many as 40 gates. This plan would have added nearly 1,000,000 square feet of space to Terminal A and would have potentially exceeded one billion dollars in cost.

Terminal C was built by American Airlines (AA) in 1987 through a Special Facility Revenue Bond financing arrangement that originally provided AA with a forty-year lease, set to expire in 2027. Subsequent to the major changes in the airline industry after September 11, 2001, the Authority and AA entered into an agreement, effective June 15, 2002, for the Authority to purchase AA's leasehold interests at the Airport. This leasehold included Terminal C, certain cargo and fuel facilities as well as other airport improvements. This leasehold acquisition allowed the Authority the option to more cost effectively and efficiently expand and redevelop Terminal C rather than proceed with the redevelopment of Terminal A. Therefore, major redevelopment of Terminal A was deferred until some point after the redevelopment and expansion of Terminal C.

Thus, the Authority turned its attention to a major redevelopment of Terminal C under a preliminary project budget of \$350 million in 2003 dollars. With the additional redevelopment of the South Concourse, the project was subsequently revised to \$570 million. In addition, these project costs were the result of extensive modeling and cost projections to incorporate a costing strategy to maintain the lowest possible cost per enplanement passenger to the airlines thereby retaining the Airport's competitive cost structure. The Authority's cost per passenger is projected to remain within the target range of 4-6% of average one way fares through 2018.

The Terminal C facility, originally designed to house the American Airlines hub operation, was not able to effectively support multiple airline operations. In addition, the project included the redevelopment and expansion of the aircraft parking ramp and taxiways at the north end of Terminal C as well as the demolition of that terminal's North Concourse which will make room for an approximately 575-foot extension of the northern concourse that will include additional passenger boarding gates, a new Federal Inspection Service area, and additional support facilities.

During 2005, the Authority believed that an appropriate strategy with regard to financing this project was to limit risk associated with rising interest costs. Thus, the Authority developed a hedging program to lock in current historically low long-term interest rates through the use of forward interest rate swaps. On May 4, 2005, the Authority entered into two (2) negotiated synthetic fixed interest rate swaps (BMA or Bond Market Association Municipal Swap Index based) totaling \$300,000,000. The purpose of these transactions was to fix interest costs related to the Terminal C Renovation and Expansion Project.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended March 31, 2010 and 2009

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**Economic Outlook and Capital Development (Continued)**

Pursuant to these hedge agreements, the Authority on June 13, 2006, issued \$300,000,000 of variable rate bonds. The bonds will amortize over 30-years. Due to the swap agreements related to this debt, the Authority was able to lock in a fixed interest rate of 4.27% on this transaction. Subsequent to the end of Fiscal Year 2007-2008, the Authority refunded the Series 2006A-E Bonds in the amount of \$300 million on May 2, 2008. These bonds were variable, but underlying swaps convert this obligation to a fixed synthetic rate. These bonds were refunded to fix a trading problem associated with the downgrade of the bond insurer the Authority used to insure these bonds. The new Series 2008A-C bonds in the amount of \$300 million has the identical amortization schedule as the Series 2006A-E refunded bonds and are traded on the Authority's credit rating (bond insurance was not used). In addition, the underlying swaps totaling \$300 million on these bonds were not changed. The 2008A-C bonds, once issued, returned to trading in a historic relationship to the benchmark tax exempt index. Thus, the trading problems associated with the ratings downgrade of the previous bond insurer were resolved.

On September 15, 2008 Lehman Brothers filed for bankruptcy and consequently defaulted on its \$150 million swap agreement with the Authority. On February 9, the Airport Authority terminated the Lehman swap at a cost to the Airport Authority of \$9.1 million. Simultaneously, the Authority selected Barclays and Morgan Keegan/Deutsche Bank as new swap counterparties and received \$4,551,000 from them to offset this payment made to Lehman Brothers. The new swaps were negotiated with Barclays in the amount of \$50 million and with Morgan Keegan/Deutsche Bank in the amount of \$25 million. These new swaps were set at a swap rate of 4.099 percent, down from the 4.27 percent Lehman swap rate, reducing the Airport Authority's interest cost on this \$75 million by approximately \$128,000 per year.

Thus, the remaining \$75 million became un-hedged variable debt at that time. In addition, the Authority also offset termination transaction costs and the market premium associated with a failed Debt Service Reserve fund investment agreement with Lehman. As such, these additional offsets reduced the net cash flow to the Authority of the termination of the Lehman swap to \$3.1 million. This reserve fund market premium also created a bond arbitrage rebate liability on the Series 2005 bonds of \$949,217 which the Authority recorded as a current liability at March 31, 2009.

On October 26, 2008, the Authority opened phase 1 of Terminal 2. The South Concourse or phase 2 of the Terminal project is scheduled to open January 23, 2011. The Terminal 2 Project is currently budgeted at \$570 million and remains on budget. The financing for this project was completed in 2007 with the issuance of \$152 million of fixed rate bonds on May 31, 2007. In connection with this financing, the Authority's underlying credit rating was upgraded to AA- (from A-) and Aa3 (from A3) by Fitch Ratings and Moody's Investor Service, respectively. A stable outlook was assigned in both cases. These ratings were affirmed, both with stable outlooks, in conjunction with the 2008A-C refunding in May 2008, where they remain today.

The Authority's enplaned passengers decreased to 4.5 million which represented a 3.6% reduction for the fiscal year ended March 31, 2010, relative to the prior period. In the fiscal year ended March 31, 2009, 4.7 million passengers were enplaned at the Airport.



RALEIGH-DURHAM AIRPORT AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Years Ended March 31, 2010 and 2009

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**Budget Information for the Fiscal Year Ending March 31, 2011**

The Authority, as it typically does, has elected to forecast conservatively, especially with respect to revenue generation for the fiscal year ended March 31, 2011. For comparison purposes, FY 2010-2011 budgeted operating revenues of \$86,295,852 were 1.0% (\$873 thousand) lower than actual FY 2009-2010 operating revenues of \$87,168,917. For FY 2010-2011 relative to the prior year budget, total budgeted operating revenue decreased \$1.6 million or 1.9% due to decreased estimated: Parking Revenues (down \$1.4 million or 3.9%), Rental Car revenues (down \$73 thousand or .6%), Terminal revenues increased (\$690 thousand or 3.0%), and Landing Fees revenue down (\$1.0 million or 7.9%). In addition, budgeted non-operating revenue increased \$2.9 million or 12.4% due to increased Federal and State entitlement Grant revenues (\$3.1 million) and PFC revenues of (\$1.4 million).

Budgeted operating expenses (excluding depreciation) increased \$1.2 million, or 2.7% for the year ended March 31, 2011 relative to the prior year. Inclusive of depreciation, total budgeted operating expenses increased \$6.1 million or 6.9% relative to the prior year. Total budgeted non-operating expenses increased \$795 thousand or 3.8% due to changes in debt service interest expense.

The combined net effect of these items was to decrease budgeted Net Assets \$5.6 million or 203.3% with regard to the Authority's FY 2010-2011 budgeted projections versus the prior year. This decrease in Net Assets was primarily the result of increased depreciation (4.8 million) related to the Terminal 2 phase 1 completion.

**Requests for Information**

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Raleigh-Durham Airport Authority, P.O. Box 80001, RDU Airport, North Carolina 27623.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**STATEMENTS OF NET ASSETS**  
 March 31, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 75,972,007	\$ 44,131,037
Short-term investments	59,434,509	73,135,116
Collateral for SEB loan program	1,500,000	1,500,000
Accounts receivable for fees and rentals, less allowance for doubtful accounts of \$0 and \$310,404 respectively	3,980,526	4,799,164
Grants receivable	82,410	950,236
Other current assets	814,357	674,570
<b>Total current assets</b>	<u>141,783,809</u>	<u>125,190,123</u>
<b>Non-current assets</b>		
<b>Restricted assets</b>		
State of North Carolina Underground Storage Tank Trust Fund Deductible	220,000	220,000
Passenger Facility Charge Cash and cash equivalents	70,784,420	71,629,167
Passenger Facility Charge Receivable	2,510,205	2,799,550
Aeronautical Facilities Revenue Bonds Cash and cash equivalents - Bond Series 2001A, 2007 and 2008	21,758,189	117,963,617
Debt Service Reserve Fund - Bond Series 2001A, 2005, 2007 and 2008	39,753,288	40,786,739
<b>Total restricted assets</b>	<u>135,026,102</u>	<u>233,399,073</u>
<b>Airport and facilities</b>		
Airport and facilities, non depreciable	175,025,704	68,838,385
Airport and facilities depreciable, net	784,892,656	817,601,732
<b>Airport and facilities, net</b>	<u>959,918,360</u>	<u>886,440,117</u>
<b>Debt premium/issue costs, net</b>	<u>42,693</u>	<u>-</u>
<b>Total non-current assets</b>	<u>1,094,987,155</u>	<u>1,119,839,190</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,236,770,964</u>	<u>\$ 1,245,029,313</u>

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

RALEIGH-DURHAM AIRPORT AUTHORITY

**STATEMENTS OF NET ASSETS**

March 31, 2010 and 2009

	2010	2009
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,272,257	\$ 3,909,285
Arbitrage rebate liability series 2005	949,219	949,219
Retainage and construction accounts payable	14,886,261	14,877,937
Accrued employee compensation	1,628,047	1,819,993
Accrued bond interest payable	8,705,228	9,550,578
Current maturities of long-term debt		
General Airport Revenue Bonds-Series 2001A	3,645,000	3,505,000
General Airport Revenue Bonds-Series 2001B	3,220,000	3,100,000
General Airport Revenue Bonds-Series 2005B	3,415,000	3,250,000
General Airport Revenue Bonds-Series 2008A	2,310,000	2,205,000
General Airport Revenue Bonds-Series 2008B	1,850,000	1,765,000
General Airport Revenue Bonds-Series 2008C	1,385,000	1,320,000
<b>Total current liabilities</b>	<b>46,266,012</b>	<b>46,252,012</b>
<b>Noncurrent liabilities</b>		
<b>Long-term debt</b>		
General Airport Revenue Bonds-Series 2001A, B	147,925,000	154,790,000
General Airport Revenue Bonds-Series 2005A, B	114,155,000	117,570,000
General Airport Revenue Bonds-Series 2007	152,070,000	152,070,000
General Airport Revenue Bonds-Series 2008A through C	289,165,000	294,710,000
	<b>703,315,000</b>	<b>719,140,000</b>
<b>Other liabilities</b>		
Debt issue premiums, net	-	63,263
Unearned rent credit	2,162,500	2,462,500
OPEB retiree health care liability	650,820	-
	<b>2,813,320</b>	<b>2,525,763</b>
Total noncurrent liabilities	<b>706,128,320</b>	<b>721,665,763</b>
<b>TOTAL LIABILITIES</b>	<b>752,394,332</b>	<b>767,917,775</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	302,289,837	310,905,473
Restricted		
State of North Carolina Underground Storage Tank		
Trust Fund Deductible	220,000	220,000
Passenger Facility Charges	73,294,625	74,428,717
Unrestricted net assets	108,572,170	91,557,348
<b>TOTAL NET ASSETS</b>	<b>\$ 484,376,632</b>	<b>\$ 477,111,538</b>

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

RALEIGH-DURHAM AIRPORT AUTHORITY  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
Years Ended March 31, 2010 and 2009

	2010	2009
<b>Operating revenues</b>		
Parking	\$ 33,998,195	\$ 36,572,511
Airfield	12,499,790	10,614,546
General aviation	1,398,821	1,387,739
Terminals	23,283,910	20,459,651
Air cargo	2,004,795	1,989,512
Fuel Farm	961,740	927,232
Rental car	11,604,879	12,788,821
Other	1,416,787	1,492,178
<b>Total operating revenues</b>	<b>87,168,917</b>	<b>86,232,190</b>
<b>Operating expenses</b>		
Airport facilities	17,956,239	15,499,047
Administrative	8,201,857	8,274,367
Fuel farm	903,815	932,042
Law enforcement	2,848,365	3,008,371
Airport maintenance	4,828,437	4,821,408
Parking	2,416,808	2,756,988
Emergency services	1,523,960	1,461,996
Visitor services	689,040	611,002
Communications	727,856	814,682
Operations	984,061	1,004,747
Ground transportation	2,701,382	2,722,685
Terminal services	227,699	222,382
Subtotal	44,009,519	42,129,717
Depreciation	47,523,955	39,245,679
<b>Total operating expenses</b>	<b>91,533,474</b>	<b>81,375,396</b>
<b>Operating income (loss)</b>	<b>(4,364,557)</b>	<b>4,856,794</b>
<b>Non-operating revenues (expenses)</b>		
Investment interest income	3,750,839	5,592,912
Passenger Facility Charges	18,940,075	19,710,529
Net increase in fair value of investments	(404,147)	(40,516)
Bond interest expense, net	(22,663,862)	(15,989,551)
Loss on swap termination	-	(4,543,541)
Other, net	487,820	626,545
<b>Total non-operating revenues</b>	<b>110,725</b>	<b>5,356,378</b>
<b>Income before capital contributions</b>	<b>(4,253,832)</b>	<b>10,213,172</b>
<b>Capital contributions</b>	<b>11,518,926</b>	<b>5,677,385</b>
<b>Increase in net assets</b>	<b>7,265,094</b>	<b>15,890,557</b>
<b>Net Assets, beginning of year</b>	<b>477,111,538</b>	<b>461,220,981</b>
<b>Net Assets, end of year</b>	<b>\$ 484,376,632</b>	<b>\$ 477,111,538</b>

The accompanying notes are an integral part of these basic financial statements.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**STATEMENTS OF CASH FLOWS**  
Years Ended March 31, 2010 and 2009

	2010	2009
<b>Cash flows from operating activities</b>		
Cash received from operations	\$ 87,261,956	\$ 85,800,736
Cash paid to employees	(19,383,924)	(19,277,553)
Cash paid to suppliers	(23,803,749)	(22,002,108)
<b>Net cash provided by operating activities</b>	<u>44,074,283</u>	<u>44,521,075</u>
<b>Investing activities</b>		
Purchases of short-term investments	(60,849,393)	(77,009,484)
Proceeds from maturities of short-term investments	74,550,000	86,000,000
Investment gain on valuation account	(404,147)	(40,515)
Interest on cash deposits	4,036,651	6,034,786
<b>Net cash provided by investing activities</b>	<u>17,333,111</u>	<u>14,984,787</u>
<b>Capital and related financing activities</b>		
Payments of Long-Term Debt and Capital Lease Obligations		
General Airport Revenue Bonds-Series 2001 A and B	(6,605,000)	(6,950,000)
General Airport Revenue Bonds-Series 2002	-	(22,500,000)
General Airport Revenue Bonds-Series 2005 A and B	(3,250,000)	(1,545,000)
General Airport Revenue Bonds-Series 2008 A, B and C	(5,290,000)	
Capital Lease Obligations	-	(22,850)
Other capital and financing costs		
Debt issuance costs	(105,956)	(384,629)
Additions to airport and facilities	(120,993,874)	(155,912,146)
Bond interest paid on long-term debt	(23,509,212)	(17,445,311)
Passenger facility charges collected	19,229,420	19,414,637
Loss on swap termination	-	(4,543,541)
Other non-operating revenue	488,403	626,545
Other non-operating expenses	(583)	
Contributed capital	12,386,752	4,727,149
<b>Net cash used in capital and related financing activities</b>	<u>(127,650,050)</u>	<u>(184,535,146)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(66,242,656)	(125,029,284)
<b>Cash and cash equivalents - beginning of year</b>	<u>276,230,560</u>	<u>401,259,844</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 209,987,904</u>	<u>\$ 276,230,560</u>
(Including Restricted Cash and Restricted Cash Equivalents)		

The accompanying notes are an integral part of these basic financial statements.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**STATEMENTS OF CASH FLOWS**  
Years Ended March 31, 2010 and 2009

	2010	2009
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ (4,364,557)	\$ 4,856,794
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	47,523,955	39,245,679
Changes in operating assets and liabilities		
Accounts receivable	532,826	5,998
Other current assets	(139,787)	(137,452)
Accounts payable	362,972	(2,184)
OPEB Retiree Health Care Liability	650,820	-
Accrued employee compensation	(191,946)	(96,979)
Arbitrage rebate		949,219
Unearned Rent Credit	(300,000)	(300,000)
<b>Net cash provided by operating activities</b>	<b>\$ 44,074,283</b>	<b>\$ 44,521,075</b>
 <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Current Assets		
Cash and cash equivalents	75,972,007	44,131,037
Collateral for SEB loan program	1,500,000	1,500,000
Noncurrent Assets		
Restricted assets		
State of North Carolina Underground Storage Tank Trust Fund Deductible	220,000	220,000
Passenger Facility Charge Cash and cash equivalents	70,784,420	71,629,167
Aeronautical Facilities Revenue Bonds		
Cash and cash equivalents - Bond Series 2001A, 2007 and 2008	21,758,189	117,963,617
Debt Service Reserve Fund - Bond Series 2001A, 2005, 2007 and 2008	39,753,288	40,786,739
	<b>\$ 209,987,904</b>	<b>\$ 276,230,560</b>
 <b>Supplemental Cash Flow Information</b>		
Cash investing, capital and financing activities		
Cash paid for interest	\$ 33,616,766	\$ 32,280,711
Capitalized interest paid	\$ 10,107,554	\$ 16,227,581

The accompanying notes are an integral part of these basic financial statements.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2010 and 2009

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**Note 1 – The Authority**

In 1939, the General Assembly of the State of North Carolina enacted legislation authorizing the governing bodies of the City of Durham, the City of Raleigh, the County of Durham, and the County of Wake jointly to acquire, establish and operate airports. It was provided that the governing bodies would appoint a joint board to carry out the provisions of the act, and the Raleigh-Durham Airport Authority (the “Authority”) is the board so appointed. Legal title to all properties is vested jointly in the governing bodies. Each of the four governing bodies makes an annual appropriation of \$12,500, which is accounted for as nonexchange transactions in accordance with Statement No. 33 of the Government Accounting Standards Board.

**Note 2 – Summary of significant accounting policies**

**Basis of presentation - fund accounting** – The accounts of the Raleigh-Durham Airport Authority are organized and operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording its assets, liabilities, equity, revenues and expenses.

The Authority accounts for its operations in one fund type, the enterprise fund. An enterprise fund is used to account for operations that are (a) financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**Basis of accounting** – All assets and all liabilities associated with the operation of the Authority are included on the statement of net assets. As required for periods beginning after June 15, 2000 by Statement 33 of the Government Accounting Standards Board (GASB), *Accounting and Financial Reporting for Nonexchange Transactions*, the Authority recognizes capital contributions as revenue, rather than as contributed capital. Nonexchange transactions for the Authority include Federal and State grants and contributions by the Authority’s four owning bodies. The enterprise fund of the Authority is presented in the financial statements on the accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period when incurred. As permitted by accounting principles generally accepted in the United States of America, the Authority has elected to apply only applicable FASB statements and interpretations issued before November 30, 1989 in its accounting and reporting practices for its operations.

**Budgetary control** – The Authority adopts an annual budget ordinance as required by the Local Government Budget and Fiscal Control Act of the North Carolina General Statutes. The Operating Budget ordinance is prepared on the modified accrual basis of accounting as required by North Carolina law. This budget is adopted and amended at the total expense level with management control maintained on a departmental and complex basis. Operating expenses may not legally exceed the total expense level and Operating budget appropriations lapse at year-end. Project ordinances are also adopted annually, but do not lapse at year-end and may extend multiple years. Both Operating and Project ordinances are adopted by the Authority at its March meeting and are entered in the minutes within five days after adoption.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2010 and 2009

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**Note 2 – Summary of significant accounting policies (continued)**

**Cash and cash equivalents** – The Authority considers highly liquid investments, including restricted assets, with a maturity of 90 days or less to be cash equivalents.

**Investments** – The Authority records its investments in marketable securities at their quoted estimated fair value except for money market investments and U.S. Treasury and Agency obligations having a remaining maturity at purchase of one year or less, which are recorded at cost.

**Grants receivable** – Grants receivable from governmental agencies for capital construction projects are recorded in the period actual costs are incurred. The actual amount of payment on these grants is subject to final audit by the applicable agency.

**Airport and facilities** – The airport and facilities are recorded at cost. Provision for depreciation has been made to amortize the cost of the assets over their estimated useful lives by the straight-line method.

Depreciation expense was \$47,523,955 and \$39,245,679 for the fiscal years ended 2010 and 2009, respectively.

A portion of internal engineering costs are capitalized in connection with related capital projects.

All capital projects are budgeted under project ordinances, which span more than one year. These appropriations continue until the related project is complete.

Capital Assets are defined by the Authority as assets with an initial individual cost of more than \$2,500 and an economic useful life of 3 years or more.

Depreciation of airfield and facilities is computed under the straight-line method at various rates considered adequate to allocate the cost over the estimated useful lives of such assets.

The estimated lives by general classifications are as follows:

	<u>Years</u>
Landing field and grounds	5 – 20
Terminal buildings	5 – 45
Other buildings	5 – 30
Utilities	5 – 20
Equipment	3 – 20

The Authority's net assets are classified as follows:

**Invested in capital assets, net of related debt** – This represents the Authority's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Invested in Capital Assets, Net of Related Debt.



RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
March 31, 2010 and 2009

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**Note 2 – Summary of significant accounting policies (continued)**

**Restricted net assets** – Restricted net assets include resources in which the Authority is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties. When both restricted and unrestricted assets are available for use, the Authority applies restricted assets first, and then applies unrestricted assets as needed.

**Passenger facility charges** are presented as Restricted Net Assets based on Federal Aviation Administration (FAA) regulations to be used only on approved capital projects.

**State of North Carolina underground storage tank trust fund deductible** represents cash required to be set aside by the North Carolina Department of Environment and Natural Resources related to underground storage tank clean-up costs.

**Aeronautical facilities revenue bonds** represent cash and cash equivalents restricted by the Master Trust Indenture to be expended for the construction of certain airport facilities and debt service reserve funds.

**Debt issue costs** – Debt issue costs are amortized over the lives of the related bonds.

**Vacation and sick leave compensation** – The Authority allows full time employees to accumulate up to 30 days earned vacation leave, and such leave is fully vested when earned provided the employee has completed a mandatory six month probationary period. Accumulated vacation pay is recorded as a current liability and reflected in accrued employee compensation.

Employees can accumulate an unlimited amount of sick leave. Unused sick leave accumulated at the time of retirement may be used in determining length of service for retirement benefit purposes. Also, employees who voluntarily terminate employment prior to retirement may convert unused sick leave in excess of 30 days to vacation leave at a rate of two days of sick leave for one day of vacation leave. This policy is limited to converting a maximum of 60 days of sick leave into 30 days of vacation leave. Since the resulting leave is fully vested when earned, it is recorded as a liability along with ordinary vacation leave.

**Revenues and expenses classifications** – Revenues from airlines, concessions, rental cars and parking are reported as operating revenues. Transactions which are financing or investing related and passenger facility charges are reported as non-operating revenues. All expenses related to operating the Authority are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

**Interest expense** – The Authority capitalizes material interest costs related to construction projects. The objective of interest capitalization is to reflect the total asset cost and to provide the related depreciation charges against revenues of future periods that benefit from the asset use.

**Income tax status** – Income of the Authority is excludable from federal income tax under Section 115 of the Internal Revenue Code.

**Concentration of credit risk** – For the years ended March 31, 2010 and 2009, no air carrier accounted for more than 10% of the Authority's operating revenues.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
March 31, 2010 and 2009

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**Note 2 – Summary of significant accounting policies (continued)**

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

**Reclassifications** – Certain 2009 amounts have been reclassified in order to conform to 2010 presentation.

**Passenger facility charges** – The Federal Aviation Administration (FAA) authorized the Authority to collect Passenger Facility Charges (PFCs) of \$3 per qualifying enplaned passenger commencing May 1, 2003. Effective October 1, 2004, the FAA authorized the Authority to collect PFCs of \$4.50 per qualifying enplaned passenger. The net receipts from PFCs are accounted for on the accrual basis of accounting and are restricted to use on FAA approved projects. Aggregate collections and interest thereon from inception through March 31, 2010 and 2009 were \$128,444,127 and \$109,214,707 respectively. PFC funds of \$20,074,167 and \$19,000,906 were expended during the fiscal year ended March 31, 2010 and 2009, respectively, on FAA approved uses. In addition, a portion of PFCs are irrevocably committed to offset Authority debt service beginning in the fiscal year 2005-2006. This irrevocable commitment for the fiscal year ending March 31, 2010 is \$20,074,167. Irrevocable commitments to the extent not applied to debt service are carried forward for future application. Net assets related to PFCs are restricted for projects that are approved by the FAA.

**New pronouncements** – During the fiscal year ended March 31, 2010 and beyond, the Authority will implement several new pronouncements of the Governmental Accounting Standards Board (GASB). These pronouncements are as follows:

**GASB Statement No. 51 “Accounting and Financial Reporting for Intangible Assets”**

This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 and are not expected to have a material effect on the Authority’s financial position or results of operations.

**GASB Statement No. 52 “Land and Other Real Estate Held as Investments by Endowments”**

This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2008 and did not have a material effect on the Authority’s financial position or results of operations.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
March 31, 2010 and 2009

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**Note 2 – Summary of significant accounting policies (continued)**

**New pronouncements (continued)**

**GASB Statement No. 53 “Accounting and Financial Reporting for Derivative Instruments”**

This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Much of this Statement describes the methods of evaluating effectiveness. A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. For many derivative instruments, historical prices are zero because their terms are developed so that the instruments may be entered into without a payment being received or made. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The Authority is currently evaluating the effect this Statement will have on the Authority’s financial position or results of operations.

**Note 3 – Deposits and investments**

**Deposits** – All the deposits of the Authority are either insured or collateralized by the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer’s agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by the Authority’s agents in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Authority under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Authority has no policy regarding custodial credit risk for deposits.

At March 31, 2010, the Authority’s deposits had a carrying amount of \$137,672,368 and a statement balance of \$148,307,383. Of this bank balance, \$7,586,977 was covered by federal depository insurance while the balance of \$140,720,406 was covered by collateral held under the Pooling Method. The Authority is required to maintain a minimum balance of \$250,000 in its checking account.

At March 31, 2009, the Authority’s deposits had a carrying amount of \$100,763,972 and a statement balance of \$103,497,408. Of this bank balance, \$7,288,259 was covered by federal depository insurance while the balance of \$96,209,149 was covered by collateral held under the Pooling Method. The Authority is required to maintain a minimum balance of \$250,000 in its checking account.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 March 31, 2010 and 2009

**Note 3 – Deposits and investments (continued)**

**Investments** – At March 31, 2010, the Authority had the following investments and maturities:

Investment Type	Fair Value	Less Than 6 Months	6-12 Months	1 Year - 30 Months
US Government Agencies	59,436,074	2,003,760	10,123,430	47,308,884
NC Capital Management Trust- Cash Portfolio	42,100,321	N/A	N/A	N/A
Total:	\$ 101,536,394	\$ 2,003,760	\$ 10,123,430	\$ 47,308,884

At March 31, 2009, the Authority had the following investments and maturities:

Investment Type	Fair Value	Less Than 6 Months	6-12 Months	1 Year - 30 Months
Repurchase Agreements	\$ 8,137,800	\$ -	\$ -	\$ 8,137,800
US Government Agencies	95,379,338	-	24,776,647	70,602,691
NC Capital Management Trust- Cash Portfolio	153,035,264	N/A	N/A	N/A
Total:	\$ 256,552,402	\$ -	\$ 24,776,647	\$ 78,740,491

Interest Rate Risk Interest rate risk is the risk that rising interest rates will adversely affect the fair value of an interest bearing investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the investment portfolio to maturities of 30 months.

Credit Risk State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). Direct investments made by the Authority by policy are limited to U.S. Treasury Bills and Notes, U.S. Government Agency obligations and bank Certificates of Deposit, all with maximum maturity of 30 months. Only indirect investments in Commercial Paper and Repurchase Agreements are permitted in relation to bond proceed and debt service reserve fund investments which are designed to maximum investment income as permitted under US Treasury arbitrage regulations. As of March 31, 2010 and 2009, the Authority's investments in commercial paper were rated P1 by Standard & Poor's, F1 by Fitch Ratings, and A1 by Moody's Investors Service. The Authority's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of March 31, 2010 and 2009. The Authority's investments in US Agencies are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
March 31, 2010 and 2009

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**Note 3 – Deposits and investments (continued)**

G.S. 159-30(c) authorizes the Authority to invest in obligations of the U.S. Treasury; obligations of any agency of the United States of America, provided the payment of interest and principal of such obligations is fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), a SEC registered mutual fund, dedicated to serving North Carolina public units.

Concentration of Credit Risk The Authority places no limit on the amount that the Authority may invest in any one issuer. More than 58% of the Authority's investments are in government agencies. At March 31, 2010, the Authority's investments consisted of 23% in Federal Home Loan Bank securities, 10% in Federal Home Loan Mortgage Corporation securities, 17% in Federal National Mortgage Association securities, and 50% in NCCMT. Of this 50% invested in the NCCMT, 83% represents Authority bond proceeds. At March 31, 2009, the Authority's investments consisted of 10% in Federal Home Loan Bank securities, 6% in Federal Home Loan Mortgage Corporation securities, 2% in Federal Farm Credit Bank securities, 20% in Federal National Mortgage Association securities, 3% in a Morgan Stanley repurchase agreement, and 59% in NCCMT. Of this 59% invested in the NCCMT, 89% represents Authority bond proceeds.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 March 31, 2010 and 2009

**Note 4 – Airport and facilities, net**

Changes in airport and facilities are as follows for the year ended March 31, 2010:

	<u>March 31, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>March 31, 2010</u>
<u>Capital assets not being depreciated</u>					
Land	\$ 41,193,383	\$ -	\$ -	\$ -	\$ 41,193,383
Construction in progress	27,645,002	121,002,198	-	(14,814,879)	133,832,321
Total capital assets not being depreciated	68,838,385	121,002,198	-	(14,814,879)	175,025,704
<u>Other capital assets</u>					
Landing field and grounds	522,444,658	-	-	1,058,165	523,502,823
Terminal buildings	504,137,908	-	-	1,335,323	505,473,231
Other buildings	159,618,448	-	-	11,742,441	171,360,889
Utilities	4,115,389	-	-	115,243	4,230,632
Equipment	23,233,962	-	(793,426)	563,707	23,004,243
Total other capital assets	1,213,550,365	-	(793,426)	14,814,879	1,227,571,818
Total airport and facilities	1,282,388,750	121,002,198	(793,426)	-	1,402,597,522
<u>Accumulated depreciation</u>					
Landing field and grounds	(257,795,396)	(17,181,497)	-	-	(274,976,893)
Terminal buildings	(71,000,569)	(19,425,846)	-	-	(90,426,415)
Other buildings	(47,652,390)	(8,841,401)	-	-	(56,493,791)
Utilities	(3,669,650)	(77,366)	-	-	(3,747,016)
Equipment	(15,830,628)	(1,997,845)	793,426	-	(17,035,047)
Total accumulated depreciation	(395,948,633)	(47,523,955)	793,426	-	(442,679,162)
Airport and facilities, net	<u>\$ 886,440,117</u>	<u>\$ 73,478,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 959,918,360</u>

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 March 31, 2010 and 2009

**Note 4 – Airport and facilities, net (continued)**

Changes in airport and facilities are as follows for the year ended March 31, 2009:

	<u>March 31, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>March 31, 2009</u>
<u>Capital assets not being depreciated</u>					
Land	\$ 35,546,221	\$ -	\$ -	\$ 5,647,162	\$ 41,193,383
Construction in progress	315,393,845	138,328,867	-	(426,077,710)	27,645,002
Total capital assets not being depreciated	350,940,066	138,328,867	-	(420,430,548)	68,838,385
<u>Other capital assets</u>					
Landing field and grounds	516,776,328	-	-	5,668,330	522,444,658
Terminal buildings	94,895,079	-	-	409,242,829	504,137,908
Other buildings	158,364,779	-	-	1,253,669	159,618,448
Utilities	4,115,389	-	-	-	4,115,389
Equipment	18,968,242	-	-	4,265,720	23,233,962
Total other capital assets	793,119,817	-	-	420,430,548	1,213,550,365
Total airport and facilities	1,144,059,883	138,328,867	-	-	1,282,388,750
<u>Accumulated depreciation</u>					
Landing field and grounds	(240,375,763)	(17,419,633)	-	-	(257,795,396)
Terminal buildings	(59,137,630)	(11,862,939)	-	-	(71,000,569)
Other buildings	(39,615,640)	(8,036,750)	-	-	(47,652,390)
Utilities	(3,595,165)	(74,485)	-	-	(3,669,650)
Equipment	(13,978,756)	(1,851,872)	-	-	(15,830,628)
Total accumulated depreciation	(356,702,954)	(39,245,679)	-	-	(395,948,633)
Airport and facilities, net	<u>\$ 787,356,929</u>	<u>\$ 99,083,188</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 886,440,117</u>

During March 31, 2010 and 2009, interest costs of approximately \$10,416,393 and \$20,379,794, net of interest earned of approximately \$308,839 and \$4,152,213, were capitalized as part of the cost of construction in progress, respectively.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 March 31, 2010 and 2009

**Note 5 – Long-term debt**

Changes of long-term debt for the year ended March 31, 2010 consist of the following:

	<u>March 31, 2009</u>	<u>Principal Repayments</u>	<u>New Debt</u>	<u>March 31, 2010</u>
Amounts due to trustee				
Series 2001A 4.00 – 5.50% General Airport Revenue Bonds, maturing in varying installments beginning in 2005 to 2031	\$ 144,680,000	\$ 3,505,000	\$ -	\$ 141,175,000
Series 2001B 4.00 – 4.375% General Airport Revenue Bonds, maturing in varying installments beginning in 2002 to 2015	16,715,000	3,100,000	-	13,615,000
Series 2005A 4.00-5.00% General Airport Revenue Bonds, maturing in varying installments beginning 2019 to 2030	39,805,000	-	-	39,805,000
Series 2005B 3.00-5.00% General Airport Revenue Bonds, maturing in varying installments beginning 2006 to 2029	81,015,000	3,250,000	-	77,765,000
Series 2007 4.750% General Airport Revenue Bonds, maturing in varying installments beginning 2011 to 2037	152,070,000	-	-	152,070,000
Series 2008ABC 4.72% General Airport Revenue Bonds, maturing in varying installments beginning 2009 to 2036 (Refunded 2006 Bonds)	300,000,000	5,290,000	-	294,710,000
Total bond obligations	<u>734,285,000</u>	<u>15,145,000</u>	<u>-</u>	<u>719,140,000</u>
Less current maturities	<u>15,145,000</u>	<u>-</u>	<u>-</u>	<u>15,825,000</u>
	<u>\$ 719,140,000</u>	<u>\$ 15,145,000</u>	<u>\$ -</u>	<u>\$ 703,315,000</u>



RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 March 31, 2010 and 2009

**Note 5 – Long-term debt (continued)**

Changes of long-term debt for the year ended March 31, 2009 consist of the following:

	<u>March 31, 2008</u>	<u>Principal Repayments</u>	<u>New Debt</u>	<u>March 31, 2009</u>
Amounts due to trustee				
Series 2001A 4.00 – 5.50% General Airport Revenue Bonds, maturing in varying installments beginning in 2005 to 2031	\$ 148,000,000	\$ 3,320,000	\$ -	\$ 144,680,000
Series 2001B 4.00 – 4.375% General Airport Revenue Bonds, maturing in varying installments beginning in 2002 to 2015	20,345,000	3,630,000	-	16,715,000
Series 2002A Adjustable Rate Airport Revenue Bonds, maturing in varying installments beginning in 2003 to 2018	22,500,000	22,500,000	-	-
Series 2005A 4.00-5.00% General Airport Revenue Bonds, maturing in varying installments beginning 2019 to 2030	39,805,000	-	-	39,805,000
Series 2005B 3.00-5.00% General Airport Revenue Bonds, maturing in varying installments beginning 2006 to 2029	82,560,000	1,545,000	-	81,015,000
Series 2006A-E 4.50% General Airport Revenue Bonds, maturing in varying installments beginning 2009 to 2036	300,000,000	300,000,000	-	-
Series 2007 4.750% General Airport Revenue Bonds, maturing in varying installments beginning 2011 to 2037	152,070,000	-	-	152,070,000
Series 2008ABC 4.72% General Airport Revenue Bonds, maturing in varying installments beginning 2009 to 2036 (Refunded 2006 Bonds)	-	-	300,000,000	300,000,000
Total bond obligations	<u>765,280,000</u>	<u>330,995,000</u>	<u>300,000,000</u>	<u>734,285,000</u>
Less current maturities	<u>10,295,000</u>	<u>-</u>	<u>-</u>	<u>15,145,000</u>
	<u>\$ 754,985,000</u>	<u>\$ 330,995,000</u>	<u>\$ 300,000,000</u>	<u>\$ 719,140,000</u>

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 March 31, 2010 and 2009

**Note 5 – Long-term debt (continued)**

Debt maturities for the next five years and in five-year increments thereafter are as follows:

Year Ending March 31	General Airport Revenue Bond Series 2001A	General Airport Revenue Bond Series 2001B	General Airport Revenue Bond Series 2005A	General Airport Revenue Bond Series 2005B	General Airport Revenue Bond Series 2007	General Airport Revenue Bond Series 2008 ABC	Interest
2011	\$ 3,645,000	\$ 3,220,000	\$ -	\$ 3,415,000	\$ -	\$ 5,545,000	\$ 33,126,699
2012	3,790,000	3,350,000	-	3,585,000	2,755,000	5,810,000	32,356,236
2013	3,980,000	3,495,000	-	3,760,000	2,885,000	6,090,000	31,434,173
2014	4,190,000	2,435,000	-	3,950,000	3,035,000	6,385,000	30,449,872
2015	4,410,000	1,115,000	-	4,150,000	3,190,000	6,690,000	29,465,932
2016-2020	25,770,000	-	490,000	23,615,000	18,575,000	38,610,000	132,304,777
2021-2025	33,115,000	-	15,285,000	15,595,000	23,840,000	48,845,000	102,807,337
2026-2030	42,265,000	-	19,510,000	19,695,000	30,520,000	61,790,000	65,884,833
2031-2035	20,010,000	-	4,520,000	-	38,920,000	78,160,000	25,333,474
2036-2038	-	-	-	-	28,350,000	36,785,000	2,195,584
	<u>\$141,175,000</u>	<u>\$13,615,000</u>	<u>\$39,805,000</u>	<u>\$77,765,000</u>	<u>\$152,070,000</u>	<u>\$294,710,000</u>	<u>\$485,358,917</u>

For the table above, interest was calculated for the un-hedged or non swapped \$75 million portion of the Series 2008 bonds using an estimated rate of 4.00% for their remaining terms.

On February 27, 2001, the Authority entered into a Master Trust Indenture, dated as of February 1, 2001, that established the primary financing mechanism for the issuance of Bonds to finance improvements to the Airport. Bonds issued under the Master Trust Indenture are obligations of the Authority, secured by and payable from the Net Revenues of the Authority, and under certain circumstances, the proceeds of the Bonds, investment earnings, amounts set aside in a Debt Service Reserve Fund created under the Master Trust Indenture and certain other funds and accounts.

On February 27, 2001, the Authority issued \$156,975,000 Airport Revenue Bonds Series 2001A under the Master Trust Indenture. The proceeds were used for the design and construction of several improvements to the Airport, including the construction of a garage, two warehouse buildings to house support equipment, alterations to existing parking structures, roadways, bridges, toll plazas, walkways, and alterations to a pedestrian tunnel.

On February 27, 2001, the Authority also issued \$47,570,000 Airport Revenue Refunding Bonds Series 2001B under the Master Trust Indenture. The proceeds were used to refund Revenue Bonds previously issued by the Authority to finance parking facilities at the Airport.

On May 1, 2002, American prepaid and retired Series 1995A and 1995B Special Facility Revenue Refunding Bonds totaling \$78,300,000. These bonds, which were considered conduit debt, financed the Terminal C Building facilities and equipment, all of which were leased to American for a 40-year period.

On June 13, 2002, the Authority issued \$30,000,000 Adjustable Rate Airport Revenue Bonds, Series 2002A under the Master Trust Indenture. The proceeds of the Series 2002A Bonds were used to finance a portion of the cost of acquiring and purchasing certain rights and interests of American Airlines, Inc. under the Raleigh-Durham Airport Facilities Lease and Use Agreement dated November 1, 1985, to finance the cost of rehabilitation of certain buildings and equipment related to the forgoing

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
March 31, 2010 and 2009

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**Note 5 – Long-term debt (continued)**

acquisition and purchase, and to finance the cost of certain other capital improvements to aeronautical facilities located at the airport. Due to downgrades of the credit ratings of the bond insurer insuring payment of the Series 2002A Bonds in March 2008, the Series 2002 Bonds could no longer be remarketed at interest rate levels corresponding to their tax exempt trading index, or SIFMA. On August 12, 2008 the entire outstanding principal balance of Series 2002A, or \$22,500,000 was retired with Authority funds.

On December 18, 2002, the Authority issued \$35,000,000 Bond Anticipation Notes (BAN) Series 2002B under the Master Trust Indenture. On December 17, 2003, the Authority paid off the \$35,000,000 Series 2002B BAN with the issuance of a \$70,000,000 Bond Anticipation Note, Series 2003 (\$35 million new funding), under the Master Trust Indenture. These BAN proceeds were used to fund the initial costs of constructing a general aviation terminal and an operations center; constructing a ramp expansion, including the relocation of Taxiway D; and improving Terminal C and associated facilities, including architectural, pre-construction and construction. The Series 2003 BAN was retired in March 2005 with the issuance of the Series 2005A&B bonds.

On March 1, 2005, the Authority issued \$39,805,000 Airport Revenue Bond Series 2005A under the Master Trust Indenture. The proceeds were used for the construction, redevelopment, and expansion of Terminal C (now known as Terminal 2).

On March 1, 2005, the Authority issued \$85,490,000 Airport Revenue Bond Series 2005B under the Master Trust Indenture. The proceeds were used for the construction, redevelopment, and expansion of Terminal C (now known as Terminal 2), including the redevelopment of the north ramp general aviation area, an Authority Operations Center, and the relocation of Taxiway D and ramp expansion.

On May 4, 2005 the Authority executed two interest rate swap agreements in anticipation of the issuance of \$300 million of Bonds to finance the redevelopment of Terminal C (now Terminal 2). The effective date of the swaps was June 15, 2006 and the termination date of the swaps was May 1, 2036. One interest rate swap agreement was entered into with Citibank, N.A. and one interest rate swap agreement was entered into with Lehman Brothers Special Financing Inc. The aggregate notional amount of the swaps was \$300,000,000 and the terms of the swaps are substantially similar. Under the swaps, the Authority agreed to pay the swap providers a fixed rate of 4.27% based on the notional amount of the swaps and the swap providers agreed to pay the Authority the Bond Market Association Municipal Swap Index (BMA or SIFMA) rate plus 5 basis points based on the notional amount of the swaps. Only the net difference in interest rate payments is actually exchanged. The \$300 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The notional amount of the swaps was designed to amortize with the 2006 Bonds.

On June 15, 2006, the Authority issued \$300 million of its Variable Rate Airport Revenue Bonds in five series (Series 2006A, 2006B, 2006C, 2006D and 2006E). On May 2, 2008, the Authority refunded the Series 2006 Bonds through the issuance of its Variable Rate Airport Revenue Bonds, also in the amount of \$300 million, in three series (Series 2008A, 2008B and 2008C). The Series 2008 Bonds were issued to refund the Series 2006 Bonds to correct a trading problem associated with the ratings downgrade of the bond insurer insuring payment of the Series 2006 Bonds. The Series 2008 Bonds were issued in the amount of \$300 million and have the identical amortization schedule as the refunded Series 2006 Bonds. The refunding of the Series 2006 Bonds by the Series 2008 Bonds resolved the trading problems associated with the ratings downgrade of the bond insurer for the Series 2006 Bonds.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
March 31, 2010 and 2009

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**Note 5 – Long-term debt (continued)**

The Series 2006 Bonds, and later the Series 2008 Bonds, were issued as variable interest rate bonds, but the swaps converted the interest rate to a synthetic fixed rate. If the floating receipts from the swap counterparties are equal to the interest due on the hedged bonds, the Authority's effective interest rate would be the fixed swap rate. The Authority is exposed to additional interest expense payments if the variable interest rate on the Bonds exceeds BMA (or SIFMA) plus 5 basis points. The swap agreements utilized the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the Authority being required to make an unanticipated termination payment.

In connection with the 2008 refunding, the swaps associated with the Series 2006 Bonds were not changed and there was no gain or loss on the refunding.

In September 2008 Lehman Brothers Special Financing, Inc. entered bankruptcy in connection with the bankruptcy filing by Lehman Brothers. This bankruptcy resulted in a default by Lehman Brothers Special Financing Inc. under its \$150 million swap agreement with the Authority. At that time, the Authority began exploring the possibility of terminating the interest rate swap with Lehman. On February 9, the Authority terminated the Lehman swap at a cost to the Airport Authority of \$9.1 million. Simultaneously with terminating the swap agreement, the Authority entered into two new swap agreements for an aggregate notional amount of \$75 million with Barclays Bank, Plc and Morgan Keegan Financial Products, Inc. as swap counterparties. Performance by Morgan Keegan Financial Products, Inc. under its swap agreement is supported by a second agreement entered into by the Authority and Morgan Keegan with Deutsche Bank. The Authority received \$4,551,000 from Barclays Bank Plc and Morgan Keegan Financial Products, Inc. to offset the payment made to Lehman Brothers. The new swaps were negotiated with Barclays in the notional amount of \$50 million and with Morgan Keegan in the notional amount of \$25 million. Fixed rate payments under these new swaps are set at a rate of 4.099 percent, down from the 4.27 percent Lehman swap rate, reducing the Airport Authority's interest cost on the hedged \$75 million by approximately \$128,000 per year. The remaining \$75 million of Series 2008 Bonds became un-hedged variable debt upon the termination of the Lehman swap. In connection with the termination of the Lehman swap, the Authority offset termination transaction costs and the market premium associated with a failed Debt Service Reserve fund investment agreement with Lehman. As such, these additional offsets reduced the net cash payment by the Authority in connection with the termination of the Lehman swap termination to \$3.1 million.

Each series of the Series 2008 Bonds is supported by credit or liquidity support provided by a letter of credit or standby bond purchase agreement of a financial institution. For the \$75 million Series 2008C Bonds, the Authority made arrangements for the delivery of a letter of credit of SunTrust Bank. Due to financial difficulties encountered by SunTrust Bank in 2009, the Series 2008C Bonds could not be remarketed at variable interest rates that corresponded to SIFMA. In November 2009, the Authority and SunTrust Bank entered into arrangements with the Federal Home Loan Bank of Atlanta for the Federal Home Loan Bank to deliver a standby letter of credit that supports the letter of credit of SunTrust Bank securing the Series 2008C Bonds. The delivery of the Federal Home Bank letter of credit resulted in a return of the variable interest rates on the Series 2008C Bonds to levels that approximate the SIFMA index.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**Note 5 – Long-term debt (continued)**

At March 31, 2010, the Authority's swaps had the following negative fair values:

<u>Counterparty</u>	<u>Swap Amount</u>	<u>Negative fair value</u>
Citigroup, Inc	\$147,355,000	\$13,393,582
Barclays Capital	49,116,000	3,835,182
Morgan Keegan	24,559,000	1,795,061

Fair value was established by the counterparty using mark to market valuations.

On May 31, 2007, the Authority finalized financing of the Terminal C (now Terminal 2) Redevelopment and Expansion Project with the issuance by the Authority of its Airport Revenue Bonds, Series 2007 in the aggregate principal amount of \$152 million. These proceeds were used for the construction, redevelopment, and expansion of Terminal C (now Terminal 2).

The Authority's bonds are subject to federal arbitrage regulations, and are reviewed for potential for arbitrage liability annually on the bond issue dates. The arbitrage rebate payments are payable on the fifth anniversary of the bond issue date and every fifth year subsequent to that date. Annual calculations are performed for all applicable bond issues and the Authority is in compliance with regard to arbitrage regulations on all bond issues.

In accordance with Section 148 of the Internal Revenue Code of 1986, as amended, and Sections 1.103-13 to 1.103-15 of the related Treasury Regulations, the Authority must rebate to the federal government "arbitrage profits" earned on the governmental bonds after August 31, 1986. Arbitrage profits are the excess of the amount earned on investments over the interest paid on the borrowings. At March 31, 2010 the Series 2005 bonds had an arbitrage liability of \$949,219.

These bonds have rate covenants associated with them, whereby the Authority must maintain a debt service coverage ratio of Net Revenues and available fund balance to debt service. The bond documents provide for a number of technical adjustments to be followed in determining the Net Revenues and debt service to be used in this calculation. The rate covenant generally requires that sum of (i) the Net Revenues for the fiscal year and (ii) available fund balance at the end of the fiscal year in an amount up to 25% of debt service for the fiscal year (the "25% transfer") must be no less than 125% of the adjusted debt service calculated for the fiscal year. The debt service coverage ratio at March 31, 2010 with this 25% transfer is 202%. The debt service coverage ratio at March 31, 2009 without this 25% transfer is calculated as follows:

Net revenues	\$ 46,910,237
Annual debt service	<u>26,574,881</u>
Calculated debt service coverage ratio without transfer	<u>177%</u>

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**Note 6 – Leases**

The Authority leases land, buildings and terminal space with a cost of approximately \$524 million and a carrying value of approximately \$424 million to the airlines, car rental agencies, restaurant and other businesses located at the airport. Revenues from these leases, which are included in buildings and grounds and general aviation revenue, were approximately 40% and 39% of airport operating revenues for fiscal years ended March 31, 2010 and 2009, respectively. These leases cover periods ranging up to a maximum of 40 years and contain provisions for fixed and contingent rentals based on revenues. For the years ended March 31, 2010 and 2009, contingent rentals comprised \$16.6 and \$17.8 million of the total rental revenues, respectively.

Minimum future rentals on noncancelable operating leases for the next five fiscal years are approximately:

Year Ending March 31	Amount
2011	\$ 8,237,000
2012	8,380,000
2013	8,052,000
2014	7,544,000
2015	7,544,000
	\$ 39,757,000

**Note 7 – Employee retirement plans**

**Local governmental employees' retirement system**

*Plan Description* – The Authority contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy* – Plan members are required to contribute six percent of their annual covered salary. The Authority is required to contribute at an actuarially determined rate. The current rate for employees not engaged in law enforcement and for law enforcement officers is 4.88% and 4.86% of annual covered payroll. The contribution requirements of members are established and may be amended by the North Carolina General Assembly. The Authority's contributions to LGERS for the years ended March 31, 2010, 2009 and 2008 were \$1,741,464, 1,678,340 and \$1,474,901 respectively. The contributions made by the Authority equaled the required contributions for each fiscal year.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 March 31, 2010 and 2009

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**Note 7 – Employee retirement plans (continued)**

**Supplemental retirement income plan for law enforcement officers**

*Plan Description* – The Authority contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Authority. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

*Funding Policy* – Article 12E of G.S. Chapter 143 requires the Authority to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended March 31, 2010 were \$137,568, which consisted of \$84,022 from the Authority, and \$53,546 from the law enforcement officers. Contributions for the year ended March 31, 2009 were \$129,580, which consisted of \$77,946 from the Authority, and \$51,634 from the law enforcement officers.

**Law enforcement officer's special separation allowance**

*Plan Description* – The Authority administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Authority's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Authority are covered by the Separation Allowance. At March 31, 2010, the Separation Allowance's membership consisted of:

Retirees receiving benefits	5
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>29</u>
Total	<u><u>34</u></u>

A separate report was not issued for the plan.

*Summary of Significant Accounting Policies*

*Basis of Accounting* – The Authority has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from operating accounts, which are maintained on the accrual basis of accounting.

*Method Used to Value Investments* – No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

RALEIGH-DURHAM AIRPORT AUTHORITY  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**Note 7 – Employee retirement plans (continued)**

*Contributions* – The Authority is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the operating budget. The Authority’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

**Other Post-Employment Benefits**

Health Care Plan

*Plan Description:*

Under the terms of an Authority resolution, the Authority administers a single-employer benefit Health Care Plan (the “Plan”). The Plan provides postemployment healthcare benefits to retirees of the Authority, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System). While eligibility to draw retirement benefits from the System vests at 5 years, eligibility for post-retirement health benefits from the Authority requires: (1) all requirements for retirement from LGERS are met and (2) the final 5 years of service are worked with the Authority. The Authority pays the cost of the individual and dependent premiums (or same portion of the cost as it pays for non-retired employees) for the qualified retiree's health coverage through the Authority's group health insurance plan. When the retiree reaches age 65, the Authority’s post-retirement benefits cease. At that time, the retiree is no longer covered by the Authority’s group health insurance program. The Plan does not issue a stand-alone report and is not included in the report of a public employee retirement system or a report of another entity.

Membership in the plan included the following at December 31, 2008, the date of the last actuarial valuation:

Retirees receiving benefits	23
Active plan members	<u>274</u>
Total	<u>297</u>

*Funding Policy:*

As noted above, the Authority pays its share of the cost of coverage (premiums) for the health care benefits provided to qualified retirees. The Authority’s members pay their share of the premiums. The Authority has chosen to fund the health care benefits on a pay as you go basis and no funds are set aside to pay these benefits.

The current annual required contribution rate is 5.87% of annual covered payroll. For the current year, the Authority contributed \$203,635 (retiree claims paid less premiums received) or 1.31% of annual covered payroll. The Authority provides health care coverage through a minimum premium plan. The Authority’s required contribution for employees and retirees is the actual expense incurred. Contributions (premiums) made by employees and retirees were 2.89% and .23% of covered payroll, respectively. The Authority’s obligation to contribute to the Plan is established and may be amended by the Authority’s Board of Directors.



**RALEIGH-DURHAM AIRPORT AUTHORITY**  
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**Other Post-Employment Benefits (continued)**

Life Insurance Benefit

*Plan Description:*

Under the terms of an Authority resolution, the Authority administers a single-employer life insurance benefit. The life insurance benefit provides postemployment life insurance coverage to retirees of the Authority in the amount of \$5,000. When the retiree reaches age 99, the Authority's post-retirement benefits cease. At that time, the retiree is no longer covered by the Authority's life insurance policy.

*Funding Policy:*

The Authority pays the full cost of life insurance premiums. The Authority has chosen to fund the life insurance benefits on a pay as you go basis and no funds are set aside to pay these benefits. The Authority's obligation to contribute to the life insurance benefit is established and may be amended by the Authority's Board of Directors.

*Summary of Significant Accounting Policies:*

Postemployment expenditures for the Authority's portion of the premiums are from the Authority's enterprise fund, which is maintained on the full accrual basis of accounting. No funds are set aside to pay benefits and administrative costs. These expenditures are paid as they come due.

*Annual OPEB Cost and Net OPEB Obligation:*

The Authority's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the Plan and changes in the Authority's net OPEB obligation for the health care benefits:

Annual required contribution	\$854,455
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	854,455
Contributions made	203,635
Increase in net OPEB obligation	650,820
Net OPEB obligation beginning of the year	-
Net OPEB obligation end of the year	\$650,820

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2010 were as follows:

For Year Ended March	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 854,455	23.8%	\$ 650,820

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**Other Post-Employment Benefits (continued)**

*Funded Status and Funding Progress:*

As of December 31, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$6,078,786. The covered payroll (annual payroll of active employees covered by the Plan) was \$14,562,473, and the ratio of the UAAL to the covered payroll was 41.7%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.5 to 5.00 percent annually. Both rates included a 3.75 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008, was 30 years.

**Note 8 – Commitments and contingencies**

**Risk management** – The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, injuries to employees and the general public, and natural disasters. The Authority carries commercial insurance against risks of loss, including property and public liability insurance and worker's compensation. Settled claims from these risks have been far less than commercial insurance coverage.

**Construction commitments** – At March 31, 2010 and 2009, the Authority has contractual commitments for Authority expansion programs of approximately \$63 million and \$125 million, respectively.

**Contingent liabilities** - The Authority is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Authority's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Authority.

RALEIGH-DURHAM AIRPORT AUTHORITY  
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**Contingent liabilities (continued)**

Prior to the opening of Terminal 2, the Authority's Small Emerging Business (SEB) program was used to provide loan backing for two small business concessionaires. Additional support is also available for Terminal 2 phase 2 opportunities in early 2011. The Authority has capped the amount available for this program at \$1.5 million.

**Note 9 – Subsequent Events**

The Authority is preparing to issue fixed interest rate 2010A Bonds to refund the 2008A/B Bonds and terminate its interest rate swap agreements (3 swaps with notational values totaling \$221 million at March 31, 2010) in order to reduce its exposure to risks associated with the underlying variable rate demand obligations, particularly with regard to costs and availability of credit and liquidity support for the 2008A/B Bonds, and to risks associated with the interest rate swap agreements. In the current interest rate environment, the Authority must pay a termination payment in connection with the termination of its interest rate swap agreements. Depending upon market conditions and whether corresponding market driven financial objectives are met at the time of the sale of the 2010A Bonds, the Authority may refund less than all of the 2008A/B Bonds and terminate less than all of the interest rate swap agreements, or may terminate the swap agreements completely, but leave some of the 2008A/B Bonds outstanding as variable rate demand obligations. The Authority expects approval from the North Carolina Local Government Commission to issue the 2010A Bonds during August 2010. This approval will remain in force for 12 months.

In response to recent losses on investments managed by the North Carolina Office of the State Treasurer during the recession, the Treasurer has mandated increased local government employer contributions to the Local Government Employees Retirement System beginning July 1, 2010 to increase the system's funded status. The Authority's contribution rate will increase from 4.8% to 6.36% (33% increase), which will result in increased expense of about \$187,500 for the fiscal year ending March 31, 2011. This increase on an annual basis would equate to approximately \$250,000.

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**APPENDIX C**

**SUMMARIES OF THE MASTER TRUST INDENTURE AND THE  
SEVENTH SUPPLEMENTAL TRUST INDENTURE**

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## APPENDIX C

### SUMMARIES OF THE MASTER TRUST INDENTURE AND THE ELEVENTH SUPPLEMENTAL TRUST INDENTURE

#### Definitions

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

*“Accreted Value”* shall mean, with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in a Supplemental Indenture as the amount representing the initial principal amount of such Capital Appreciation Bond plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, determined in accordance with the provisions of the Supplemental Indenture authorizing the issuance of such Capital Appreciation Bond.

*“Act”* shall mean The State and Local Government Revenue Bond Act, constituting Article 5 of Chapter 159 of the General Statutes of North Carolina, as amended from time to time.

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

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

(b) if all or any portion or portions of an Outstanding Series of Bonds or Unissued Program Bonds constitute Balloon Indebtedness (excluding Program Bonds or Unissued Program Bonds to which paragraph (f) applies), then, for purposes of determining Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness shall, unless otherwise provided in the Supplemental Indenture pursuant to which such Balloon Indebtedness is issued or unless paragraph (c) of this definition then applies to such maturity, be treated as if it were to be amortized over a period of 20 years (or the actual number of years over which such Balloon Indebtedness is to be amortized, if greater than 20 years, but in no event greater than 30 years) and with substantially level annual debt service funding payments commencing not later than the year following the year in which such Balloon Indebtedness was issued, and extending not later than the stated or deemed, as the case may be, final maturity of such Balloon Indebtedness, but in no event later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation shall be that rate equal to the current market rate for a similar obligation with such assumed amortization as set forth in an opinion of a banking institution or an investment banking institution knowledgeable in airport finance delivered to the Trustee as the interest rate or rates at which the Authority could reasonably expect to borrow the

same by incurring indebtedness with the same term as assumed above, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Bonds, Unissued Program Bonds or Program Bonds only a portion of which constitutes Balloon Indebtedness, the remaining portion shall be treated as described in paragraph (a) above or such other provision of this definition as shall be applicable and, with respect to any Series of Bonds, Unissued Program Bonds or Program Bonds or that portion of a Series thereof which constitutes Balloon Indebtedness, all funding requirements of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness shall be treated as described in paragraph (a) above or such other provision of this definition as shall be applicable;

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

(d) if any Outstanding Bonds (including Program Bonds) or any Bonds which are then proposed to be issued constitute Tender Indebtedness (but excluding Program Bonds or Bonds as to which a Qualified Swap is in effect and to which paragraph (a) or (h) applies), then, for purposes of determining Aggregate Annual Debt Service, Tender Indebtedness shall be treated as if the principal amount of such Bonds were to be amortized over the stated term of such Tender Indebtedness but in any case not more than 30 years commencing in the year in which such Tender Indebtedness is first subject to tender and with substantially level Annual Debt Service payments and extending not later than the actual final maturity date of such Tender Indebtedness but in any case not more than 30 years from the date such Tender Indebtedness was originally issued; the interest rate used for such computation shall be a rate equal to the current market rate for a similar obligation with such assumed amortization as set forth in an opinion of a banking institution or an investment banking institution knowledgeable in airport finance delivered to the Trustee as the interest rate at which the Authority could reasonably expect to borrow the same by incurring indebtedness with the same terms as assumed above, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and with respect to all funding requirements of principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender, such payments shall be treated as described in paragraph (a) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date shall be determined as provided in paragraph (e) or (f) below, as appropriate;

(e) if any Outstanding Bonds constitute Variable Rate Indebtedness, including obligations described in subparagraph (h)(ii) below to the extent it applies (except to the extent paragraph (b) or (c) relating to Balloon Indebtedness or (d) relating to Tender Indebtedness or



subparagraph (h)(i) below relating to Synthetic Fixed Rate Debt applies), the interest rate on such Variable Rate Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect and the principal amount of such Variable Rate Indebtedness Outstanding) for the most recent twelve (12) month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve (12) month period), except that with respect to new Variable Rate Indebtedness proposed to be incurred, the interest rate for such Variable Rate Indebtedness shall be a rate equal to the current market rate for a similar obligation of a corresponding term as set forth in an opinion of a banking institution or an investment banking institution knowledgeable in airport finance delivered to the Trustee as the interest rate at which the Authority could reasonably expect to borrow the same by incurring indebtedness with the same terms as assumed above, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(f) with respect to any Program Bonds or Unissued Program Bonds, it shall be assumed that the full principal amount of such Unissued Program Bonds will be amortized over a term certified by an Authorized Authority Representative at the time the initial Program Bonds of such Program are issued to be the expected duration of such Program or, if such expectations have changed, over a term certified by an Authorized Authority Representative to be the expected duration of such Program at the time of such calculation, but not to exceed 30 years from the date the initial Program Bonds of such Program are issued and it shall be assumed that debt service shall be paid in substantially level Annual Debt Service payments over such assumed term; the interest rate used for such computation shall be a rate equal to the current market rate for a similar obligation with such assumed amortization as set forth in an opinion of a banking institution or an investment banking institution knowledgeable in airport finance delivered to the Trustee as the interest rate at which the Authority could reasonably expect to borrow the same by incurring indebtedness with the same terms as assumed above, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

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

(h) (i) for purposes of computing the Aggregate Annual Debt Service of Bonds that constitute Synthetic Fixed Rate Debt, the interest payable thereon shall, if the Authority elects, be that rate as provided for by the terms of the Swap or the net interest rate payable pursuant to offsetting indices, as applicable; or, if the Authority fails so to elect, then it shall be deemed to be a rate equal to the current market rate for a fixed rate obligation with the same amortization and terms as such Bonds that constitute Synthetic Fixed Rate Debt as set forth in an opinion of a banking institution or an investment banking institution knowledgeable in airport finance delivered to the Trustee as the interest rate at which the Authority could reasonably expect to borrow the same by incurring indebtedness with the same terms as assumed above;

(ii) for purposes of computing the Aggregate Annual Debt Service of Bonds with respect to which a Swap has been entered into whereby the Authority has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Bonds to which such Swap pertains shall be included in the calculation of Aggregate Annual Debt Service, and the interest rate with respect to such Bonds shall elects, be the sum of that rate as determined in

accordance with paragraph (e) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Designated Debt and the rate received from the Swap Provider;

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

(j) if Passenger Facility Charges or federal or state grants or other moneys have been irrevocably committed or are held by the Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest, then the principal and/or interest to be paid from such Passenger Facility Charges or federal or state grants or other moneys or from earnings thereon shall be disregarded (unless such Passenger Facility Charges are included in the definition of Revenues) and not included in calculating Aggregate Annual Debt Service.

*“Aggregate Annual Debt Service For Reserve Requirement”* shall mean the computation of Aggregate Annual Debt Service for a Debt Service Reserve Fund with respect to all Outstanding Bonds participating in an identified Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Aggregate Annual Debt Service For Reserve Requirement for the respective Debt Service Reserve Fund, if any, for a Series of Bonds, the Annual Debt Service with respect to any Variable Rate Indebtedness shall, upon the issuance of such Series participating in a Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in paragraph (e) of the definition of Aggregate Annual Debt Service, and the amount so determined shall not require adjustment thereafter except as appropriate to reflect reductions in the Outstanding principal amount of such Series. For purposes of the Aggregate Annual Debt Service For Reserve Requirement, the Annual Debt Service requirements assumed at the time of issuance of a Series of Bonds containing Balloon Indebtedness or Tender Indebtedness shall not, with respect to such Series, require subsequent increases. In addition, the Seventh Supplemental Indenture provides that for purposes of computing the Reserve Requirement of the Parity Reserve Fund, the adjustment set forth in subsection (j) of the definition of Aggregate Annual Debt Service (relating to the exclusion from Aggregate Annual Debt Service of PFCs and certain federal or state grants under the terms set forth therein) shall be disregarded in computing the Aggregate Annual Debt Service for Reserve Requirement.

*“Airport Director”* shall mean the person at a given time who is the executive director of the Authority or such other title as the Authority may from time to time assign for such position and the officer or officers succeeding to such position as certified to the Trustee by the Authority.

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

*“Airport System”* shall mean all airports, airport sites, and all equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce under the jurisdiction and control of the Authority, including the Raleigh-Durham International Airport and any area of land or water which is designated for the landing and taking off of aircraft, whether or not facilities are provided for the shelter, servicing or repairing of aircraft, or for receiving or discharging passengers or cargo and all appurtenant areas used or suitable for airport buildings or other airport facilities and all appurtenant rights-of-way, including all facilities and property related thereto, real or personal, under the jurisdiction or control of the Authority or in which the Authority has other rights or from which the Authority derives revenues at such

location; and including or excluding, as the case may be, such property as the Authority may either acquire or which shall be placed under its control, or divest or have removed from its control.

*“Annual Budget”* shall mean the Authority’s budget for a Fiscal Year adopted pursuant to the provisions of the Local Government Budget and Fiscal Control Act.

*“Annual Debt Service”* shall mean, with respect to any Bond, the aggregate amount of Revenues required to be set aside in the respective Debt Service Fund during the Fiscal Year to satisfy the funding requirements for future payments of principal and interest, plus, if a Qualified Swap is in effect for any Bond, the amount payable by the Authority (or the Trustee) under the Qualified Swap calculated in accordance with the principles and assumptions set forth in the definition of Aggregate Annual Debt Service, less any amount to be received by the Authority from the Qualified Swap Provider pursuant to the Qualified Swap.

*“Authority”* shall mean the Raleigh-Durham Airport Authority, created under provisions of Chapter 168, Public Local Laws of 1939 of the State of North Carolina, as amended from time to time, and any successor to its functions. Any action required or authorized to be taken by the Authority in the Indenture may be taken by the Authorized Authority Representative with such formal approvals by the Authority as are required by the policies and practices of the Authority and applicable laws provided, however, that any action taken by the Authorized Authority Representative in accordance with the provisions of the Indenture shall conclusively be deemed by the Trustee and the Owners to be the act of the Authority without further evidence of the authorization thereof by the Authority.

*“Authority General Counsel”* shall mean the general counsel to the Authority who is responsible for representing the Authority on legal matters.

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

*“Authorized Authority Representative”* shall mean the Airport Director or such other officer or employee of the Authority or other person, which other officer, employee or person has been designated by the Airport Director as an Authorized Authority Representative by written notice delivered by the Airport Director to the Trustee.

*“Balloon Indebtedness”* shall mean, with respect to any Series of Bonds (other than Commercial Paper, Revenue Bond Anticipation Notes or other short-term paper), fifty percent (50%) or more of the principal of which matures on the same date or within a Fiscal Year, that portion of such Series which matures on such date or within such Fiscal Year; provided, however, that to constitute Balloon Indebtedness the amount of Bonds of a Series maturing on a single date or within a Fiscal Year must equal or exceed 150% of the amount of such Series which matures during any Fiscal Year. For purposes of this definition, the principal amount maturing on any date shall be reduced by the amount of such Bonds scheduled to be amortized by prepayment or redemption prior to their stated maturity date.

“*Bond*” or “*Bonds*” shall mean any indebtedness of the Authority secured by a senior lien upon Net Revenues, including taxable or tax-exempt obligations issued under and in accordance with the provisions of the Indenture. The term “*Bond*” or “*Bonds*” does not include any Subordinated Obligation; provided, however, that the Authority may provide in a Supplemental Indenture to the Indenture that Subordinated Obligations may be thenceforth issued pursuant to the Indenture having the terms applicable to the Bonds, except that such Subordinated Obligations shall be junior and subordinate in payment of such Subordinated Obligations from the Net Revenues.

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

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

“*Business Day*” shall mean a day on which banks located in New York, New York, in Raleigh, North Carolina and in the city in which the principal corporate trust office of the Trustee is located are open.

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

“*Capital Improvements Budget*” shall mean the budget for capital improvements for a Fiscal Year adopted by the Authority in accordance with the Indenture.

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

“*Chairman*” shall mean the chairman of the Authority or such other title as the Authority may from time to time assign for such position.

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

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

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

“*Construction Fund*” shall mean any of the Construction Funds authorized to be created as provided by the Indenture.

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

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

“*Costs of Issuance*” shall mean all costs and expenses incurred by the Authority in connection with the issuance and sale of the Series 2010A Bonds or Series 2010B Bonds, including, but not limited to, legal expenses incurred by the Authority, underwriter’s fees and expenses, costs and expenses of printing and copying documents, cost of preparation of the official statement, the feasibility report and the Series 2010A and Series 2010B Bonds.

“*Costs of Issuance Account*” shall mean the account with that name established within the Series 2007 Construction Fund pursuant to the Sixth Supplemental Indenture.

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

“*Credit Provider*” shall mean the party obligated to make payment of principal of and/or interest on or the purchase price of the Bonds under a Credit Facility; provided, however, that the Credit Provider may not be the Trustee unless an arrangement satisfactory to the Local Government Commission has been established including, but not limited to, designating a co-trustee or separate trustee for the purpose of drawing on the Credit Facility. If and to the extent permitted by law and with the prior approval of the Local Government Commission (unless all Outstanding Bonds have received a rating of AA or better by at least one of the Rating Agencies the Authority has asked to maintain a rating, in which case such

approval of the Local Government Commission shall not be required), the Authority may be a Credit Provider only for the purpose of providing liquidity support.

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

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

*“Debt Service Reserve Fund Surety Policy”* shall mean an insurance policy or surety bond, or a letter of credit, deposited with the Trustee for the credit of the Debt Service Reserve Fund created for one or more Series of Outstanding Bonds in lieu of or in partial substitution for cash or securities on deposit therein. The entity providing such Debt Service Reserve Fund Surety Policy shall be rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

*“Deputy Director for Finance, Business and Administration”* shall mean the person at a given time who is the deputy airport director of the Authority or such other title as the Authority may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Trustee by the Authority.

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

*“Director of Finance”* shall mean the person at a given time who is the director of finance of the Authority or such other title as the Authority may from time to time assign for such position and the officer or officers succeeding to such position as certified to the Trustee by the Authority.

*“Eleventh Supplemental Indenture”* shall mean the Eleventh Supplemental Trust Indenture, dated as of August 1, 2010, between the Authority and the Trustee, which sets forth the terms of the Series 2010 Bonds, as supplemented and amended from time to time.

*“Event of Default”* shall mean any occurrence or event specified in the Indenture.

*“FAA”* means the Federal Aviation Administration or any successor organization or entity succeeding to the Federal Aviation Administrator’s principal functions.

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

*“FGIC”* shall mean Financial Guaranty Insurance Company, a New York stock insurance company, and its successors and assigns, as the issuer of the Parity Reserve Policy.

“*First Supplemental Indenture*” shall mean the First Supplemental Trust Indenture, dated as of February 1, 2001, between the Authority and the Trustee, which sets forth the terms of the Series 2001 Bonds, as supplemented and amended from time to time.

“*Fifth Supplemental Indenture*” shall mean the Fifth Supplemental Trust Indenture, dated as of March 1, 2005, between the Authority and the Trustee, as supplemented and amended from time to time.

“*Fiscal Year*” shall mean the period of time beginning on April 1 of each year and ending on March 31 of the following year, or such other similar period as the Authority designates as its fiscal year.

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

“*Government Obligations*” shall mean (a) United States Obligations (including obligations issued or held in book-entry form), (b) prerefunded municipal obligations meeting the following conditions: (i) the municipal obligations are not subject to calling or redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (iii) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (iv) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (v) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (vi) the municipal obligations are rated in their highest rating category by one or more of the Rating Agencies, but only if such Rating Agencies have been requested by the Authority to maintain a rating on the Bonds and such Rating Agencies are then maintaining a rating on any of the Bonds, and (c) any other type of security or obligation which the Rating Agencies then maintaining ratings on the Bonds to be defeased have determined to be permitted defeasance securities.

“*Indenture*” shall mean the Master Trust Indenture, dated as of February 1, 2001, between the Authority and the Trustee, as amended, together with all Supplemental Indentures.

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

“*Initial Bonds*” or “*Series 2001 Bonds*” shall mean the Raleigh-Durham Airport Authority Airport Revenue Bonds, Series 2001A and the Raleigh-Durham Airport Authority Airport Revenue Refunding Bonds, Series 2001B.

“*Interest Account*” shall mean each of the accounts with that name established within the Series 2010A Debt Service Fund and the Series 2010B Debt Service Fund, respectively, pursuant to the Eleventh Supplemental Indenture.

“*Interest Payment Date*” shall mean May 1 and November 1, commencing November 1, 2010, the dates upon which interest on the Series 2010 Bonds become due and payable.

*“Local Government Budget and Fiscal Control Act”* shall mean Article 3 of Chapter 159 of the General Statutes of North Carolina, as amended from time to time.

*“Local Government Commission”* shall mean the Local Government Commission of North Carolina, a division of the Department of State Treasurer, established by Section 159-3 of the General Statutes of North Carolina, and any successor or successors thereto. When the consent or approval of the Local Government Commission is required by the terms of the Indenture, such consent or approval may be obtained from the Local Government Commission, the Executive Committee of the Local Government Commission or any authorized representative of the Local Government Commission.

*“Mail”* shall mean first-class United States mail, postage prepaid.

*“Maintenance and Operation Expenses of the Authority”* shall mean, for any given period, the total maintenance and operation expenses of the Authority as modified from time to time, excluding depreciation expenses, allowances for any amortization of financing expenses and maintenance and operation expenses of any Special Facilities for so long as any Special Facility Obligations are outstanding.

For purposes of testing compliance with the rate covenant set forth in the Indenture and the limitations on additional Bonds described in the Indenture, Maintenance and Operation Expenses of the Authority will be calculated based upon generally accepted accounting principles, except that such calculation will include and exclude those items specifically included and excluded above.

*“Master Subordinated Trust Indenture”* shall mean a separate trust indenture entered into by the Authority with the Subordinated Obligation Trustee which provides for the issuance or incurrence of Subordinated Obligations.

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

*“Maximum Aggregate Annual Debt Service For Reserve Requirement”* shall mean the computation of the maximum Aggregate Annual Debt Service for a Debt Service Reserve Fund with respect to all Outstanding Bonds participating in an identified Debt Service Reserve Fund in the then current or any future Fiscal Year.

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

*“Net Proceeds”* shall mean (a) insurance proceeds received as a result of damage to or destruction of Airport Facilities (other than a Special Facility or Special Facilities so long as Special Facility Obligations are outstanding) plus (b) any condemnation award or amounts received by the Authority from the sale of Airport Facilities under the threat of condemnation (other than a Special Facility or Special Facilities so long as Special Facility Obligations are outstanding) less (c) expenses (including attorneys’ fees and expenses and any fees and expenses of the Trustee) incurred in the collection of such proceeds or award.

*“Net Revenues”* shall mean, for any given period, the Revenues for such period less, for such period, the Maintenance and Operation Expenses of the Authority.



“*Non-Qualified Swap*” shall mean any Swap which is not a Qualified Swap.

“*Original Issue Discount Bonds*” shall mean Bonds which are sold at an initial public offering price of less than face value,

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

(a) Bonds cancelled or purchased by the Trustee for cancellation or delivered to or acquired by the Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(b) Bonds deemed to be paid in accordance with the Indenture;

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

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

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

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

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

“*Parity Reserve Fund*” shall mean the Debt Service Reserve Fund established in the First Supplemental Indenture as the “Series 2001 Reserve Fund” and renamed the “Parity Reserve Fund” in the Fifth Supplemental Indenture, which secures the Series 2001 Bonds, the Series 2005 Bonds, the Series 2007 Bonds, the Series 2010 Bonds and any additional Bonds that may hereafter be secured by the Parity Reserve Fund on a *pari passu* basis.

“*Parity Reserve Policy*” means the Municipal Bond Debt Service Reserve Fund Policy No. 01010127 issued by FGIC on February 27, 2001 to provide a portion of the Debt Service Reserve Fund Requirement for bonds secured by the Parity Reserve Fund.

“*Passenger Facility Charges*” shall mean charges collected by the Authority pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990, the Aviation Investment Reform Act of 2000 and 14 CFR Part 158, as amended from time to time, in respect of any component of the Airport System and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

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

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

“*Permitted Investments*” shall mean the following investments, but only to the extent such investments are permitted by § 159-30 of the General Statutes of North Carolina, as amended from time to time:

- (a) Government Obligations;
- (b) Obligations of the Federal Financing Bank, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration and the Farmers Home Administration;
- (c) Obligations of the State rated in one of the two highest rating categories by Moody’s and S&P;
- (d) Bonds and notes of any North Carolina local government or public authority, subject to such restrictions as the Secretary of the Local Government Commission may impose, provided such bonds or notes are rated in one of the two highest rating categories by Moody’s and S&P;
- (e) savings certificates or certificates of deposit issued by any commercial bank or savings and loan association organized under the laws of the State or by any federal bank or savings and loan association having its principal office in the State; provided, however that any principal amount of such certificates in excess of the amount insured by the federal government or any agency thereof, or by a mutual deposit guaranty association authorized by the Administrator of the Savings Institutions Division of the Department of Commerce of the State, be fully collateralized by obligations described in (a) or (b) above;
- (f) prime quality commercial paper bearing the highest rating of Moody’s and S&P and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation;
- (g) participating shares in the cash portfolio of North Carolina Capital Management Trust, provided that the investments of such fund are limited to those qualifying for investment under this definition and that said fund is certified by the Local Government Commission;
- (h) repurchase agreements with respect to Government Obligations if (1) entered into with a broker or dealer, as defined by the Securities Exchange Act of 1934, as amended, which is a dealer recognized as a primary dealer by a Federal Reserve bank with a short-term rating of not less than “P-1” from Moody’s and not less than “A-1” from S&P, or any commercial bank, trust company or national banking association rated “A” or better by Moody’s and S&P, the deposits of which are insured by the Federal Deposit Insurance Corporation or any successor thereof, or (2) the repurchase agreement constitutes a “repurchase agreement” within the meaning of the United States Bankruptcy Code, if:
  - 1. such obligations that are subject to such repurchase agreement are delivered (in physical or in book-entry form) to the Authority, or any financial institution serving either as trustee for the Authority or as fiscal agent for the Authority or

are supported by a safekeeping receipt issued by a depository satisfactory to the Authority, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated at least daily, of not less than one hundred percent (100%) of the repurchase price, and, provided further, that the financial institution serving either as trustee or as fiscal agent for the Authority holding the obligations subject to a repurchase agreement or the depository issuing the safekeeping receipt shall not be the provider of the repurchase agreement;

2. a valid and perfected first security interest in the obligations which are the subject of such repurchase agreement has been granted to the Authority or its assignee or book entry procedures, conforming, to the extent practicable, with federal regulations and satisfactory to the Authority, have been established for the benefit of the Authority or its assignee;
3. such securities are free and clear of any adverse third-party claims;
4. such repurchase agreement is in a form satisfactory to the Authority; and
  - (i) any other investment now or hereafter permitted for investment of funds by the Authority by the General Statutes of North Carolina.

“*PFC*” or “*PFCs*” shall mean passenger facility fees authorized under 49 U.S.C. §40117, or any predecessor or successor law, and approved by the FAA from time to time, or such other similar charge or fee imposed by the Authority on passengers enplaned within the Airport System.

“*PFC Eligible Bonds*” shall mean Bonds, issued under the Indenture the payment of principal of, premium, if any, and interest on which may be made from PFC Revenues pursuant to applicable rules and regulations of the FAA.

“*PFC Revenues*” shall mean revenues collected by the Authority from the imposition of PFCs.

“*PFC Revenue Fund*” shall mean the fund created and designated as the Raleigh-Durham Airport Authority Airport PFC Revenue Fund by the Fifth Supplemental Indenture.

“*Principal Amount*” or “*principal amount*” shall mean, as of any date of calculation, (a) with respect to any Capital Appreciation Bond, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest) except as used in connection with the authorization and issuance of Bonds and with the order of priority of payments of Bonds after an Event of Default, in which case “Principal Amount” means the initial principal amount of a Capital Appreciation Bond (the difference between the Accreted Value and the initial principal amount being deemed interest), (b) with respect to any Original Issue Discount Bond, the principal amount thereof, unless the Supplemental Indenture under which such Bond was issued shall specify a different amount, in which case, the terms of the Supplemental Indenture shall control, and (c) with respect to any other Bonds, the principal amount of such Bond payable at maturity or in satisfaction of a sinking fund requirement, if any.

“*Program*” shall mean a financing program identified in a Supplemental Indenture including but not limited to, a Commercial Paper Program, (a) which is authorized and the terms thereof approved by a resolution adopted by the Authority and as to which the items required under the Indenture have been filed with the Trustee, (b) wherein the Authority has authorized the issuance, from time to time, of notes

including, but not limited to, Commercial Paper or other indebtedness in an Authorized Amount, and (c) the Authorized Amount of which has met the additional Bonds test set forth in the Indenture and the outstanding amount of which may vary from time to time, but may not exceed the Authorized Amount.

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

*“Project”* shall mean any and all facilities, improvements and other expenditures related to the Airport System financed in whole or in part with proceeds of a Series of Bonds. With respect to the Series 2010 Bonds, *“Project”* shall mean the capital project underway by the Authority for the demolition of the passenger terminal at the Airport known as *“Terminal C”* and the construction, equipping, furnishing and other development of a new terminal at the site known as *“Terminal 2,”* which capital project is financed, in part, with proceeds of the Series 2005 Bonds, Series 2006 Bonds and Series 2007 Bonds.

*“Project Account”* shall mean the account with that name established within the Series 2007 Construction Fund pursuant to the Seventh Supplemental Indenture.

*“Qualified Self-Insurance”* is defined in the Indenture.

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

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

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

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

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

*“Record Date”* shall mean, with respect to any Series of Bonds, the record date as specified in the Supplemental Indenture which provides for the issuance of such Series.

*“Redemption Account”* shall mean the account with that name established within the Series 2007 Debt Service Fund pursuant to the Seventh Supplemental Indenture.

*“Refunding Bonds”* shall mean any Bonds issued pursuant to the Indenture to refund or defease all or a portion of any Series of Outstanding Bonds or any Subordinated Obligations.

*“Registrar”* shall mean, with respect to the Bonds or any Series of Bonds, the bank, trust company or other entity designated in a Supplemental Indenture or a resolution of the Authority to perform the function of Registrar under the Indenture or any Supplemental Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Indenture.

*“Registrar”* shall mean, for purposes of the Eleventh Supplemental Indenture, the Trustee.

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

*“Released Revenues”* shall mean revenues of the Authority in respect of which the following have been filed with the Trustee:

(a) a written request of the Airport Director to release such category of Revenues, accompanied by a written certificate of the Airport Director and the Finance Manager certifying the Authority is in compliance with all requirements of the Indenture;

(b) a report of an Independent certified public accountant to the effect that Net Revenues, excluding the category of Revenues proposed to become Released Revenues, for each of the two audited Fiscal Years prior to the date of such report were equal to at least 150% of the Maximum Aggregate Annual Debt Service;

(c) a certificate of a Consultant retained by the Authority to the effect that based upon current knowledge of the operations of the Airport System, Net Revenues, excluding the category of Revenues proposed to become Released Revenues, for the current Fiscal year will be equal to at least 150% of Maximum Aggregate Annual Debt Service;

(d) Rating Agency confirmation that the ratings then assigned to any Bonds by such Rating Agency will not be reduced or withdrawn as a result of such withdrawal of Released Revenues; and

(e) an opinion of Bond Counsel to the effect that the exclusion of such revenues from the definition of Revenues and from the pledge, charge and lien of the Indenture will not in and of itself cause the interest on any Outstanding Bond issued as tax-exempt securities to be included in gross income for purposes of federal income tax.

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

*“Reserve Requirement”* shall mean an amount equal to the least of (a) Maximum Aggregate Annual Debt Service For Reserve Requirement for all Series of Bonds participating in the Debt Service Reserve Fund, (b) ten percent (10%) of the principal amount of the Series of Bonds that have been issued and are participating in the Debt Service Reserve Fund, less the amount of original issue discount with respect to such Series of Bonds if such original issue discount exceeded 2% of such Series of Bonds at the time of their original sale and (c) 125% of the average Aggregate Annual Debt Service For Reserve Requirement for all Series of Bonds participating in the Debt Service Reserve Fund. The Reserve Requirement may be composed of cash, Permitted Investments or a Debt Service Reserve Fund Surety Policy, or any combination of the foregoing, as the Authority may determine; provided, however, that the consent of the Local Government Commission is required before a Debt Service Reserve Fund Surety Policy may be used to satisfy all or a portion of the Reserve Requirement.

*“Responsible Officer”* shall mean an officer or assistant officer of the Trustee assigned by the Trustee to administer the Indenture.

*“Revenue Bond Anticipation Notes”* shall mean any revenue bond anticipation notes issued by the Authority in compliance with the provisions of the Indenture.

*“Revenue Fund”* shall mean the Revenue Fund established by the Authority and held and maintained by the Authority in compliance with the provisions of the Indenture.

*“Revenues”* shall mean, except to the extent specifically excluded herefrom, all income, receipts, earnings and revenues received by the Authority from the operation and ownership of the Airport System, as modified from time to time, including, but not limited to, (a) rates, tolls, fees, rentals, charges and other payments made to or owed to the Authority for the use or availability of the Airport System, and (b) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Authority, rental or business interruption insurance proceeds received by, held by, accrued to or entitled to be received by the Authority or any successor thereto from the possession, management, charge, superintendence and control of the Airport System and its related facilities or activities and undertakings related thereto or from any other facilities wherever located with respect to which the Authority receives payments which are attributable to the Airport System or activities or undertakings related thereto. Additionally, “Revenues” shall include all income, receipts and earnings from the investment of amounts held in the Revenue Fund, any Debt Service Fund (except Capitalized Interest on deposit therein), any Debt Service Reserve Fund and the Construction Fund (except any earnings allowed by the terms of a Supplemental Indenture to be used to fund the Construction Fund), the income and gains realized upon the maturity or sale of securities held by or on behalf of the Authority (except any income and gains allowed by the terms of a Supplemental Indenture to be used to fund the Construction Fund) and such additional revenues, if any, as are designated as “Revenues” under the terms of any Supplemental Indenture. The following, including any investment earnings thereon, are specifically excluded from Revenues: (i) gifts, grants and other income otherwise included in this definition of “Revenues” which are restricted by their terms to purposes inconsistent with the payment of debt service on the Bonds, (ii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other proceeds are restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Bonds (except to the extent Net Proceeds are utilized to pay Maintenance and Operating Expenses of the Airport System), (iii) any Transfer, (iv) any Special Facility Revenue, (v) any gain or loss from the sale, exchange or other

disposition of capital assets of the Authority, (vi) any Released Revenues and (vii) any unrealized gains or losses on securities held for investment by or on behalf of the Authority. In addition, the following, including any investment earnings thereon, are specifically excluded from “Revenues,” unless designated as “Revenues” under the terms of a Supplemental Indenture or pursuant to a resolution of the Authority: (i) any Swap Termination Payments paid to the Authority pursuant to a Qualified Swap, (ii) Facilities Construction Credits, (iii) Passenger Facility Charges, (iv) investment income derived from any moneys or securities which may be placed in escrow or trust to defease Bonds, (v) any arbitrage earnings which are required to be paid to the U.S. Government pursuant to Section 148 of the Code and (vi) Capitalized Interest. Further, interest earnings or other investment earnings on any Construction Fund established by any Supplemental Indenture are specifically excluded from “Revenues,” unless otherwise provided for in such Supplemental Indenture.

For purposes of testing compliance with the rate covenant set forth in the Indenture and the limitations on additional Bonds described in the Indenture, Revenues will be calculated based upon generally accepted accounting principles, except that such calculation will include and exclude those items specifically included or excluded above.

“*Serial Bonds*” shall mean Bonds for which no sinking fund installment payments are provided.

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

“*Series 2001 Bonds*” shall mean the Authority’s Airport Revenue Bonds, Series 2001A and Airport Revenue Bonds, Series 2001B, each dated February 27, 2001.

“*Series 2005 Bonds*” shall mean the Authority’s Airport Revenue Bonds, Series 2005A (Non-AMT) and Airport Revenue Bonds, Series 2005B (AMT), each dated March 16, 2005.

“*Series 2006 Bonds*” shall mean, collectively, the Authority’s Airport Revenue Bonds, Series 2006A-E (AMT), each dated June 13, 2006.

“*Series 2006 Construction Fund*” shall mean the Construction Fund of such designation established in the Sixth Supplemental Indenture, into which the proceeds of the Series 2006 Bonds were deposited to pay the costs of issuance of the Series 2006 Bonds and a portion of the costs of the Project.

“*Series 2007 Bonds*” shall mean the Authority’s Airport Revenue Bonds, Series 2007 (AMT), each dated May 31, 2007.

“*Series 2008 Bonds*” shall mean the Authority’s Variable Rate Airport Revenue Refunding Bonds, Series 2008A (AMT), Variable Rate Airport Revenue Refunding Bonds, Series 2008B (AMT), and Variable Rate Airport Revenue Refunding Bonds, Series 2008C, each dated as of May 1, 2008.

“*Series 2010 Bonds*” shall mean, collectively, the Bonds issued under the Indenture and the Eleventh Supplemental Indenture and designated the “Raleigh-Durham Airport Authority Airport Revenue Refunding Bonds, Series 2010A (Non-AMT)” and the “Raleigh-Durham Airport Authority Airport Revenue Refunding Bonds, Series 2010B (Non-AMT).”

“*Series 2010A Debt Service Fund*” shall mean the Debt Service Fund of such designation established in the Eleventh Supplemental Indenture and into which money is to be deposited to pay debt service on the Series 2010A Bonds.

“*Series 2010B Debt Service Fund*” shall mean the Debt Service Fund of such designation established in the Eleventh Supplemental Indenture and into which money is to be deposited to pay debt service on the Series 2010B Bonds

“*Sixth Supplemental Indenture*” shall mean the Sixth Supplemental Trust Indenture, dated as of June 1, 2006, between the Authority and the Trustee and which sets forth the terms of the Series 2006 Bonds, as supplemented and amended from time to time.

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

“*S&P*” shall mean Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., which is a corporation organized and existing under the laws of the State of New York, its successors and its assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, “*S&P*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority.

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

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

“*Special Facility Revenue*” shall mean the contractual payments and all other revenues derived by the Authority from a Special Facility which are pledged to secure Special Facility Obligations.

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

“*State*” shall mean the State of North Carolina.

“*Subordinated Obligation*” shall mean any bond, note or other debt instrument, issued or otherwise entered into by the Authority which ranks junior and subordinate to the Bonds and which may be paid from moneys constituting Net Revenues only if all amounts of principal and interest which have become due and payable on the Bonds whether by maturity, redemption or acceleration have been paid in full and the Authority is current on all payments, if any, required to be made to replenish all Debt Service



Reserve Funds. “Subordinated Obligations” are not Bonds for purposes of the Indenture; provided, however, that the Authority may henceforth by Supplemental Indenture elect to have the provisions of the Indenture applicable to the Bonds apply to the Subordinated Obligations issued thereunder, except that in all cases such Subordinated Obligations shall be secured on a junior and subordinate basis to the Bonds by the pledge of the Net Revenues or shall be secured by assets that are not Net Revenues or shall be unsecured. No bond, note or other instrument of indebtedness shall be deemed to be a “Subordinated Obligation” for purposes of the Indenture and payable on a subordinated basis from Net Revenues unless specifically designated by the Authority as a “Subordinated Obligation” in a Supplemental Indenture or other written instrument. In connection with any Subordinated Obligation with respect to which a Swap is in effect or proposes to be in effect, the term “Subordinated Obligation” includes, collectively, both such Subordinated Obligation and either such Swap or the obligations of the Authority under each such Swap, as the context requires. The term “Subordinated Obligations” also includes a Swap or the obligations of the Authority under such Swap which has been entered into in connection with a Subordinated Obligation, as the context requires, although none of the Subordinated Obligations with respect to which such Swap was entered into remain outstanding. In connection with any Bonds with respect to which a Qualified Swap is in effect or proposed to be in effect, the term “Subordinated Obligation” includes any Swap Termination Payment if designated as a Subordinated Obligation in a Supplemental Indenture. In addition to the foregoing, obligations of the Authority under the District Financing Agreement are “Subordinated Obligations” for purposes of the Indenture.

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

*“Subordinated Obligation Trustee”* shall mean the entity named and serving as the trustee under the Master Subordinated Trust Indenture, until a successor replaces it and, thereafter, shall mean such successor.

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

*“Surplus Fund”* shall mean the Surplus Fund created by the Authority pursuant to the Indenture.

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

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

*“Swap Termination Payment”* shall mean an amount payable by the Authority or a Qualified Swap Provider, in accordance with a Qualified Swap, to compensate the other party to the Qualified Swap

for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Qualified Swap.

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

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

“*Tender Indebtedness*” shall mean any fixed rate Bond or Variable Rate Indebtedness which by its terms entitles or requires a holder to tender all or a portion of such Bonds or Variable Rate Indebtedness to the Authority, the Trustee, the Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Bonds or Variable Rate Indebtedness or portions thereof be purchased if properly presented.

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

“*Transfer*” shall mean (a) the amount in the Surplus Fund on the last Business Day of a Fiscal Year plus (b) any amounts withdrawn from the Surplus Fund during such Fiscal Year to pay Maintenance and Operation Expenses of the Authority and to make any required payments or deposits to pay or secure the payment of the principal, purchase price or redemption premium of and interest on the Outstanding Bonds less (c) any amounts credited to the Surplus Fund from the Revenue Fund as of the last Business Day of such Fiscal Year; provided, however, that the amount of any Transfer shall not exceed 25% of Aggregate Annual Debt Service on the Outstanding Bonds in such Fiscal Year.

“*Trustee*” shall mean the entity named as such in the heading of the Indenture until a successor replaces it and, thereafter, shall mean such successor.

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

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

“*United States Obligations*” shall mean direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including, with respect only to direct and general obligations and not to guaranteed obligations, evidences of ownership of proportionate interests in future interest and/or principal payments

of such obligations, provided that investments in such proportionate interests must be limited to circumstances wherein: (a) a bank or trust company acts as custodian and holds the underlying United States Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (c) the underlying United States Obligations are held in a special account separate from the custodian's general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated. "United States Obligations" shall include any stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

"Variable Rate Indebtedness" shall mean any Bond the interest rate on which is not, at the time in question, fixed to maturity excluding any Commercial Paper whether or not issued as part of a Commercial Paper Program.

## THE MASTER TRUST INDENTURE

In addition to certain information contained under the captions "THE 2010 BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS" and "OUTSTANDING INDEBTEDNESS AND DEBT SERVICE SCHEDULE" above, the following is a summary of certain provisions of the Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Indenture.

### **Grant to Secure Bonds; Pledge of Net Revenues**

To secure the payment of the interest, principal and premium, if any, on the Bonds and the performance and observance by the Authority of all the covenants, agreements and conditions expressed or implied in the Indenture or contained in the Bonds, the Authority pledges and assigns to the Trustee and grants to the Trustee a lien on and security interest in all right, title and interest of the Authority in and to all of the following and provides that such lien and security interest shall be prior in right to any other pledge, lien or security interest created by the Authority in the following: (a) the Net Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Trustee under the Indenture, and to the extent provided in any Supplemental Indenture moneys and securities held in any Construction Fund whether or not held by the Trustee, (c) earnings on amounts included in provisions (a) and (b) above (except to the extent excluded from the definition of Revenues by the Indenture), and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the Indenture, for the equal and proportionate benefit and security of all Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall, with respect to the security provided by the Granting Clause, be of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds. Any Debt Service Reserve Fund and any Debt Service Reserve Fund Surety Policy provided at any time in satisfaction of all or a portion of the Reserve Requirement and any other security or Credit Facility provided for specific Bonds, a specific Series of Bonds or one or more Series of Bonds may, as provided by a Supplemental Indenture, secure only such specific Bonds, Series of Bonds or one or more Series of Bonds and, therefore, shall not be included as security for all Bonds under the Indenture unless otherwise provided by a Supplemental Indenture and moneys and securities held in trust as provided in the Indenture exclusively for Bonds which have become due and payable and moneys and securities which are held exclusively to pay Bonds which are deemed to have been paid under the Indenture shall be held solely for the payment of such specific Bonds.

## Form, Execution, Delivery and Registration of Bonds

**Additional Bonds**<sup>1</sup>. The Authority shall not issue additional Bonds unless the requirements of paragraph (a) below are satisfied, or, in the case such additional Bonds are Refunding Bonds, unless the requirements of paragraphs (b) or (c) below are satisfied.

(a) The Authority has provided to the Trustee the following: (i) the Authority's most recent audited financial statements, and its unaudited statements for the period, if any, from the date of such audited statements through the most recently completed Fiscal Year quarter; (ii) either evidence indicating that, as of the date of issuance of such additional Bonds, the Authority is in compliance with the rate covenant as described in the Indenture, or, if applicable, evidence of compliance with the rate covenant including the Airport Consultant's recommendation and documentation of measures taken to revise the schedule of rentals, rates, fees and charges; and (iii) either

(A) a Consultant retained by the Authority has provided to the Trustee a certificate stating that, based upon reasonable assumptions, projected Net Revenues will be sufficient to satisfy the rate covenant set forth in Section 5.04 (disregarding any Bonds or Subordinated Obligations that have been paid or discharged or will be paid or discharged immediately after the issuance of the additional Bonds proposed to be issued) for each of the next five full Fiscal Years following issuance of the additional Bonds, or each full Fiscal Year from issuance of the additional Bonds through two full Fiscal Years following completion of the Projects financed by the additional Bonds proposed to be issued, whichever is later; provided, that if Capitalized Interest on any Bonds and proposed additional Bonds is to be applied in the last Fiscal Year of the period described in this sentence, the Consultant shall extend the test through the first full Fiscal Year for which there is no longer Capitalized interest, or

(B) an Authorized Authority Representative has provided to the Trustee a certificate stating that Net Revenues for the most recent Fiscal Year preceding the date of issuance of the proposed Series of Bonds were no less than 125% of Maximum Aggregate Annual Debt Service on all Bonds that would be Outstanding after the issuance of the additional Bonds proposed to be issued.

(b) With respect to additional Bonds proposed to be issued to refund Outstanding Bonds, either the requirement set forth in paragraph (a) above is satisfied or the Authority has provided to the Trustee evidence that the Aggregate Annual Debt Service in each Fiscal Year with respect to all Bonds Outstanding after issuance of such Refunding Bonds shall be less than the Aggregate Annual Debt Service in each such Fiscal Year through the last Fiscal Year in which Bonds are Outstanding prior to the issuance of such Refunding Bonds.

(c) With respect to additional Bonds proposed to be issued to refund outstanding Subordinated Obligations, the requirement set forth in paragraph (a) above is satisfied.

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

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<sup>1</sup> Subparagraph (b) will be amended following the issuance of the Series 2010 Bonds. For information regarding such amendment, please see the front part of this Official Statement.

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

For purposes of (a)(iii)(B) above, no Transfer shall be taken into account in the computation of Revenues by the Authorized Authority Representative.

In addition, for purposes of (a)(iii)(B) above, the Authority shall be allowed to adjust Net Revenues for earnings arising from any increase in the rates, charges and fees for the use of the Airport System which has become effective prior to the issuance of such proposed Series of Bonds but which, during the last completed Fiscal Year or 12-month period, was not in effect for the entire Fiscal Year or 12-month period under consideration, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in rates, charges and fees had been in effect during the whole of the last completed Fiscal Year or 12-month period, as shown by the certificate or opinion of a Consultant retained by the Authority.

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

Neither of the certificates described under (a)(iii)(A) or (a)(iii)(B) above shall be required if the proceeds of Bonds being issued will be used to pay costs of completing a Project for which Bonds have previously been issued and the Principal Amount of such Bonds being issued for completion purposes does not exceed an amount equal to 15% of the Principal Amount of the Bonds originally issued for such Project and reasonably allocable to the Project to be completed as shown in a written certificate of an Authorized Authority Representative and there is delivered to the Trustee (i) a Consultant's certificate stating that the nature and purpose of such Project has not materially changed and (ii) a certificate of an Authorized Authority Representative to the effect that (A) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Project) of the original Bonds issued to finance such Project have been or will be used to pay Costs of the Project and (B) the then estimated Costs of the Project exceed the sum of the Costs of the Project already paid plus moneys available in the Construction Fund established for the Project (including unspent proceeds of Bonds previously issued for such purpose).

If a Credit Provider makes payment of principal or interest on a Bond or advances funds to pay or provide for the purchase price of Bonds and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Authority, but is not reimbursed, the Authority's Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Bond issued under the Indenture, and, if afforded such status, the Credit Provider shall be the Bondholder and such Bond shall be deemed to have been issued at the time of the issuance of the original Bond for which the Credit Facility was provided and will not be subject to the provisions of the Indenture regarding issuance of additional Bonds. The payment terms of the thus-deemed Bond held by the Credit Provider

under the Indenture shall be the stated terms of the Repayment Obligation (unless otherwise provided in the Supplemental Indenture pursuant to which the Bonds are issued). Any amount which comes due on the Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Bond shall be a Subordinated Obligation of the Authority. This provision shall not defeat or alter the rights of subrogation which any Credit Provider may have under law or under the terms of any Supplemental Indenture. The Trustee may conclusively rely on a written certification by the Credit Provider of the amount of such non-reimbursement and that such Repayment Obligation is to be afforded the status of a Bond under the Indenture.

***Revenue Bond Anticipation Notes.*** Revenue Bond Anticipation Notes may be issued by the Authority from time to time for any purpose for which Bonds may be issued under the Indenture.

## **Revenues and Funds**

***Bonds Secured by a Pledge of and Lien on Net Revenues.*** The Bonds authorized and issued under the provisions of the Indenture shall be secured as provided in the Granting Clauses of the Indenture. The Authority represents and states that it has not previously created any pledge, charge or lien on or any security interest in the Revenues or the Net Revenues and the Authority covenants that, until all the Bonds authorized and issued under the provisions of the Indenture and the interest thereon shall have been paid or are deemed to have been paid, it will not, except as otherwise provided under the Indenture, grant any prior or parity pledge of or any security interest in the Net Revenues or any of the other security which is pledged pursuant to the Granting Clauses of the Indenture or create or permit to be created any pledge, charge or lien thereon or any security interest therein ranking prior to or on a parity with the pledge, charge or lien of the Bonds from time to time Outstanding under the Indenture. The Authority may, as provided in and as limited by the Indenture, grant a lien on or security interest in the Net Revenues to secure Subordinated Obligations.

***Receipt, Deposit and Use of Revenues—Revenue Fund.*** The Authority covenants and agrees that commencing on the day of the delivery of the Initial Bonds all Revenues when and as received, shall be deposited by the Authority in the Revenue Fund. So long as no Event of Default exists and is continuing, the Revenue Fund shall remain in the possession of the Authority. If an Event of Default has occurred and is continuing, or if the Authority shall fail to comply with the rate covenant set forth in the Indenture, the Authority shall (i) endorse all checks and other negotiable instruments representing Revenues to the order of the Trustee immediately upon the receipt thereof and deliver such endorsed instruments daily to the Trustee; (ii) notify any and all account debtors of the Authority to pay any amounts representing Revenues, when due and owing, directly to the Trustee, as Trustee, at the address set forth in the Indenture and (iii) deliver to the Trustee all money and Permitted Investments then held by the Authority in the Revenue Fund. The Authority shall comply with all the requirements of the next preceding sentence until the Trustee is satisfied that the Event of Default or non-compliance with the rate covenant set forth the Indenture has been cured. Notwithstanding anything contained in the Indenture or in any Supplemental Indenture to the contrary, during such period of default or non-compliance with the rate covenant set forth in the Indenture, the Trustee shall, in its sole discretion, dispose of the Revenues pursuant to the terms of the Indenture and the Authority shall not be entitled to use or withdraw any of the Revenues unless and to the extent that the Trustee in its sole discretion so directs for the payment of current or past due Maintenance and Operation Expenses of the Authority.

As long as there are any Outstanding Bonds, all Revenues on deposit in the Revenue Fund shall be reflected on the books of the Authority as set aside for the payment of the following amounts or transferred to the following funds and accounts in the order listed:

*Maintenance and Operation Expenses of the Authority.* A sufficient amount of Revenues shall be set aside from time to time in the Revenue Fund to be used to pay the current Maintenance and Operation Expenses of the Authority.

*Debt Service Funds.* A sufficient amount of Revenues shall be transferred by the Authority to the Debt Service Funds at the times and in the manner provided in the Indenture, to provide for the payment of principal and interest becoming due on the Authority's Outstanding Bonds.

*Debt Service Reserve Fund.* A sufficient amount of Revenues shall be transferred by the Authority to any Debt Service Reserve Fund, as specified in a Supplemental Indenture to be used in the manner provided in the Indenture.

*Subordinated Obligation Debt Service Fund.* A sufficient amount of Revenues shall be transferred by the Authority to the Subordinated Obligation Trustee or Paying Agent in such amounts and at such times as are sufficient to pay the principal and interest becoming due on any Subordinated Obligations in the manner set forth in the District Financing Agreement or any Supplemental Indenture providing for the issuance thereof.

*Subordinated Obligation Debt Service Reserve Fund.* A sufficient amount of Revenues shall be transferred by the Authority to the Subordinated Obligation Debt Service Reserve Fund, if any, as specified in a Supplemental Indenture to be used in the manner provided in the Indenture.

Moneys on deposit in the Revenue Fund may be used from time to time to pay the cost of any additions, improvements, repairs, renewals or replacements to the Airport System set forth in the Capital Improvements Budget; provided, however, that the use of such moneys shall not impair the Authority's ability to make the payments required to be made to the funds listed above.

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

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

If a Debt Service Reserve Fund or Debt Service Reserve Funds (or a Credit Facility provided in lieu thereof) has been used to make payments on Bonds secured thereby and thereafter the amount on deposit in the Debt Service Reserve Fund is less than 100% of the applicable Reserve Requirement, then the Authority shall replenish such Debt Service Reserve Fund or Debt Service Reserve Funds or reimburse the Credit Provider from Net Revenues provided that (a) no amount from Net Revenues may be used for such purpose until all payments of principal of and interest on all Bonds which have become due and payable shall have been paid in full, (b) the required payments to replenish any such Debt Service Reserve Fund or reimburse the Credit Provider shall be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Debt Service Reserve Funds exceeds the amount available for such purpose, the payments made to the Trustee for such purpose shall be allocated among the various Debt Service Reserve Funds pro rata on the basis of the Outstanding Principal Amount of Bonds secured thereby.

Beginning on the 25th day of the month following a valuation made in accordance with the section of the Indenture, in which the amount on deposit in any Debt Service Reserve Funds is less than ninety percent (90%) of the Reserve Requirement due to a loss realized or unrealized resulting from a decline in the value of Permitted Investments held for the credit of the Debt Service Reserve Funds, the Authority shall replenish such Debt Service Reserve Funds provided that (a) no amount from Net Revenues may be used for such purpose until all payments of principal of and interest on all Bonds which have become due and payable shall have been paid in full, (b) the required payments to replenish any such Debt Service Reserve Funds shall be due in no more than six (6) substantially equal monthly installments aggregating in the amount by which the Reserve Requirement exceeds such balance until the amount on deposit to the credit of the Debt Service Reserve Funds is equal to the Reserve Requirement and (c) if the total amount of payments due on any date to replenish the Debt Service Reserve Funds exceeds the amount available for such purpose, the payments made to the Trustee for such purpose shall be allocated among the various Debt Service Reserve Funds pro rata on the basis of the Outstanding Principal Amount of Bonds secured thereby.

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

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

***Creation of Construction Fund.*** Proceeds of each Series of Bonds which are to be used to pay Costs of the Projects shall be deposited into a fund created for such Series of Bonds which shall be designated “Raleigh-Durham Airport Authority Airport Revenue Bonds Series \_\_\_\_ Construction Fund” (each, respectively, a “Construction Fund”) which may be held either by the Authority or the Trustee or part by the Authority and part by the Trustee, all as provided by the Indenture, a Supplemental Indenture or Supplemental Indentures. All moneys in each Construction Fund shall be held and disbursed as provided in the Supplemental Indenture or Supplemental Indentures under which such fund or funds were created. Notwithstanding this provision, no Construction Fund shall be required for a given Series of Bonds if all of the proceeds thereof (except those deposited into a Debt Service Reserve Fund or a Debt Service Fund) are spent at the time of issuance of such Series or are used to refund Bonds.



***Creation of Debt Service Funds.*** The Authority shall, at the time of issuance of each Series of Bonds create a Debt Service Fund for such Series, which Debt Service Fund shall be held by the Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Trustee, shall be deposited therein and used for such purpose. Accounts and subaccounts shall be created in the various Debt Service Funds and shall be held by the Trustee as shall be provided by Supplemental Indenture.

The moneys in the Debt Service Fund shall be held in trust and applied as provided in the Supplemental Indenture with regard to each such fund, and pending such application on the arrival of the Payment Date for such amounts shall be subject to a lien on and security interest in favor of the holders of the Bonds issued and Outstanding under the Indenture,

***Creation of Debt Service Reserve Funds; Additional Funds and Accounts.*** The Authority may, at the time of issuance of any Series of Bonds, provide by Supplemental Indenture for the creation of a Debt Service Reserve Fund as security for such Series, and in its discretion reserving the right to allow a future Series of Bonds to participate in such Debt Service Reserve Fund or provide that such Series of Bonds participate in a Debt Service Reserve Fund previously created for an Outstanding Series of Bonds. Any Debt Service Reserve Fund established under a Supplemental Indenture shall be funded in an amount equal to the Reserve Requirement. The Authority shall, by such Supplemental Indenture, provide for the manner of funding and replenishing of such Debt Service Reserve Fund and shall establish such other terms with respect to such Debt Service Reserve Fund as the Authority may deem to be appropriate, including providing a Credit Facility in lieu thereof. In addition, the Authority may, by Supplemental Indenture, create additional funds and accounts for such purposes as the Authority deems appropriate, including separate funds available only for specified Bonds or Series of Bonds.

***Creation of Subordinated Obligation Debt Service Funds.*** The Authority shall, at the time of issuance of any Subordinated Obligation create a Debt Service Fund for such Subordinated Obligation, which Subordinated Obligation Debt Service Fund shall be held by the Trustee, and amounts to be used to pay principal of and interest on such Subordinated Obligations, as received by the Trustee, shall be deposited therein and used for such purpose. Accounts and subaccounts shall be created in the various Subordinated Obligation Debt Service Funds and shall be held by the Trustee as shall be provided by Supplemental Indenture or other indenture or instrument providing for the issuance of such Subordinated Obligations.

***Creation of Subordinated Obligation Debt Service Reserve Funds.*** The Authority may, at the time of issuance of any Subordinated Obligation, provide by Supplemental Indenture or other indenture or instrument for the creation of a Subordinated Obligation Debt Service Reserve Fund as security for such Subordinated Obligation, and in its discretion reserving the right to allow a future issue of Subordinated Obligations to participate in such Subordinated Obligation Debt Service Reserve Fund or provide that such Subordinate Obligations participate in a Subordinated Obligation Debt Service Reserve Fund previously created for an Outstanding Subordinated Obligation. Any Subordinated Obligation Debt Service Reserve Fund established under a Supplemental Indenture or other indenture or instrument shall be funded in an amount required thereby. The Authority shall, by such Supplemental Indenture or other indenture or instrument, provide for the manner of funding and replenishing of such Subordinated Obligation Debt Service Reserve Fund as the Authority may deem to be appropriate, including providing a Credit Facility in lieu thereof. In addition, the Authority may, by Supplemental Indenture or other indenture or instrument, create additional funds and accounts for such purposes as the Authority deems appropriate, including separate funds available only for specified Subordinated Obligations.

***Creation of Surplus Fund Moneys Held in Trust for Matured Bonds; Unclaimed Moneys.*** (a) The Authority shall create a special fund to be designated the "Surplus Fund." As of the last Business Day of each Fiscal Year, subject to and in the manner provided in the Indenture, moneys in the Revenue Fund

may be credited to the Surplus Fund. Moneys in the Surplus Fund shall be held free of the lien of the Indenture and may be used for any lawful purpose. In addition, the Authority may from time to time credit to the Surplus Fund all or a portion of the Authority's legally available, unencumbered general fund balances and (b) all moneys that the Trustee shall have withdrawn from the Debt Service Fund and Debt Service Reserve Fund or shall have received from any other source and set aside, or deposited with the Trustee, for the purpose of paying any of the Bonds secured under the Indenture, either at the maturity thereof or upon call for redemption shall be held in trust for the respective holders of such Bonds. If any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity or at the redemption date, and if funds sufficient to pay such Bond and the interest thereon shall have been made available to and are held by the Trustee in the Debt Service Fund for the benefit of the owner thereof on the date of maturity or of any such redemption, all liability of the Authority to the owner thereof for the payment of such Bond, as the case may be, shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such funds, without liability for any future interest thereon, for the benefit of the owner of such Bond for a period of five (5) years after such principal and premium, if any, or interest has become due and payable, at which time such monies shall be treated as abandoned property pursuant to the provisions of Section 116B-53 of the North Carolina General Statutes, and the Trustee shall report and remit this property to the Escheat Fund of the State of North Carolina according to the requirements of the North Carolina Unclaimed Property Act. Thereafter the owners of such Bonds shall look only to the Escheat Fund for payment and then only to the extent of the amount so received, without any interest thereon. Neither the Trustee, nor the Authority nor any Paying Agent thereafter shall have any responsibility with respect to such funds.

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

### **Covenants of the Authority**

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

***Senior Lien Obligations Prohibited.*** The Authority agrees that so long as any Bonds are Outstanding under the Indenture, it (i) will not adopt a resolution determining that Revenues be used to pay any new revenue bonds of the Authority on a senior lien basis, and (ii) will not issue any additional bonds or other obligations with a lien on or security interest granted in Net Revenues that is senior to the Bonds and (iii) it will not issue any additional bonds pursuant to the provisions of such resolution,

***Rate Covenant.*** The Authority covenants to fulfill the following requirements:

(a) The Authority shall, while any of the Bonds remain Outstanding, establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System

and for services rendered in connection therewith, so that Net Revenues in each Fiscal Year will be at least equal to the sum of the following amounts:

- (i) the Aggregate Annual Debt Service on any Outstanding Bonds in such Fiscal Year as required by the Indenture or any Supplemental Indenture with respect to the Outstanding Bonds;
- (ii) the required deposits to any Debt Service Reserve Fund which may be established by the Indenture or any Supplemental Indenture;
- (iii) the reimbursement owed to any Credit Provider as required by a Supplemental Indenture;
- (iv) the interest on and principal of any indebtedness required to be funded during such Fiscal Year for Subordinated Obligations; and
- (v) payments of any reserve requirement for debt service for any Subordinated Obligations.

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

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

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

***Budgets and Covenants as to Capital Expenditures.*** The Authority covenants to adopt an Annual Budget for each Fiscal Year in accordance with the Local Government Budget and Fiscal Control Act. The Authority shall prepare its Annual Budget so that it will be possible to determine from such Annual Budget the current expenses of the Airport System and the amounts to be deposited to the credit of the various funds, accounts and subaccounts created by the Indenture or any Supplemental Indenture.

The Authority covenants to adopt a Capital Improvements Budget for the Airport System for each Fiscal Year which will show, in addition to such other matters as the Authority may determine to include, the amounts, if any, to be expended during such Fiscal Year for identified capital improvements to the Airport System and the sources of such amounts. The Capital Improvements Budget may be part of the Authority's Annual Budget.

The Authority covenants to file copies of its Capital Improvements Budget and its Annual Budget promptly upon availability with the Trustee.

If the Authority determines to amend its Capital Improvements Budget to pay from Revenues any unbudgeted expenditure, the Authority shall, as a condition to making such amendment, file a certificate of an Authorized Authority Representative with the Trustee demonstrating that payment from Revenues of such unbudgeted expenditure will not impair the Authority's ability to comply with the rate covenant set forth in the Indenture.

***Subordinated Obligations.*** The Authority may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in the Indenture, referred to as Subordinated Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Authority shall determine, provided that:

(a) Any Supplemental Indenture or other indenture or instrument authorizing the issuance of any Subordinated Obligations shall specifically state that such lien on or security interest granted in the Net Revenues, if any, is junior and subordinate to the lien on and security interest in such Net Revenues and other assets granted to secure the Bonds; and

(b) Payment of principal of and interest on such Subordinated Obligations shall be permitted, provided that all deposits required to be made pursuant to and in accordance with the provisions of the Indenture.

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

Special Facility Obligations shall be payable as to principal, redemption premium, if any, and interest solely from Special Facility Revenue, which shall include contractual payments derived by the

Authority under and pursuant to a contract (which may be in the form of a lease) relating to a Special Facility by and between the Authority and another person, firm or corporation, either public or private, as shall undertake the operation of a Special Facility.

No Special Facility Obligations shall be issued by the Authority unless there shall have been filed with the Trustee a certificate of an Authorized Authority Representative stating that:

- (i) the estimated Special Facility Revenue pledged to the payment of obligations relating to the Special Facility will be at least sufficient to pay the principal of and interest on such Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such Special Facility not paid for by the operator thereof or by a party other than the Authority and all sinking fund, reserve or other payments required by the resolution authorizing the Special Facility Obligations as the same become due; and
- (ii) with respect to the designation of any separately identifiable existing Airport Facilities or Airport Facility as a “Special Facility” or “Special Facilities,” the estimated Net Revenues, calculated without including the new Special Facility Revenue, will be sufficient so that the Authority will be in compliance with the rate covenant set forth in the Indenture; and
- (iii) the issuance of such Special Facility Obligations will not result in the ratings on any Bond being suspended or downgraded below “investment grade” by any Rating Agency then rating bonds; and
- (iv) no Event of Default then exists under the Indenture,

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

Notwithstanding any other provision of the Indenture regarding Special Facilities and Special Facilities Obligations, at such time as the Special Facility Obligations issued for a Special Facility including Special Facility Obligations issued to refinance Special Facility Obligations are fully paid or otherwise discharged, all revenues of the Authority from such facility shall be included as Revenues.

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

***Insurance; Application of Insurance Proceeds.***

(a) Subject, in each case, to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions:

(i) the Authority will procure and maintain or cause to be procured and maintained commercial insurance or provide Qualified Self Insurance with respect to the facilities constituting the Airport System and public liability insurance in the form of commercial insurance or Qualified Self Insurance and, in each case, in such amounts and against such risks as are, in the judgment of the Authority, prudent and reasonable taking into account, but not being controlled by, the amounts and types of insurance or self-insured programs provided by similar airports; and

(ii) the Authority will place on file with the Trustee, annually within 120 days after the close of each Fiscal Year a certificate of an Authorized Authority Representative containing a summary of all insurance policies and Qualified Self Insurance programs then in effect with respect to the Airport System and the operations of the Authority. The Trustee may conclusively rely upon such certificate and shall not be responsible for the sufficiency or adequacy of any insurance required by the Indenture or obtained by the Authority.

(b) “Qualified Self Insurance” shall mean insurance maintained through a program of self insurance or insurance maintained with a fund, company or association in which the Authority may have a material interest and of which the Authority may have control, either singly or with others. Each plan of Qualified Self Insurance shall be established in accordance with law, shall provide that reserves be established or insurance acquired in amounts adequate to provide coverage which the Authority determines to be reasonable to protect against risks assumed under the Qualified Self Insurance plan, including any potential retained liability in the event of the termination of such plan of Qualified Self Insurance, and such self-insurance program shall be reviewed at least once every 12 months by a Consultant who shall deliver to the Authority a report on the adequacy of the reserves established thereunder. If the Consultant determines that such reserves are inadequate, he shall make a recommendation as to the amount of reserves that should be established and maintained, and the Authority shall comply with such recommendation unless it can establish to the satisfaction of and receive a certification from a Consultant that a lower amount is reasonable to provide adequate protection to the Authority.

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

***Transfer of Airport Facility or Airport Facilities.*** The Authority shall not, except as permitted below, transfer, sell or otherwise dispose of an Airport Facility or Airport Facilities. Any transfer of an asset over which the Authority retains substantial control in accordance with the terms of such transfer, shall not, for so long as the Authority has such control, be deemed a disposition of an Airport Facility or Airport Facilities. The Authority may, to the extent permitted by law transfer, sell or otherwise dispose of Airport Facilities only if such transfer, sale or disposition complies with one or more of the following provisions:

(a) The property being disposed of is inadequate, obsolete or worn out; or

(b) The property proposed to be disposed of and all other Airport Facilities disposed of during the 12-month period ending on the day of such transfer (but excluding property disposed of under (a) above), will not, in the aggregate, constitute a Significant Portion, the proceeds are deposited into the Revenue Fund to be used as described below and the Authority believes that such disposal will not prevent it from fulfilling its obligations under the Indenture; or

(c) The Authority has furnished evidence (including, but not limited to, a certificate of an Authorized Authority Representative) reasonably satisfactory to the Trustee and the Local Government Commission that (i) the removal of such Significant Portion from the Airport System would not result in the ratings on any Bond being suspended or downgraded below “investment grade” by any Rating Agency then rating the Bonds and (ii) such disposition of such Significant Portion would be for a consideration not less than fair market value; or

(d) The Authority has furnished evidence reasonably satisfactory to the Local Government Commission and the Trustee that (i) a Consultant has certified to the effect that notwithstanding such disposition, but taking into account the use of such proceeds in accordance with the expectations of the Authority as evidenced by a certificate of an Authorized Authority Representative, the Authority will be in compliance with the rate covenant set forth in the Indenture during each of the five Fiscal Years immediately following such disposition and (ii) the removal of such Significant Portion from the Airport System would not result in the ratings on any Bond being suspended or downgraded below “investment grade” by any Rating Agency then rating the Bonds.

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

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

No such disposition shall be made which would cause the Authority to be in default of any other covenant contained in the Indenture.

***Maintenance and Operations Reserves Policy.*** The Authority will promptly notify the Rating Agencies if there is any material change to the Authority's policy of reserving moneys budgeted for operating and maintenance expenses.

## **Investments**

Moneys held by the Trustee in the funds and accounts created in the Indenture and under any Supplemental Indenture shall be invested and reinvested as directed by the Authority, in Permitted Investments subject to the restrictions set forth in the Indenture and such Supplemental Indenture and subject to the investment restrictions imposed upon the Authority by the laws of the State, including, but not limited to, Section 159-30 of the North Carolina General Statutes. The Authority shall direct such investments by written certificate, including electronic mail (upon which the Trustee may conclusively rely) of an Authorized Authority Representative; in the absence of any such instructions, the Trustee shall, to the extent practicable, invest in Permitted Investments specified in item (g) of the definition thereof, which includes a money market fund comprised of United States Obligations.

The Trustee shall not be liable for any loss resulting from following the written directions of the Authority or as a result of liquidating investments to provide funds for any required payment, transfer, withdrawal or disbursement from any fund or account in which such Permitted Investment is held. The Trustee may buy or sell any Permitted Investment through its own (or any of its affiliates') investment department.

## **Defeasance**

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

A Bond shall be deemed to be paid when payment of the principal, interest and premium, if any, either (a) shall have been made or caused to be made in accordance with the terms of the Bonds and the Indenture or (b) shall have been provided for by depositing with the Trustee or Paying Agent in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. As a condition precedent to the determination that any Bonds shall be deemed paid, the Authority shall deliver to the Trustee an approving opinion of nationally recognized Bond Counsel that such action will not adversely affect the tax-exemption of any Bond or Bonds then Outstanding and an opinion of a nationally recognized accounting firm that there are sufficient moneys and/or Government Obligations to provide for the payment of such Bonds. At such times as Bonds shall be deemed to be paid under the Indenture, such



Bonds shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of payment from such moneys or Government Obligations.

### **Defaults and Remedies**

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

(a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same shall become due and payable at maturity or upon redemption;

(b) a failure to pay any installment of interest on any of the Bonds when such interest shall become due and payable;

(c) a failure to pay the purchase price of any Bond when such purchase price shall be due and payable upon an optional or mandatory tender date as provided in a Supplemental Indenture;

(d) a failure by the Authority to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) above) that is to be observed or performed by the Authority and which is contained in the Indenture or a Supplemental Indenture, which failure, except for a violation under the provisions of the Indenture governing the rate covenant which shall be controlled by the provisions set forth therein, shall continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Authority by the Trustee, which notice may be given at the discretion of the Trustee and shall be given at the written request of holders of 25% or more of the Principal Amount of the Bonds then Outstanding, unless the Trustee, or the Trustee and the holders of Bonds in a Principal Amount not less than the Principal Amount of Bonds the holders of which requested such notice, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the holders of such principal amount of Bonds shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Authority within such period and is being diligently pursued until such failure is corrected;

(e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 of the United States Bankruptcy Code, or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Authority and, if instituted against the Authority, said proceedings are consented to or are not dismissed within 60 days after such institution; or

(f) the occurrence of any other Event of Default as is provided in a Supplemental Indenture.

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

### ***Remedies.***

(a) Upon the occurrence and continuance of any Event of Default, the Trustee shall, in accordance with the provisions of the Indenture, receive and dispose of all Revenues, and in its

discretion may, and upon the written direction of the holders of 25% or more of the Principal Amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction, shall, in its own name and as the Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, and require the Authority to carry out any agreements with or for the benefit of the Bondholders and to perform its or their duties under the Act or any other law to which it is subject and the Indenture;

(ii) bring suit upon the Bonds;

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

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

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

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

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

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

and that all suits, actions and proceedings at law or in equity shall be instituted, had and maintained in the manner in the Indenture provided and for the equal benefit of all Bondholders.

## **The Trustee**

***Standard of Care and Duties.*** If an Event of Default has occurred and is continuing, the Trustee shall exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Trustee shall perform the duties set forth in the Indenture and no implied duties or obligations shall be read into the Indenture against the Trustee.

Except during the continuance of an Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture. However, the Trustee shall examine the certificates and opinions to determine whether they conform to the requirements of the Indenture.

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

The Trustee shall not, by any provision of the Indenture, be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of any of its rights or powers, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the holders of the Bonds, unless such holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

***Notice of Defaults.*** If (a) an Event of Default has occurred or (b) an event has occurred which with the giving of notice and/or the lapse of time would be an Event of Default and, with respect to such events for which notice to the Authority is required before such events will become Events of Default, such notice has been given, then the Trustee shall promptly, after obtaining such notice, give notice thereof to each Bondholder. Except in the case of a default in payment or purchase on any Bonds, the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Bondholders.

***Eligibility of Trustee.*** The Indenture shall always have a Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State, is subject to supervision or examination by United States, state or District of Columbia authority is of good standing and has (together with its corporate parent) a combined capital surplus and undivided profits aggregating not less than \$100 million as set forth in its most recent published annual report of condition.

***Co-Trustee.*** At any time, but subject to compliance with all applicable regulations, for the purpose of meeting any legal requirements of any jurisdiction in which any part of the trust estate may at the time be located, the Authority and the Trustee shall have power to appoint an additional institution or

individual as a co-trustee or separate trustee, and upon the request of the Trustee or of 10% in aggregate principal amount of Bonds then Outstanding the Authority shall for such purpose join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to appoint such institution or individual to act as co-trustee jointly with the Trustee or as a separate trustee of all or any part of the trust estate, and to vest in such person or institution, in such capacity, such title to the trust estate, or any part thereof, and such rights, powers, duties, trusts or obligations as the Authority and the Trustee may consider necessary or desirable, subject to the remaining provisions of this section.

If the Authority shall not have made such appointment within 30 days after the receipt by it of a request so to do, or in case an Event of Default shall have occurred and be continuing, the Trustee alone shall have the power to make such appointment.

The Trustee and the Authority shall execute, acknowledge and deliver all such instruments as may be reasonably required by any such co-trustee or separate trustee for more fully confirming such title, rights, powers, trusts, duties and obligations to such co-trustee or separate trustee.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms, namely:

(a) Bonds shall be authenticated and delivered, and all rights, powers, trusts, duties and obligations by the Indenture conferred upon the Trustee in respect of the custody, control or management of money, papers, securities and other personal property shall be exercised solely by the Trustee;

(b) all rights, powers, trusts, duties and obligations conferred or imposed upon the Trustee by the Indenture shall be conferred or imposed upon or exercised or performed by the Trustee, or by the Trustee and such co-trustee, or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under the law of any jurisdiction in which any particular act or acts are to be performed the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co-trustee or separate trustee;

(c) any request in writing by the Trustee to any co-trustee or separate trustee to take or to refrain from taking any action under the Indenture shall be sufficient warrant for the taking or the refraining from taking of such action by such co-trustee or separate trustee;

(d) any co-trustee or separate trustee to the extent permitted by law may delegate to the Trustee the exercise of any right, power, trust, duty or obligation, discretionary or otherwise;

(e) the Trustee at any time by an instrument in writing with the concurrence of the Authority may accept the resignation of or remove any co-trustee or separate trustee appointed under this section and in case an event of default shall have occurred and be continuing, the Trustee shall have power to accept the resignation of or remove any such co-trustee or separate trustee without the concurrence of the Authority, and upon the request of the Trustee, the Authority shall join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in the Indenture;

(f) no Trustee under the Indenture shall be personally liable by reason of any act or omission of any other trustee under the Indenture;

(g) any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing executed by the Owners and Holders of Bonds and delivered to the Trustee shall be deemed to have been delivered to each such co-trustee or separate trustee; and

(h) any money, papers, securities or other items of personal property received by any such co-trustee or separate trustee under the Indenture shall forthwith, so far as may be permitted by law, be turned over to the Trustee.

Upon the acceptance in writing of such appointment, any such co-trustee or separate trustee shall be vested with such title to the trust estate or any part thereof, and with such rights, powers, duties, trusts or obligations as shall be specified in the instrument of appointment jointly with the Trustee (except insofar as local law makes it necessary for any such co-trustee or separate trustee to act alone) subject to all the terms of the Indenture. Every such acceptance shall be filed with the Trustee and the Authority.

In case any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, the title to the trust estate and all rights, powers, trusts, duties and obligations of said co-trustee or separate trustee shall, so far as permitted by law, vest in and be exercised by the Trustee unless and until a successor co-trustee or separate trustee shall be appointed in the manner in the Indenture provided.

***Replacement of Trustee.*** The Trustee may resign by notifying the Authority in writing prior to the proposed effective date of the resignation. The holders of a majority in Principal Amount of the Bonds may remove the Trustee by notifying the removed Trustee and may appoint a successor Trustee with the Authority's consent. So long as no Event of Default has occurred and is continuing, and with the prior written consent of the Local Government Commission, the Authority may remove the Trustee, by notice in writing delivered to the Trustee at least 60 days prior to the proposed removal date; provided, however, that the Authority shall have no right to remove the Trustee during any time when an Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be an Event of Default.

No resignation or removal of the Trustee shall be effective until a new Trustee has taken office and delivered a written acceptance of its appointment to the retiring Trustee and to the Authority. Immediately thereafter, the retiring Trustee shall transfer all property held by it as Trustee to the successor Trustee, the resignation or removal of the retiring Trustee shall then (but only then) become effective and the successor Trustee shall have all the rights, powers and duties of the Trustee under the Indenture. If the Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Indenture, the Authority shall promptly appoint a successor Trustee.

If a Trustee is not performing its duties under the Indenture and a successor Trustee does not take office within 60 days after the retiring Trustee delivers notice of resignation or the Authority delivers notice of removal, the retiring Trustee, the Authority or the holders of a majority in Principal Amount of the Bonds may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee, any Paying Agent or Registrar consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a bank or trust company, its corporate trust assets) to, another corporation and meets the qualifications set forth in the Indenture, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee, Paying Agent or Registrar.

## Modification of Trust Indenture

***Supplemental Indenture Not Requiring Consent of Bondholders.*** The Authority may, from time to time and at any time, without the consent of or notice to the Bondholders, execute and deliver Supplemental Indentures supplementing and/or amending the Indenture or any Supplemental Indenture as follows:

- (a) to provide for the issuance of a Series or multiple Series of Bonds under the provisions of the Indenture regarding Issuance of a Series of Bonds and Supplemental Indentures and to set forth the terms of such Bonds and the special provisions which shall apply to such Bonds;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Indenture or any Supplemental Indenture, provided such supplement or amendment is not in the opinion of the Trustee, materially adverse to the Bondholders;
- (c) to add to the covenants and agreements of the Authority in the Indenture or any Supplemental Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Authority, provided such supplement or amendment is not, in the opinion of the Trustee, materially adverse to the Bondholders;
- (d) to confirm, as further assurance, any interest of the Trustee in and to the pledge of Net Revenues or in and to the funds and accounts held by the Trustee or in and to any other moneys, securities or funds of the Authority provided pursuant to the Indenture or to otherwise add additional security for the Bondholders;
- (e) to evidence any change made in the terms of any Series of Bonds if such changes are authorized by the Supplemental Indenture at the time the Series of Bonds is issued and such change is made in accordance with the terms of such Supplemental Indenture;
- (f) to comply with the requirements of the Trust Indenture Act of 1939, as amended from time to time;
- (g) to modify, alter, amend or supplement the Indenture or any Supplemental Indenture in any other respect which is not, in the opinion of the Trustee, materially adverse to the Bondholders;
- (h) to provide for uncertificated Bonds or for the issuance of coupons and bearer Bonds or Bonds registered only as to principal;
- (i) to qualify the Bonds or a Series of Bonds for a rating or ratings from a Rating Agency;
- (j) to accommodate the technical, operational and structural features of Bonds which are issued or are proposed to be issued or of a Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, swaps, variable rate or adjustable rate bonds, discounted or compound interest bonds or other forms of indebtedness which the Authority from time to time deems appropriate to incur;

(k) to accommodate the use of a Credit Facility for specific Bonds or a specific Series of Bonds; and

(l) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Bonds, including, without limitation, the segregation of Revenues into different funds.

Before the Authority shall execute any Supplemental Indenture, there shall have been delivered to the Authority, the Local Government Commission and Trustee an opinion of Bond Counsel to the effect that such Supplemental Indenture is authorized or permitted by the Indenture, the Act and other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Authority in accordance with its terms and will not cause interest on any of the Bonds which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes.

***Supplemental Indenture Requiring Consent of Bondholders.*** Except for any Supplemental Indenture described above and any amendments described in the following paragraph, the holders of not less than a majority in aggregate Principal Amount of the Bonds then Outstanding shall have the right from time to time to consent to and approve the execution by the Authority of any Supplemental Indenture deemed necessary or desirable by the Authority for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in a Supplemental Indenture; provided, however, that, unless approved in writing by the holders of all the Bonds then Outstanding or unless such change affects less than all Series of Bonds and the following paragraph is applicable, nothing in the Indenture contained shall permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Bonds or (ii) a reduction in the Principal Amount or redemption price of any Outstanding Bonds or the rate of interest thereon, and provided that nothing in the Indenture contained, including the provisions of the following paragraph, shall, unless approved in writing by the holders of all the Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Indenture) upon or pledge of the Net Revenues created by the Indenture, ranking prior to or on a parity with the claim created by the Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Bonds, a preference or priority of any Bond or Bonds over any other Bond or Bonds with respect to the security granted therefor under the Granting Clauses of the Indenture, or (v) a reduction in the aggregate Principal Amount of Bonds the consent of the Bondholders of which is required for any such Supplemental Indenture. Nothing in the Indenture contained, however, shall be construed as making necessary the approval by Bondholders of the execution of any Supplemental Indenture as authorized in the Indenture, including the granting, for the benefit of particular Series of Bonds, security in addition to the pledge of the Net Revenues.

The Authority may, from time to time and at any time, execute a Supplemental Indenture which amends the provisions of an earlier Supplemental Indenture under which a Series or multiple Series of Bonds were issued. If such Supplemental Indenture is executed for one of the purposes set forth in the above section regarding amendments without consent of bondholders, no notice to or consent of the Bondholders shall be required. If such Supplemental Indenture contains provisions which affect the rights and interests of less than all Series of Bonds Outstanding and the above section regarding amendments without consent of bondholders is not applicable, then this paragraph rather than the paragraph above shall control and, subject to the terms and provisions contained in this paragraph and not otherwise, the holders of not less than a majority in aggregate Principal Amount of the Bonds of all Series which are affected by such changes shall have the right from time to time to consent to any Supplemental Indenture deemed necessary or desirable by the Authority for the purposes of modifying, altering, amending,

supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Indenture and affecting only the Bonds of such Series; provided, however, that, unless approved in writing by the holders of all the Bonds of all the affected Series then Outstanding, nothing in the Indenture contained shall permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds of such Series or the rate of interest thereon. Nothing contained in the Indenture, however, shall be construed as making necessary the approval by Bondholders of the adoption of any Supplemental Indenture as authorized in the Indenture, including the granting, for the benefit of particular Series of Bonds, security in addition to the pledge of the Net Revenues.

## **THE ELEVENTH SUPPLEMENTAL TRUST INDENTURE**

In addition to certain information contained under the captions “THE 2010 BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2010 BONDS” above, the following is a summary of certain provisions of the Seventh Supplemental Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Seventh Supplemental Indenture.

### **Terms of the Series 2010 Bonds**

The Eleventh Supplemental Indenture sets forth the terms of the Series 2010 Bonds, most of which terms are described earlier in this Official Statement under “THE 2010 BONDS.”

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

The Seventh Supplemental Indenture establishes the following funds and accounts:

- Raleigh-Durham Airport Authority Airport Revenue Bond Series 2010A Debt Service Fund and therein an Interest Account, a Principal Account and a Redemption Account; and
- Raleigh-Durham Airport Authority Airport Revenue Bond Series 2010B Debt Service Fund and therein an Interest Account, a Principal Account and a Redemption Account.
- Raleigh-Durham Airport Authority Airport Revenue Bond Series 2007 Construction Fund and therein a Project Account and a Costs of Issuance Account;

***Series 2010 Debt Service Fund.*** The Trustee shall make deposits into each of the Series 2010A Debt Service Fund and Series 2010B Debt Service Fund, respectively, as follows:

***Interest Account.*** On the third (3<sup>rd</sup>) Business Day prior to each Interest Payment Date, the Authority shall transfer to the Trustee from the Revenue Fund pursuant to the Indenture, the amount necessary, after taking into account any amounts transferred from the PFC Revenue Fund in accordance with the Seventh Supplemental Indenture, to pay interest on the Series 2010 Bonds on such Interest Payment Date. The Trustee shall deposit the amount transferred from the Revenue Fund to pay interest on the Series 2010A Bonds to the credit of the Interest Account of the Series 2010A Debt Service Fund and the amount transferred from the Revenue Fund to pay interest on the Series 2010B Bonds to the credit of the Interest Account of the Series 2010B Debt Service Fund. The Trustee shall also deposit into the Interest Accounts any other amounts deposited with the Trustee for deposit in an Interest Account or transferred from other funds and accounts for deposit therein. All amounts held at any time in an Interest



Account shall be held on a priority basis for the ratable security and payment of interest due on the corresponding Series of Series 2010 Bonds in accordance with their terms. Amounts in the Interest Accounts shall be applied to pay interest on the corresponding Series of Series 2010 Bonds on the Interest Payment Date in accordance with the Indenture.

Earnings on the Interest Account shall be transferred as received to the Revenue Fund.

*Principal Account.* On the third (3<sup>rd</sup>) Business Day prior to each date on which principal of the Series 2010 Bonds shall be due and payable, whether by maturity or mandatory sinking fund redemption, the Authority shall transfer to the Trustee from the Revenue Fund pursuant to the Indenture, the amount necessary, after taking into account any amounts transferred from the PFC Revenue Fund to the Principal Account in accordance with the Eleventh Supplemental Indenture, to pay principal of the Series 2010 Bonds on such date, whether at maturity or by mandatory sinking fund redemption as provided in the Eleventh Supplemental Indenture. The Trustee shall deposit the amount so transferred from the Revenue Fund to pay principal on the Series 2010A Bonds to the credit of the Principal Account of the Series 2010A Debt Service Fund and the amount transferred from the Revenue Fund to pay principal on the Series 2010B Bonds to the credit of the Principal Account of the Series 2010B Debt Service Fund. The Trustee shall also deposit into the Principal Accounts any other amounts deposited with the Trustee for deposit into the Principal Account or transferred from other funds and accounts for deposit therein. Amounts in the Principal Accounts shall be applied to pay principal on the corresponding Series of Series 2010 Bonds on the date such principal is due and payable, whether by maturity or mandatory sinking fund redemption in accordance with the Indenture.

*Redemption Account.* The Trustee shall deposit into the Redemption Account, after taking into account any money transferred from the PFC Revenue Fund to the Redemption Account in accordance with the Seventh Supplemental Indenture, amounts received from the Authority or from other sources to be used to pay the principal of and premium, if any, on Series 2010 Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of the mandatory sinking fund under the Eleventh Supplemental Indenture, which amounts shall be deposited into the Principal Account). The Trustee shall deposit the amount so transferred to pay the redemption price of the Series 2010A Bonds to the credit of the Redemption Account of the Series 2010A Debt Service Fund and the amount transferred to pay the redemption price of the Series 2010B Bonds to the credit of the Redemption Account of the Series 2010B Debt Service Fund. Earnings on amounts from time to time deposited into the Redemption Accounts shall be retained in such account or paid to the Authority for deposit into the Revenue Fund in accordance with instructions given to the Trustee by an Authorized Authority Representative at the time of such deposit. Earnings on the Redemption Accounts shall be transferred to the Revenue Fund.

The Series 2010 Debt Service Funds shall be invested and reinvested in Permitted Investments as directed in writing by the Authority.

*Series 2006 Construction Fund.* In the Sixth Supplemental Indenture, the Authority created the Series 2006 Construction Fund, deposited the proceeds of the Series 2006 Bonds to the Series 2006 Construction Fund, and directed the Trustee to make payments or disbursements from the Series 2006 Construction Fund pursuant to the provisions set forth therein. In connection with the issuance of the Series 2008 Bonds to refund the Series 2006 Bonds, the Authority directed the Trustee that notwithstanding the issuance of the Series 2008 Bonds, the Trustee was hereby directed to continue to follow the provisions of the Sixth Supplemental Indenture with respect to the Series 2006 Construction Fund and the application of the amounts therein to the Cost of the Project in compliance with such existing procedures.

The completion of the Project shall be evidenced by the filing with the Trustee of a certificate of an Authorized Authority Representative stating either (i) the date of completion of the Project, and the amount, if any, required in the opinion of such Authorized Authority Representative for the payment of any remaining part of the costs of the Project, as the case may be, or (ii) that all amounts in such account have been disbursed or expenses in respect thereof have been incurred. Any amount remaining in the Project Account of the 2006 Construction Fund following the delivery of such certificate, may, at the determination of the Authority, be applied upon written requisition of an Authorized Authority Representative to any other lawful purpose designated in such requisition and for which purpose such proceeds may be used under the Act. As a condition to the disbursement of funds to the Authority described in this paragraph, there shall be delivered to the Trustee with the requisition an opinion of Bond Counsel that the purpose for which such funds are to be used is a lawful purpose for which such proceeds may be used under the Act and that such use shall not result in the inclusion of interest on any Series 2010 Bonds in gross income of the recipient thereof for federal income tax purposes.

***Parity Reserve Fund.*** Moneys held in the Parity Reserve Fund shall be used for the purpose of paying principal of and interest on the Bonds participating in the Parity Reserve Fund if, on any date on which principal is due and payable or any Interest Payment Date of any the amounts in the respective Debt Service Fund for any such Series of Bonds are insufficient to pay in full the amount then due on such Series of Bonds. The Authority reserves the right to provide that a future Series of Bonds participate in the Parity Reserve Fund on a parity basis with the Series 2010 Bonds, the Series 2007 Bonds, the Series 2005 Bonds and the Series 2001 Bonds; provided that there is deposited in the Parity Reserve Fund an additional amount of money or a Debt Service Reserve Fund Surety Policy, or a combination thereof, to bring the Reserve Requirement to an amount equal to the Reserve Requirement on all Bonds participating in the Parity Reserve Fund on the date of issuance of such new Series of Bonds. For purposes of computing the Reserve Requirement of the Parity Reserve Fund, the adjustment set forth in subsection (j) of the definition of Aggregate Annual Debt Service (relating to the exclusion from Aggregate Annual Debt Service of PFCs and certain federal or state grants under the terms set forth therein) shall be disregarded.

Except as provided in this paragraph, all the provisions included in the Fifth Supplemental Indenture regarding the Parity Reserve Fund, including provisions regarding the valuation of Investments therein, the reporting of such valuations by the Trustee and the transfer of any excess amount or the replenishment of any deficiency in the Parity Reserve Fund (whether on account of a transfer from the Parity Reserve Fund to the Debt Service Funds or on account of a valuation), shall be in accordance with such provisions of the Fifth Supplemental Indenture and are incorporated by reference in the Eleventh Supplemental Indenture as if fully set forth therein. If, upon any valuation, the value of the Parity Reserve Fund exceeds the Reserve Requirement, the excess amount, including investment earnings, shall be withdrawn and deposited by the Trustee into the Revenue Fund, unless otherwise directed by the Authority.

In addition to the cash and investments on deposit in the Parity Reserve Fund, there is also on deposit to the credit of the Parity Reserve Policy of FGIC in the amount of \$3,597,371.51 with a stated termination date of November 1, 2031. At the time of delivery of the Parity Reserve Policy, FGIC met the requirements under the Indenture for the provider of a Debt Service Reserve Fund Surety Policy that such provider “be rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.” As of the date of delivery of the Eleventh Supplemental Indenture, FGIC would not meet that requirement.

In order to assure that an amount equal to the Reserve Requirement is available in the Parity Reserve Fund for the purposes provided by the Indenture, the Authority is depositing at the time of delivery of the Eleventh Supplemental Indenture cash in the amount of \$3,597,371.51 for deposit to the

Parity Reserve Fund to be applied as provided in the Indenture as supplemented. Such amount shall be in addition to the cash and investments on deposit in the Parity Reserve Fund and the Parity Reserve Policy. As of the date of delivery of the Eleventh Supplemental Indenture, the Authority intends, but has not committed, to redeem the Series 2001B Bonds issued under the First Supplemental Indenture on May 1, 2011. The Trustee will be instructed therein that if the Authority proceeds with such redemption on such date (or a later date selected by the Authority), which redemption results in a decrease of the Reserve Requirement for the Parity Reserve Fund, then the amount deposited, up to the amount of the decrease in the Reserve Requirement resulting from the redemption, shall be transferred to the Redemption Account of the 2001B Debt Service Fund created under the First Supplemental Indenture and applied to pay a portion of such redemption price.

Notwithstanding the foregoing, the Parity Reserve Policy shall remain on deposit in the Parity Reserve Fund and the Trustee shall make drawings thereunder in the manner and under the terms and conditions thereof.

***Sources of Payment of Series 2010 Bonds; Application of PFC Revenues.*** The Series 2010 Bonds will be secured by and payable from the Net Revenues as provided in the Indenture. The Series 2010 Bonds shall additionally be secured by and payable from moneys and other interests held by the Trustee in the Parity Reserve Fund. To the extent permitted by law, the Authority may, but is not obligated to, provide for payment of principal of and interest on the Series 2010 Bonds from any other source or from any other funds of the Authority.

Pursuant to the Fifth Supplemental Indenture, the Authority created the PFC Revenue Fund and pursuant to the Fifth Supplemental Indenture, the Authority made an irrevocable commitment of PFC Revenues, to the extent received, and made an additional irrevocable commitment of PFC Revenues, including investment earnings thereon, to the payment of principal and interest due on PFC Eligible Bonds. Pursuant to the Sixth Supplemental Indenture, the Authority made an additional irrevocable commitment of PFC Revenues, to the extent received, including investment earnings thereon, to the payment of principal and interest due on PFC Eligible Bonds. Said commitments were restated and consolidated in the Seventh Supplemental Indenture. In addition to the irrevocable commitments of PFC Revenues described above, the Authority in connection with the issuance of the Series 2008 Bonds, made an additional irrevocable commitment of PFC Revenues, to the extent received, in the amount of \$1,000 per year in each Fiscal Year beginning with the Fiscal Year ended March 31, 2009 and ending through and including the Fiscal Year ending March 31, 2038.

In the Eleventh Supplemental Indenture, the Authority will ratify and confirm the provisions of each of such Supplemental Indentures with respect to PFC Revenues and will confirm that PFCs will be used to pay debt service with respect to the Series 2010 Bonds to the extent the Series 2010 Bonds are PFC Eligible Bonds.

The Authority has determined to commit additional PFC Revenues to the payment of principal and interest due on PFC Eligible Bonds. In addition to the amount previously committed, the Authority irrevocably commits in the Eleventh Supplemental Indenture, to the extent received, additional amounts of PFC Revenues, including any investment earnings thereon, to the payment of principal and interest due on PFC Eligible Bonds, as described in the Official Statement relating to the Series 2010 Bonds.

***Tax Covenant.*** The Authority covenants to do and perform all acts and things permitted by law in order to assure that interest paid on the Series 2010 Bonds which was excludable from the gross income of their owners thereof for purposes of federal income taxation on the date of issuance of the Series 2010 Bonds shall continue to be so excludable.

***Interested Parties.*** Nothing in the Eleventh Supplemental Indenture 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 Authority, the Trustee, the Registrar, the Paying Agent and the registered owners of the Series 2010 Bonds, any right, remedy or claim under or by reason of the Eleventh Supplemental Indenture or any covenant, condition or stipulation in the Eleventh Supplemental Indenture, and all covenants, stipulations, promises and agreements in the Eleventh Supplemental Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Trustee, the Registrar, the Paying Agent, and the registered owners of the Series 2010 Bonds.

***Consent to Amendment to Indenture.*** In connection with the adoption of the Bond Order authorizing the issuance of the Series 2008 Bonds and the execution and delivery hereof, the Authority adopted a resolution to proceed with obtaining the consent of the holders of Bonds to amendments to the Indenture. By their purchase of the Series 2010 Bonds, the holders and beneficial owners thereof shall be deemed to have consented to such amendments, for purposes of compliance with the provisions of the Bond Order, and shall be deemed to have authorized, approved, confirmed and consented to the giving of written consent to such amendments by Barclays Capital, Inc., as the representative of the underwriters of the Series 2010 Bonds, on behalf of the underwriters of the Series 2010 Bonds, on behalf of the original purchasers of the Series 2010 Bonds and on behalf of the subsequent holders and beneficial owners of the Series 2010 Bonds (whether by appointment of such underwriter as the attorneys-in-fact of such subsequent holders and beneficial owners which is granted by virtue of their purchase of the Series 2010 Bonds or otherwise).

**APPENDIX D**

**THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION**

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## APPENDIX D

### THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

The Local Government Commission (the “*Commission*”) is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue and five others by appointment (three by the Governor, one by the General Assembly upon recommendation of the President Pro Tempore of the Senate and one by the General Assembly upon recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission.

A major function of the Commission is the approval, sale and delivery of substantially all North Carolina local government bonds and notes. A second key function is monitoring certain fiscal and accounting standards prescribed for units of local government by The Local Government Budget and Fiscal Control Act. In addition, the Commission furnishes, upon request, on-site assistance to units of the local government concerning existing financial and accounting systems as well as aid in establishing new systems. Further, educational programs and materials are provided for local officials concerning finance and cash management.

Before any unit of local government can incur bonded indebtedness, the proposed bond issue must be approved by the Commission. In determining whether to give such approval the Commission may consider, among other things, the unit’s debt management procedures and policies, its compliance with The Local Government Budget and Fiscal Control Act and its ability to service the proposed debt. All general obligation issues are customarily sold on the basis of formal sealed bids submitted at the Commission’s offices in Raleigh and are subsequently delivered to the successful bidder by the Commission. The Commission maintains records for all units of local government of principal and interest payments coming due on bonded indebtedness in the current and future years and monitors the payment by the units of local government of debt service through a system of monthly reports.

As a part of its role in assisting and monitoring the fiscal programs of units of local government, the Commission attempts to ensure that the units of local government follow generally accepted accounting principles, systems and practices. The Commission’s staff also counsels the units of local government in treasury and cash management, budget preparation and investment policies and procedures. Educational programs, in the form of seminars or classes, are also provided by the Commission in order to accomplish these tasks. The monitoring of the financial systems of units of local government is accomplished through the examination and analysis of the annual audited financial statements and other required reports. The Local Government Budget and Fiscal Control Act requires each unit of local government to have its accounts audited annually by a certified public accountant or by an accountant certified by the Commission as qualified to audit local government accounts. A written contract must be submitted to the Secretary of the Commission for his approval prior to the commencement of the audit.

The Commission has the statutory authority to impound the books and records of any unit of local government and assume full control of all its financial affairs (a) when the unit defaults on any debt service payment or, in the opinion of the Commission, will default on a future debt service payment if the financial policies and practices of the unit are not improved or (b) when the unit persists, after notice and warning from the Commission, in willfully or negligently failing or refusing to comply with the provisions of The Local Government Finance Act. When the Commission takes action under this authority, the Commission is vested with all of the powers of the governing board of the unit of local government as to the levy of taxes, expenditure of money, adoption of budgets and all other financial powers conferred upon such governing board by law.

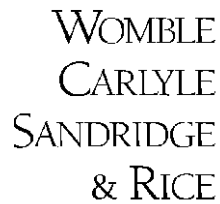
In addition, if a unit of local government fails to pay any installment of principal or interest on its outstanding debt on or before its due date and remains in default for 90 days, the Commission may take such action as it deems advisable to investigate the unit's fiscal affairs, consult with its governing board and negotiate with its creditors in order to assist the unit in working out a plan for refinancing, adjusting or compromising such debt. When a plan is developed that the Commission finds to be fair and equitable and reasonably within the ability of the unit of local government to meet, the Commission will enter an order finding that the plan is fair, equitable and within the ability of the unit to meet and will advise the unit to take the necessary steps to implement such plan. If the governing board of the unit declines or refuses to do so within 90 days after receiving the Commission's advice, the Commission may enter an order directing the unit to implement such plan and may apply for a court order to enforce such order. When a refinancing plan has been put in effect, the Commission has the authority (a) to require any periodic financial reports on the unit's financial affairs that the Secretary deems necessary and (b) to approve or reject the unit's annual budget ordinance. The governing board of the unit of local government must also obtain the approval of the Secretary of the Commission before adopting any annual budget ordinance. The power and authority granted to the Commission as described in this paragraph will continue with respect to a defaulting unit of local government until the Commission is satisfied that the unit has performed or will perform the duties required of it in the refinancing plan and until agreements made with the unit's creditors have been performed in accordance with such plan.



**APPENDIX E**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

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A PROFESSIONAL LIMITED  
LIABILITY COMPANY

Suite 2100  
150 Fayetteville Street Mall  
Raleigh, NC 27601

*Mailing Address:*  
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## APPENDIX E

### [Proposed Form of Bond Counsel's Opinion for Series 2010A Bonds]

September \_\_, 2010

Raleigh-Durham Airport Authority  
1000 Trade Drive  
RDU Airport, North Carolina

We have examined, as bond counsel to the Raleigh-Durham Airport Authority (the "Authority"), (a) the Constitution and laws of the State of North Carolina, including The State and Local Government Revenue Bond Act, as amended (the "Act"), (b) certified copies of proceedings of the Authority evidencing the adoption of a bond order authorizing the issuance by the Authority of its \$242,365,000 Airport Revenue Refunding Bonds, Series 2010A (Non-AMT) (the "Series 2010A Bonds") and (c) other proofs submitted relative to the issuance and sale of the Series 2010A Bonds. The Series 2010A Bonds are being issued under and pursuant to a Master Trust Indenture, dated as of February 1, 2001, as amended (the "Trust Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") and an Eleventh Supplemental Trust Indenture, dated as of August 1, 2010 (the "Eleventh Supplemental Indenture") between the Authority and the Trustee.

The Series 2010A Bonds are dated the date hereof, bear interest from their date and mature, subject to redemption prior to their stated maturity, as provided in the Eleventh Supplemental Indenture. The Series 2010A Bonds are subject to optional and mandatory redemption at such times, under such circumstances and upon the terms and conditions set forth in the Eleventh Supplemental Indenture.

The Series 2010A Bonds are being issued to provide funds, together with other available funds, to (i) currently refund certain of the Authority's Variable Rate Airport Revenue Bonds previously issued under the Trust Indenture, (ii) pay termination payments in connection with the termination of certain interest rate swap agreements entered into by the Authority that hedge the variable interest rates on the Bonds being refunded, (iii) fund a portion of the Reserve Requirement of the Parity Reserve Fund (as such terms are defined in the Eleventh Supplemental Indenture) attributable to the Series 2010A Bonds, and (iv) pay the costs of issuance relating to the Series 2010A Bonds. The Bonds being refunded were issued by the Authority to provide funds, together with other available funds, to refund certain other Bonds issued by the Authority under the Trust Indenture to pay a portion of the costs of certain improvements to the Raleigh-Durham International Airport.

The Authority has heretofore issued Bonds (as defined in the Trust Indenture) pursuant to the Trust Indenture. Concurrently herewith, the Authority is issuing its Airport Revenue Refunding Bonds,

Series 2010B (Non-AMT) to refund certain Bonds previously issued under the Trust Indenture. The Trust Indenture provides for the issuance, under the conditions, limitations and restrictions therein set forth, of additional Bonds. The Bonds previously issued, the refunding Bonds issued concurrently herewith and any additional Bonds are secured on a parity as to the pledge of Net Revenues (as defined in the Trust Indenture) with the outstanding Bonds. The Trust Indenture also permits the incurrence of Subordinated Obligations (as defined in the Trust Indenture) under the conditions, restrictions and limitations therein set forth.

As to matters of fact material to our opinion, we have relied upon the certified proceedings and other certificates of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on such examination and other examinations, we are of the opinion, as of the date hereof and under existing law, that:

1. The Series 2010A Bonds have been duly authorized, executed and delivered.
2. The Trust Indenture and the Eleventh Supplemental Indenture have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee, are valid and binding obligations of the Authority enforceable in accordance with their respective terms.
3. The Series 2010A Bonds, together with the outstanding Bonds, the Bonds issued concurrently herewith and any additional Bonds hereafter issued by the Authority under the Trust Indenture are, to the extent provided in the Trust Indenture, secured by a pledge, charge and lien upon the Net Revenues of the Airport System (as defined in the Eleventh Supplemental Indenture).
4. The Series 2010A Bonds are valid and binding special obligations of the Authority secured by a pledge, charge and lien upon, and the principal of, and the premium, if any, and interest on which are payable from, the funds and the income from the investment thereof in the Funds and Accounts created under the Trust Indenture to the extent provided therein. The Series 2010A Bonds are also secured by the funds on deposit or otherwise available in the Parity Reserve Fund.
5. The Authority is not obligated to pay the principal of, premium, if any, or the interest on the Series 2010A Bonds except as provided in the Trust Indenture and the Eleventh Supplemental Indenture. The principal of and interest on the Series 2010A Bonds are not payable from the general funds of the Authority, nor do the Series 2010A Bonds constitute a legal or equitable pledge, charge, lien or encumbrance upon the income, receipts or revenues of the Authority except for the Net Revenues and the amounts referenced in paragraph 4 above, in each case to the extent provided in the Trust Indenture and the Eleventh Supplemental Indenture. Neither the faith and credit nor the taxing power of the State of North Carolina or any political subdivision thereof, including the Authority, is pledged to the payment of the principal of, premium, if any, or interest on the Series 2010A Bonds, and no holder of the Series 2010A Bonds has the right to compel the exercise of the taxing power by the State of North Carolina or any political subdivision thereof, or the forfeiture of their respective property, other than the Net Revenues, in connection with any default with respect to the Series 2010A Bonds. The Authority has no taxing power.
6. Assuming continuing compliance by the Authority with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding, among other

matters, use, expenditure and investment of proceeds of the Series 2010A Bonds, and the timely payment of certain investment earnings to the United States Treasury, based on existing statutes, regulations, rulings and court decisions, interest on the Series 2010A Bonds is not includable in the gross income of the owners thereof for purposes of federal income taxation except for interest on any Series 2010A Bond for any period during which such Series 2010A Bond is held by a person who is a “substantial user” of the facilities refinanced with the proceeds of the 2010A Bonds or a “related person” of such a “substantial user,” as such terms are defined in the Code. Interest on the Series 2010A Bonds is not a specific preference item for purposes of the alternative minimum tax imposed by the Code on corporations and other taxpayers, including individuals, and is not includable in the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed by the Code on corporations.

7. Interest on the Series 2010A Bonds is exempt from all State of North Carolina income taxes.

The Code and other laws of taxation, including the laws of taxation of the State of North Carolina, of other states and of local jurisdictions, may contain other provisions that could result in tax consequences, upon which we render no opinion, as a result of the ownership or transfer of the Series 2010A Bonds or the inclusion in certain computations of interest that is excluded from gross income for purposes of federal and North Carolina income taxation.

The rights of the owners of the Series 2010A Bonds and the enforceability thereof and of the Trust Indenture and the Eleventh Supplemental Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights heretofore and hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2010A Bonds.

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.

WOMBLE CARLYLE SANDRIDGE & RICE  
*A Professional Limited Liability Company*



[Proposed Form of Bond Counsel's Opinion for Series 2010B Bonds]

September \_\_, 2010

Raleigh-Durham Airport Authority  
1000 Trade Drive  
RDU Airport, NC

We have examined, as bond counsel to the Raleigh-Durham Airport Authority (the "Authority"), (a) the Constitution and laws of the State of North Carolina, including The State and Local Government Revenue Bond Act, as amended (the "Act"), (b) certified copies of proceedings of the Authority evidencing the adoption of a bond order authorizing the issuance by the Authority of its \$94,080,000 Airport Revenue Refunding Bonds, Series 2010B (Non-AMT) (the "Series 2010B Bonds") and (c) other proofs submitted relative to the issuance and sale of the Series 2010B Bonds. The Series 2010B Bonds are being issued under and pursuant to a Master Trust Indenture, dated as of February 1, 2001, as amended (the "Trust Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") and an Eleventh Supplemental Trust Indenture, dated as of August 1, 2010 (the "Eleventh Supplemental Indenture") between the Authority and the Trustee.

The Series 2010B Bonds are dated the date hereof, bear interest from their date and mature, subject to redemption prior to their stated maturity, as provided in the Eleventh Supplemental Indenture. The Series 2010B Bonds are subject to optional and mandatory redemption at such times, under such circumstances and upon the terms and conditions set forth in the Eleventh Supplemental Indenture.

The Series 2010B Bonds are being issued to provide funds, together with other available funds, to (i) advance refund certain Airport Revenue Bonds previously issued by the Authority under the Trust Indenture, (ii) fund a portion of the Reserve Requirement of the Parity Reserve Fund (as such terms are defined in the Eleventh Supplemental Indenture) attributable to the Series 2010B Bonds, and (iii) pay the costs of issuance relating to the Series 2010B Bonds. The Bonds being refunded by the Series 2010B Bonds were issued by the Authority to provide funds, together with other available funds, to pay a portion of the costs of certain improvements to the Raleigh-Durham International Airport.

The Authority has heretofore issued Bonds (as defined in the Trust Indenture) pursuant to the Trust Indenture. Concurrently herewith, the Authority is issuing its Airport Revenue Refunding Bonds, Series 2010A (Non-AMT) to refund certain Bonds previously issued under the Trust Indenture. The Trust Indenture provides for the issuance, under the conditions, limitations and restrictions therein set forth, of additional Bonds. The Bonds previously issued, the refunding Bonds issued concurrently herewith and any additional Bonds are secured on a parity as to the pledge of Net Revenues (as defined in the Trust Indenture) with the outstanding Bonds. The Trust Indenture also permits the incurrence of

Subordinated Obligations (as defined in the Trust Indenture) under the conditions, restrictions and limitations therein set forth.

As to matters of fact material to our opinion, we have relied upon the certified proceedings and other certificates of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on such examination and other examinations, we are of the opinion, as of the date hereof and under existing law, that:

1. The Series 2010B Bonds have been duly authorized, executed and delivered.
2. The Trust Indenture and the Eleventh Supplemental Indenture have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee, are valid and binding obligations of the Authority enforceable in accordance with their respective terms.
3. The Series 2010B Bonds, together with the outstanding Bonds and any additional Bonds hereafter issued by the Authority under the Trust Indenture are, to the extent provided in the Trust Indenture, secured by a pledge, charge and lien upon the Net Revenues of the Airport System (as defined in the Eleventh Supplemental Indenture).
4. The Series 2010B Bonds are valid and binding special obligations of the Authority secured by a pledge, charge and lien upon, and the principal of, and the premium, if any, and interest on which are payable from, the funds and the income from the investment thereof in the Funds and Accounts created under the Trust Indenture to the extent provided therein. The Series 2010B Bonds are also secured by the funds on deposit or otherwise available in the Parity Reserve Fund.
5. The Authority is not obligated to pay the principal of, premium, if any, or the interest on the Series 2010B Bonds except as provided in the Trust Indenture and the Eleventh Supplemental Indenture. The principal of and interest on the Series 2010B Bonds are not payable from the general funds of the Authority, nor do the Series 2010B Bonds constitute a legal or equitable pledge, charge, lien or encumbrance upon the income, receipts or revenues of the Authority except for the Net Revenues and the amounts referenced in paragraph 4 above, in each case to the extent provided in the Trust Indenture and the Eleventh Supplemental Indenture. Neither the faith and credit nor the taxing power of the State of North Carolina or any political subdivision thereof, including the Authority, is pledged to the payment of the principal of, premium, if any, or interest on the Series 2010B Bonds, and no holder of the Series 2010B Bonds has the right to compel the exercise of the taxing power by the State of North Carolina or any political subdivision thereof, or the forfeiture of their respective property, other than the Net Revenues, in connection with any default with respect to the Series 2010B Bonds. The Authority has no taxing power.
6. Assuming continuing compliance by the Authority with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding, among other matters, use, expenditure and investment of proceeds of the Series 2010B Bonds, and the timely payment of certain investment earnings to the United States Treasury, based on existing statutes, regulations, rulings and court decisions, interest on the Series 2010B Bonds is not includable in the gross income of the owners thereof for purposes of federal income taxation. Interest on the Series 2010B Bonds is not a specific preference item for purposes of the alternative minimum tax imposed by the Code on

corporations and other taxpayers, including individuals, however, such interest is includable in the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed by the Code on corporations.

7. Interest on the Series 2010B Bonds is exempt from all State of North Carolina income taxes.

The Code and other laws of taxation, including the laws of taxation of the State of North Carolina, of other states and of local jurisdictions, may contain other provisions that could result in tax consequences, upon which we render no opinion, as a result of the ownership or transfer of the Series 2010B Bonds or the inclusion in certain computations of interest that is excluded from gross income for purposes of federal and North Carolina income taxation.

The rights of the owners of the Series 2010B Bonds and the enforceability thereof and of the Trust Indenture and the Eleventh Supplemental Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2010B Bonds.

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.

WOMBLE CARLYLE SANDRIDGE & RICE  
*A Professional Limited Liability Company*



**APPENDIX F**  
**BOOK-ENTRY-ONLY SYSTEM**

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## APPENDIX F

### BOOK-ENTRY-ONLY SYSTEM

Beneficial ownership interests in the 2010 Bonds will be available only in a book-entry system. The actual purchasers of the 2010 Bonds (the “*Beneficial Owners*”) will not receive physical certificates representing their interests in the 2010 Bonds purchased. So long as The Depository Trust Company (“*DTC*”), New York, New York, or its nominee is the registered owner of the 2010 Bonds, references in this Official Statement to the Owners of the 2010 Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners. The Eleventh Supplemental Indenture contains provisions applicable to periods when DTC or its nominee is not the registered owner.

THE FOLLOWING DESCRIPTION OF DTC, OF PROCEDURES AND RECORD KEEPING ON BENEFICIAL OWNERSHIP INTERESTS IN THE 2010 BONDS, PAYMENT OF INTEREST AND OTHER PAYMENTS WITH RESPECT TO THE 2010 BONDS TO DTC PARTICIPANTS OR TO BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE 2010 BONDS AND OF OTHER TRANSACTIONS BY AND BETWEEN DTC, DTC PARTICIPANTS AND BENEFICIAL OWNERS IS BASED ON INFORMATION FURNISHED BY DTC.

DTC will act as securities depository for the 2010 Bonds. The 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate in the aggregate principal amount of each maturity of the 2010 Bonds will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“*Direct Participants*”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of certificated securities. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“*DTCC*”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “*Indirect Participants*”). DTC has Standard & Poor’s highest rating: AAA. The DTC rules applicable its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010 Bonds on DTC’s records. The ownership interest of each 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 purchases. 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 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2010 Bonds, except in the event that the use of the book-entry system for the 2010 Bonds is discontinued.

To facilitate subsequent transfers, all 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such name as may be requested by an authorized representative of DTC. The deposit of 2010 Bonds 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 2010 Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2010 Bonds may wish to take steps to augment the transmission to them of notices of significant events with respect to the 2010 Bonds, such as redemptions, defaults and proposed amendments to the Indenture. For example, Beneficial Owners of the 2010 Bonds may wish to ascertain that the nominee holding the 2010 Bonds 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 notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2010 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the 2010 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an omnibus proxy to the Authority as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting and voting rights to those Direct Participants to whose accounts the 2010 Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Payments of principal and interest with respect to the 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on the 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 Participants and not of DTC (nor its nominee), the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the Trustee's responsibility, disbursement of such payments to Direct Participants is DTC's responsibility, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants. THE AUTHORITY CAN GIVE NO ASSURANCE THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENTS TO BENEFICIAL OWNERS.

DTC may discontinue providing its services as depository with respect to the 2010 Bonds at any time by giving reasonable notice to the Authority and the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the 2010 Bonds are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the 2010 Bonds are required to be printed and delivered.

THE AUTHORITY AND THE TRUSTEE HAVE NO RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, OR THE MAINTENANCE OF ANY RECORDS; (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE 2010 BONDS, OR THE SENDING OF ANY TRANSACTION STATEMENTS; (3) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE ELEVENTH SUPPLEMENTAL INDENTURE TO BE GIVEN TO OWNERS; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE 2010 BONDS, INCLUDING ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

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**APPENDIX G**

**THE 2001 RESERVE POLICY**

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## **THE 2001 RESERVE POLICY**

Concurrently with the issuance of the 2001 Bonds, Financial Guaranty issued its 2001 Reserve Policy which was deposited in the Parity Reserve Fund. The 2001 Reserve Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds secured by the Parity Reserve Fund which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority, provided that the aggregate amount paid under the 2001 Reserve Policy may not exceed the maximum amount set forth in the 2001 Reserve Policy, \$3,597,371.51. Financial Guaranty will make such payments to the Paying Agent on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the Authority. The term "nonpayment" in respect of a Bond includes any payment of principal or interest made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The 2001 Reserve Policy is non-cancellable and the premium was fully paid at the time of delivery of the 2001 Bonds. The 2001 Reserve Policy covers failure to pay principal of the Bonds secured by the Parity Reserve Fund on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which such Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The 2001 Reserve Policy shall terminate on the scheduled final maturity date of the 2001 Bonds.

Generally, in connection with its issuance of a reserve policy, Financial Guaranty requires, among other things, (1) that, so long as it has not failed to comply with its payment obligations under the reserve policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the 2001 Bonds or (B) remedies which would adversely affect holders in the event that the issuer fails to reimburse Financial Guaranty for any draws on the reserve policy; and (2) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent.

The 2001 Reserve Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

**FINANCIAL GUARANTY IS CURRENTLY NOT RATED BY MOODY'S INVESTORS SERVICE, STANDARD & POOR'S RATINGS SERVICES OR FITCH, INC.**

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