NEW ISSUE: BOOK-ENTRY ONLY **Ratings: See "RATINGS" herein.**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010 Senior Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any Series 2010 Senior Bond for any period that such Series 2010 Senior Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2010 Senior Bonds or by a "related person" within the meaning of Section 147(a) of the Code. In the further opinion of Bond Counsel, interest on the Series 2010 Senior Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2010 Senior Bonds is exempt from present State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010 Senior Bonds. See "TAX MATTERS."

$128,300,000
COUNTY OF SACRAMENTO
Airport System Senior Revenue Bonds
Series 2010

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

The County of Sacramento (the "County") is issuing its $128,300,000 Airport System Senior Revenue Bonds, Series 2010 (the "Series 2010 Senior Bonds") to: (i) finance a portion of the cost of certain capital improvements for the County's Airport System (as defined herein); (ii) provide funds to satisfy the Senior Debt Service Reserve Requirement (as defined herein); (iii) fund capitalized interest in an amount equal to a portion of the debt service on the Series 2010 Senior Bonds; and (iv) pay certain costs of issuance of the Series 2010 Senior Bonds, all as more fully described herein. The Series 2010 Senior Bonds are being issued pursuant to a Master Indenture of Trust, dated as of May 1, 2008, between the County and The Bank of New York Mellon Trust Company, NA., as trustee (the "Trustee") (the "Master Indenture"), as supplemented and amended by a Fifth Supplemental Indenture of Trust, dated as of August 1, 2010, between the County and the Trustee (the "Fifth Supplemental Indenture" and, together with the Master Indenture, as supplemented and amended from time to time, the "Indenture").

The Series 2010 Senior Bonds are secured by the Trust Estate (as defined herein), subject to the application of the moneys included in the Trust Estate on the terms and conditions and for the purposes set forth in the Indenture. The primary component of the Trust Estate is the Net Revenues (as defined herein) derived by the County from the operation of the Airport System. The Series 2010 Senior Bonds constitute Senior Obligations (as defined herein) pursuant to the Indenture and are secured by the Trust Estate and payable from Net Revenues on a parity basis with $678,510,000 currently Outstanding Senior Obligations previously issued by the County. The Indenture provides that the County may issue additional Senior Obligations secured by the Trust Estate and payable from the Net Revenues on a parity basis with the Series 2010 Senior Bonds, subject to the terms and conditions of the Indenture, as more fully described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS — Additional Senior Obligations" and " – Existing Senior Obligations."

The Indenture provides that the County may incur additional Obligations (as defined herein) secured by the Trust Estate and payable from the Net Revenues on a subordinate basis to the Senior Obligations (the "Subordinate Obligations" and "Junior Subordinate Obligations") subject to the terms and conditions of the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS – Additional Subordinate Obligations," "- Existing Subordinate Obligations" and " – Junior Subordinate Obligations, Junior Obligations and Special Facility Obligations."

Interest on the Series 2010 Senior Bonds is payable semiannually on January 1 and July 1 of each year, commencing January 1, 2011, at the rates set forth on the inside cover page.

THE PRINCIPAL, OR REDEMPTION PRICE, OF AND INTEREST ON THE SERIES 2010 SENIOR BONDS ARE PAYABLE SOLELY FROM THE TRUST ESTATE PLEDGED FOR THE PAYMENT THEREOF, AND THE COUNTY IS NOT OBLIGATED TO PAY THE SERIES 2010 SENIOR BONDS EXCEPT FROM THE TRUST ESTATE. THE GENERAL FUND OF THE COUNTY IS NOT LIABLE AND THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COUNTY IS NOT PLEDGED FOR THE PAYMENT OF THE PRINCIPAL, OR REDEMPTION PRICE, OF OR INTEREST ON THE SERIES 2010 SENIOR BONDS. NO TAX OR ASSESSMENT SHALL EVER BE LEVIED OR COLLECTED TO PAY THE PRINCIPAL, OR REDEMPTION PRICE, OF OR INTEREST ON THE SERIES 2010 SENIOR BONDS AND THE SERIES 2010 SENIOR BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF OR CHARGE, LIEN OR ENCUMBRANCE UPON ANY OF THE PROPERTY OF THE COUNTY OR ANY OF ITS INCOME OR RECEIPTS EXCEPT THE TRUST ESTATE AS PROVIDED IN THE INDENTURE. NEITHER THE PAYMENT OF THE PRINCIPAL, OR REDEMPTION PRICE, OF OR INTEREST ON THE SERIES 2010 SENIOR BONDS IS A GENERAL DEBT, LIABILITY OR OBLIGATION OF THE COUNTY OR THE STATE OF CALIFORNIA.

The Series 2010 Senior Bonds will be issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to beneficial owners in denominations of $5,000 or any integral multiple thereof, through the book – entry system maintained by DTC. The principal of, premium, if any, and interest on the Series 2010 Senior Bonds is payable by the Trustee, to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners as described herein. See APPENDIX E — "BOOK – ENTRY ONLY SYSTEM."

The Series 2010 Senior Bonds are subject to optional redemption and mandatory sinking fund redemption prior to their respective stated maturities as described herein. See "THE SERIES 2010 SENIOR BONDS — Redemption Provisions."

This cover page, including the inside cover pages hereto, contains certain information for general reference only. It is not intended to be a summary of this issue. Potential purchasers must read the entire Official Statement, including but not limited to "INVESTMENT CONSIDERATIONS," to obtain information essential to making an informed investment decision.

The Series 2010 Senior Bonds are offered when, as and if issued and received by the Underwriters, and subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County. Certain matters will be passed upon on behalf of the County by the Sacramento County Counsel, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, its Disclosure Counsel, and on behalf of the Underwriters by their counsel, Kutak Rock LLP. It is expected that the Series 2010 Senior Bonds in book – entry form will be available for delivery through the DTC book – entry system, on August 25, 2010.

Morgan Stanley **J.P. Morgan**

Dated: August 11, 2010

MATURITY SCHEDULE

$51,840,000 Series 2010 Senior Serial Bonds

Maturity (July 1)	Principal Amount	Interest Rate	Yield	CUSIP†
2012	$1,000,000	2.000%	0.950%	786107MZ2
2013	1,400,000	2.000	1.330	786107NA6
2014	1,300,000	2.000	1.690	786107NB4
2015	2,630,000	2.500	2.190	786107NC2
2016	2,690,000	3.000	2.630	786107ND0
2017	2,770,000	3.250	2.960	786107NE8
2018	2,865,000	4.000	3.190	786107NF5
2019	2,975,000	5.000	3.440	786107NG3
2020	2,125,000	4.000	3.640	786107NH1
2020	1,000,000	5.000	3.640	786107NU2
2021	3,260,000	5.000	3.770*	786107NJ7
2022	3,425,000	5.000	3.910*	786107NK4
2023	995,000	4.000	4.030	786107NL2
2023	2,600,000	5.000	4.030*	786107NV0
2024	3,765,000	5.000	4.130*	786107NM0
2025	3,950,000	5.000	4.240*	786107NN8
2026	4,150,000	5.000	4.340*	786107NR9
2027	4,360,000	5.000	4.440*	786107NS7
2028	550,000	4.500	4.540	786107NT5
2028	4,030,000	5.000	4.540*	786107NW8

$9,845,000 5.000% Series 2010 Senior Term Bonds Due July 1, 2030 – Yield 4.670%* – CUSIP† 786107NP3
$66,615,000 5.000% Series 2010 Senior Term Bonds Due July 1, 2040 – Price 100% – CUSIP† 786107NQ1

---

* Priced to par call on July 1, 2020.

No dealer, broker, salesperson or other person has been authorized by the County or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2010 Senior Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Series 2010 Senior Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been furnished by the County and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriter. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs of the County since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

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

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

Certain statements included or incorporated by reference in the following information constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the County's forecasts in any way. Except as set forth in the Continuing Disclosure Certificate, a form of which is attached as Appendix F, the County does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

The Series 2010 Senior Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act. The Series 2010 Senior Bonds have not been registered or qualified under the securities laws of any state.

County of Sacramento
Board of Supervisors

Roger Dickinson	Chair, District 1
Jimmie R. Yee	Supervisor, District 2
Susan Peters	Supervisor, District 3
Roberta MacGlashan	Supervisor, District 4
Don Nottoli	Supervisor, District 5

County Officials

Steven C. Szalay	Interim County Executive
Robert A. Ryan, Jr.	County Counsel
Navdeep S. Gill	Chief Operations Officer
Julie Valverde	Director of Finance

Sacramento County Airport System Staff

G. Hardy Acree	Director of Airports
Lisa J. Stanton	Chief Administrative Officer
Michael La Pier	Chief Operating Officer
Amanda Thomas	Deputy Director Airport Finance & Administration

Special Services

BOND COUNSEL

ORRICK, HERRINGTON & SUTCLIFFE LLP

DISCLOSURE COUNSEL

STRADLING YOCCA CARLSON & RAUTH,
A PROFESSIONAL CORPORATION
SACRAMENTO, CALIFORNIA

TRUSTEE

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A.
LOS ANGELES, CALIFORNIA

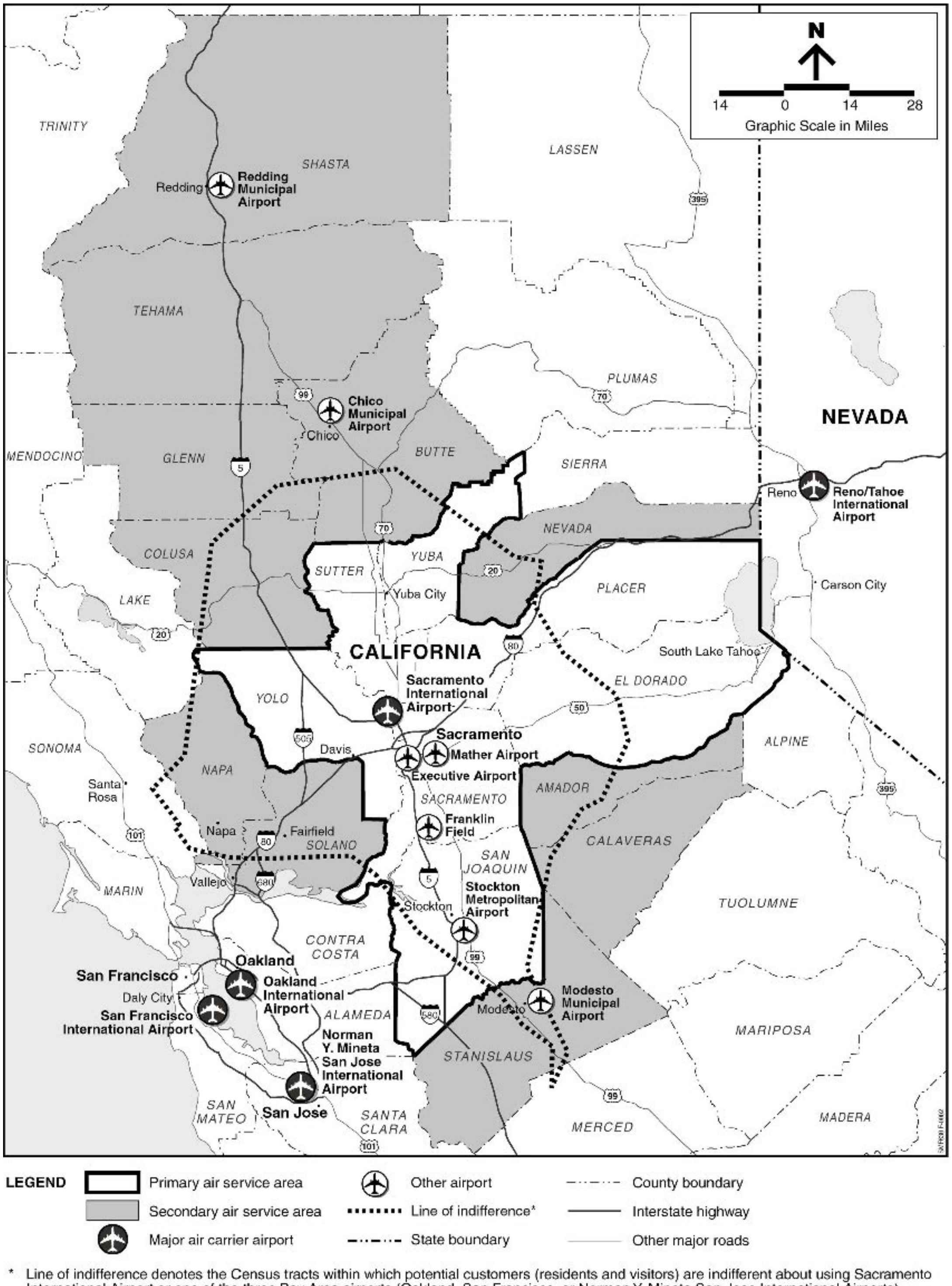
FINANCIAL ADVISOR

PUBLIC FINANCIAL MANAGEMENT, INC.
SAN FRANCISCO, CALIFORNIA

AIRPORT CONSULTANT

JACOBS CONSULTANCY
BURLINGAME, CALIFORNIA

AIRPORT LOCATION AND SERVICE AREA MAP



* Line of indifference denotes the Census tracts within which potential customers (residents and visitors) are indifferent about using Sacramento International Airport or one of the three Bay Area airports (Oakland, San Francisco, or Norman Y. Mineta San Jose International Airports), *Defining the Sacramento Catchment Area*, GRA Inc., April 2007.

TABLE OF CONTENTS

Page

INTRODUCTION **1**

PURPOSE 1
THE AIRPORT SYSTEM 1
THE SERIES 2010 SENIOR BONDS 2
SECURITY FOR THE SERIES 2010 SENIOR BONDS 2
SENIOR DEBT SERVICE RESERVE FUND 3
EXISTING OBLIGATIONS 4
CAPITAL IMPROVEMENT PROGRAM 5
RATE COVENANT 5
INVESTMENT CONSIDERATIONS 5
CONTINUING DISCLOSURE 5
REPORT OF THE AIRPORT CONSULTANT 6
CERTAIN AMENDMENTS TO THE MASTER INDENTURE 6

SUMMARIES AND ADDITIONAL INFORMATION **7**

PLAN OF FINANCE **7**

ESTIMATED SOURCES AND USES OF FUNDS **7**

THE SERIES 2010 SENIOR BONDS **7**

GENERAL 7
REDEMPTION PROVISIONS 8

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS **10**

PLEDGE OF TRUST ESTATE; NET REVENUES 10
RELEASED REVENUES 12
OBLIGATIONS ISSUED OR INCURRED UNDER INDENTURE 12
FLOW OF AIRPORT SYSTEM REVENUES 13
AVAILABILITY OF AVAILABLE PFC REVENUES TO PAY DEBT SERVICE WITH RESPECT TO SERIES 2008 AND SERIES 2009 SUBORDINATE BONDS 16
AVAILABILITY OF AVAILABLE GRANT REVENUES TO PAY DEBT SERVICE WITH RESPECT TO SERIES 2009 SUBORDINATE BONDS 17
SENIOR DEBT SERVICE RESERVE FUND 18
SUBORDINATE DEBT SERVICE RESERVE FUND 19
ADDITIONAL SENIOR OBLIGATIONS 20
EXISTING SENIOR OBLIGATIONS 23
ADDITIONAL SUBORDINATE OBLIGATIONS 23
EXISTING SUBORDINATE OBLIGATIONS 23
JUNIOR SUBORDINATE OBLIGATIONS, JUNIOR OBLIGATIONS AND SPECIAL FACILITY OBLIGATIONS 23
RATE COVENANT 23
DEBT SERVICE SCHEDULE 26

THE AIRPORT SYSTEM **28**

GENERAL 28
SACRAMENTO INTERNATIONAL AIRPORT 28
OTHER AIRPORTS 28
INSURANCE 29
CAPITAL IMPROVEMENT PLAN 30
ENVIRONMENTAL REGULATIONS 30

MANAGEMENT OF THE AIRPORT SYSTEM **31**

BACKGROUND 31

Administration 31
Labor Relations 32

AIRPORT SYSTEM OPERATIONS **33**

Background 33

SUMMARY OF FINANCIAL OPERATIONS **35**

Sources of Airport System Revenues 35
Airline Agreements and Rate Ordinance 35
Revenues, Expenses and Changes in Net Assets 37
Operating Revenues 39
Excluded Revenues 41
Passenger Facility Charges 41
AIP Grants 42
Operating Expenses 43
Management Discussion of Response to Current Economic Conditions 43
Investment of Airport System Funds; County Pool 44
Summary of Historical Revenues, Expenses and Debt Service Coverage 45

REPORT OF THE AIRPORT CONSULTANT **47**

Calculation of Forecast Airport System Revenues, Operating Expenses and Debt Service Coverage 47

AIRPORT SYSTEM CAPITAL IMPROVEMENT PROGRAM **49**

Terminal Modernization Program 49
TMP Construction 49
Additional Projects 54
Financing Plan for TMP 54

INVESTMENT CONSIDERATIONS **54**

Rate Covenant Not a Guarantee; Failure to Meet Projections 54
Information Concerning the Airlines 55
Effect of Airline Bankruptcies 55
Effect of Concessionaire Bankruptcies 56
Effect of County Bankruptcy 56
Uncertainties of the Airline Industry and Dominance of Southwest Airlines 57
Competition 58
Federal Law Affecting Airport Rates and Charges 58
Additional Obligations Can Be Issued Without Bondholder Consent 59
Collateral Can Be Released to the County 59
Factors Affecting Capital Improvement Program 59
Unavailability of, or Delay in, Anticipated Funding Sources 60
Report of the Airport Consultant 60
Impact of Potential Floods 60
Impact of Potential Earthquakes 61
Climate Change Issues 61
Economic Conditions 62
Pandemic 62

LITIGATION **62**

RATINGS **63**

TAX MATTERS **63**

LEGAL MATTERS **65**

CONTINUING DISCLOSURE **65**

FINANCIAL ADVISOR **65**
UNDERWRITING **66**
FINANCIAL STATEMENTS **66**
MISCELLANEOUS **67**

APPENDIX A REPORT OF THE AIRPORT CONSULTANT A-1
APPENDIX B COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEARS ENDED JUNE 30, 2008 AND 2009 .... B-1
APPENDIX C CERTAIN UNAUDITED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED MARCH 31, 2009 AND 2010 .... C-1
APPENDIX D SUMMARY OF THE INDENTURE D-1
APPENDIX E BOOK-ENTRY ONLY SYSTEM E-1
APPENDIX F FORM OF CONTINUING DISCLOSURE CERTIFICATE F-1
APPENDIX G FORM OF OPINION OF BOND COUNSEL G-1

[THIS PAGE INTENTIONALLY LEFT BLANK]

$128,300,000
COUNTY OF SACRAMENTO
Airport System Senior Revenue Bonds
Series 2010

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2010 Senior Bonds being offered and a brief description of the Official Statement. All statements contained herein are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given to such terms under the Indenture. See APPENDIX D – "SUMMARY OF THE INDENTURE – CERTAIN DEFINITIONS."

Purpose

The purpose of this Official Statement, which includes the cover page, the inside cover pages and appendices hereto, is to set forth certain information concerning the issuance and sale of $128,300,000 County of Sacramento Airport System Senior Revenue Bonds, Series 2010 (the "Series 2010 Senior Bonds"). The Series 2010 Senior Bonds are being issued to: (i) finance a portion of the cost of certain capital improvements for the County's Airport System (as defined herein); (ii) provide funds to satisfy the Senior Debt Service Reserve Requirement (as defined herein); (iii) fund capitalized interest in an amount equal to a portion of the debt service on the Series 2010 Senior Bonds; and (iv) pay certain costs of issuance of the Series 2010 Senior Bonds, all as more fully described herein. See "PLAN OF FINANCE."

The Airport System

The County is a political subdivision of the State of California. The County's Board of Supervisors oversees the operation of the Airport System, which is comprised of Sacramento International Airport ("International Airport"), Sacramento Mather Airport ("Mather Airport"), Sacramento Executive Airport ("Executive Airport"), and Franklin Field. The Airport System is owned by the County (except for Mather Airport and Executive Airport, which are leased as described herein), is operated as a self sufficient enterprise and is administered by the Director of Airports (the "Director"). The Director reports to the County Executive. See "THE AIRPORT SYSTEM" and "MANAGEMENT OF THE AIRPORT SYSTEM."

International Airport is the primary commercial airport facility serving the County and six neighboring counties and is classified as a medium air traffic hub by the Federal Aviation Administration (the "FAA"). Mather Airport is a civilian cargo and general aviation airport and Executive Airport is a general aviation facility. Franklin Field is a general aviation training facility.

International Airport primarily serves origin-destination passengers (i.e., passengers beginning or ending their journeys at International Airport). (In Fiscal Year 2008-09, 96.2% of enplaned passengers were origin-destination passengers.) According to U.S. Department of Transportation data, International Airport was the nation's 37th busiest airport during the 12 months ended June 30, 2009 in terms of enplaned passengers. In Fiscal Year 2008-09, 4,603,182 passengers were enplaned at International Airport, a decrease of 13.1% from the prior Fiscal Year. As described herein, the number of enplaned passengers decreased 3.4% in Fiscal Year 2009-10, as compared to Fiscal Year 2008-09. As of July 2010, 14 scheduled passenger airlines, including three low-cost carriers and one foreign-flag airline, offered 143 daily non-stop flights at International Airport. In addition, the Airport System is also served by two scheduled all-cargo airlines. See "THE AIRPORT SYSTEM."

The Series 2010 Senior Bonds

The Series 2010 Senior Bonds are being issued pursuant to a Master Indenture of Trust, dated as of May 1, 2008, between the County and The Bank of New York Mellon Trust Company, NA., as trustee (the "Trustee") (the "Master Indenture"), as supplemented and amended by a Fifth Supplemental Indenture of Trust, dated as of August 1, 2010, between the County and the Trustee (the "Fifth Supplemental Indenture" and, together with the Master Indenture, as supplemented and amended from time to time, the "Indenture"). See APPENDIX D – "SUMMARY OF THE INDENTURE."

The Series 2010 Senior Bonds are subject to optional redemption and mandatory sinking fund redemption prior to their stated maturities as described herein. See "THE SERIES 2010 SENIOR BONDS – Redemption Provisions."

The Series 2010 Senior Bonds are being issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be made available to beneficial owners through the book-entry only system maintained by DTC. See APPENDIX E– "BOOK-ENTRY ONLY SYSTEM."

Security for the Series 2010 Senior Bonds

The Series 2010 Senior Bonds are secured by the Trust Estate (as defined herein), subject to the application of the moneys included in the Trust Estate on the terms and conditions and for the purposes set forth in the Indenture. The primary component of the Trust Estate is the Net Revenues (as defined herein) derived by the County from the operation of the Airport System. The Series 2010 Senior Bonds constitute Senior Obligations (as defined herein) pursuant to the Indenture and are secured by the Trust Estate and payable from Net Revenues on a parity basis with Senior Obligations previously issued by the County. The Indenture provides that the County may issue additional Senior Obligations secured by the Trust Estate and payable from the Net Revenues on a parity basis with the Series 2010 Senior Bonds, subject to the terms and conditions of the Indenture, as more fully described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS — Additional Senior Obligations" and " – Existing Senior Obligations."

Pursuant to the Indenture the County has incurred and may incur in the future additional Obligations (as defined herein) secured by the Trust Estate and payable from the Net Revenues on a subordinate basis to the Senior Obligations (the "Subordinate Obligations" and "Junior Subordinate Obligations") subject to the terms and conditions of the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS —Additional Subordinate Obligations," " – Existing Subordinate Obligations" and " – Junior Subordinate Obligations, Junior Obligations and Special Facility Obligations."

THE PRINCIPAL, OR REDEMPTION PRICE, OF AND INTEREST ON THE SERIES 2010 SENIOR BONDS ARE PAYABLE SOLELY FROM THE TRUST ESTATE PLEDGED FOR THE PAYMENT THEREOF, AND THE COUNTY IS NOT OBLIGATED TO PAY THE SERIES 2010 SENIOR BONDS EXCEPT FROM THE TRUST ESTATE. THE GENERAL FUND OF THE COUNTY IS NOT LIABLE AND THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COUNTY IS NOT PLEDGED FOR THE PAYMENT OF THE PRINCIPAL, OR REDEMPTION PRICE, OF OR INTEREST ON THE SERIES 2010 SENIOR BONDS. NO TAX OR ASSESSMENT SHALL EVER BE LEVIED OR COLLECTED TO PAY THE PRINCIPAL, OR REDEMPTION PRICE, OF OR INTEREST ON THE SERIES 2010 SENIOR BONDS AND THE SERIES 2010 SENIOR BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF OR CHARGE, LIEN OR ENCUMBRANCE UPON ANY OF THE PROPERTY OF

THE COUNTY OR ANY OF ITS INCOME OR RECEIPTS EXCEPT THE TRUST ESTATE AS PROVIDED IN THE INDENTURE. NEITHER THE PAYMENT OF THE PRINCIPAL, OR REDEMPTION PRICE, OF OR INTEREST ON THE SERIES 2010 SENIOR BONDS IS A GENERAL DEBT, LIABILITY OR OBLIGATION OF THE COUNTY OR THE STATE OF CALIFORNIA.

Senior Debt Service Reserve Fund

The Indenture provides that the Series 2010 Senior Bonds will be secured by the Senior Debt Service Reserve Fund established pursuant to the Indenture. The Indenture requires that the Senior Debt Service Reserve Fund be funded in an amount equal to the Senior Debt Service Reserve Requirement (as defined herein). Amounts in the Senior Debt Service Reserve Fund are to be used solely for the purpose of payment of principal of and interest on the Series 2010 Senior Bonds and any other Participating Senior Bonds (including the Series 2008 Senior Bonds and Series 2009 Senior Bonds (as defined below)) in the event that amounts on deposit in the Senior Debt Service Fund are insufficient for such purpose, or for the retirement of all Senior Bonds (as defined herein) upon the terms provided in the Indenture. "Participating Senior Bonds" are defined in the Indenture as all Series of Senior Bonds except those which are determined by the County pursuant to a Supplemental Indenture not to be secured by the Senior Debt Service Reserve Fund. The Series 2010 Senior Bonds, the Series 2009 Senior Bonds and the Series 2008 Senior Bonds constitute Participating Senior Bonds.

In lieu of the deposits and transfers to the Senior Debt Service Reserve Fund (or in substitution for amounts already on deposit therein), the Indenture authorizes the County to utilize a Reserve Guaranty or Reserve Guaranties to satisfy all or a portion of the Senior Debt Service Reserve Requirement, subject to satisfaction of the conditions set forth in the Indenture. The Senior Debt Service Reserve Fund does not secure payment of principal, or Redemption Price, of or interest on any Subordinate Obligation, Junior Subordinate Obligation or Junior Obligation (as defined herein).

In connection with the issuance of the Series 2008 Senior Bonds, the County elected to satisfy the then Senior Debt Service Reserve Requirement by utilizing a municipal bond debt service reserve insurance policy (the "2008 Senior Reserve Policy") issued by Financial Security Assurance, Inc. (now doing business as Assured Guaranty Municipal Corp.) (the "2008 Reserve Policy Provider") in the amount of $35,562,012.50. (Prior to the issuance of the Series 2010 Senior Bonds, the 2008 Senior Reserve Policy constitutes approximately 79% of the Senior Debt Service Reserve Requirement. Upon issuance of the Series 2010 Senior Bonds, the 2008 Senior Reserve Policy will constitute approximately 66% of the Senior Debt Service Reserve Requirement.) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS – Senior Debt Service Reserve Fund."

As described below under the heading "Certain Amendments to the Master Indenture" purchasers of the Series 2010 Senior Bonds will, by their purchase and acceptance of the Series 2010 Senior Bonds give their consent to amendments to the Master Indenture implementing certain changes to the way the Senior Debt Service Reserve Requirement is calculated. Such amendments will become effective when the Outstanding Series 2010 Senior Bonds and any other Senior Obligations, the Owners of which have also given their consent to such amendments (which includes the owners of the Series 2009 Bonds), become a majority in aggregate principal amount of all Outstanding Senior Obligations. Upon the issuance of the Series 2010 Senior Bonds, consent will have been received from approximately 41% of the Owners of the Senior Obligations.

Existing Obligations

Senior Obligations. The following table describes the County's outstanding Senior Obligations:

Series	**Outstanding Principal Amount**
Airport System Senior Revenue Bonds, Series 2008A (Non-AMT) (the "Series 2008A Bonds")	$160,600,000
Airport System Senior Revenue Bonds, Series 2008B (AMT) (the "Series 2008B Bonds")	$309,660,000
Airport System Senior Revenue Bonds, Taxable Series 2008C (the "Series 2008C Bonds," and collectively with the Series 2008A Bonds and the Series 2008B Bonds, the "Series 2008 Senior Bonds")	$6,450,000
Airport System Senior Revenue Bonds, Series 2009A (the "Series 2009A Bonds")	$31,115,000
Airport System Senior Revenue Bonds, Series 2009B (the "Series 2009B Bonds," and, together with the Series 2009A Bonds, the "Series 2009 Senior Bonds").	$170,685,000

The Series 2008 Senior Bonds were issued pursuant to the Master Indenture, as supplemented by a First Supplemental Indenture of Trust, dated as of May 1, 2008, between the County and the Trustee (the "First Supplemental Indenture"). The Series 2009 Senior Bonds were issued pursuant to the Master Indenture, as supplemented and amended by a Third Supplemental Indenture of Trust, dated as of July 1, 2009, between the County and the Trustee (the "Third Supplemental Indenture").

Subordinate Obligations. The following table describes the County's outstanding Subordinate Obligations:

Series	**Outstanding Principal Amount**
Airport System Subordinate and PFC Revenue Refunding Bonds, Series 2008D (Non-AMT) (the "Series 2008D Bonds")	$43,740,000
Airport System Subordinate and PFC Revenue Refunding Bonds, Series 2008E (AMT) (the "Series 2008E Bonds" and, together with the Series 2008D Bonds, the "Series 2008 Subordinate Bonds")	$37,460,000
Airport System Subordinate and PFC/Grant Revenue Bonds, Series 2009C (the "Series 2009C Bonds")	$112,860,000
Airport System Subordinate and PFC/Grant Revenue Bonds, Series 2009D (the "Series 2009D Bonds" and, together with the Series 2009C Bonds, the "Series 2009 Subordinate Bonds").	$157,685,000

The Series 2008 Subordinate Bonds were issued pursuant to the Master Indenture, as supplemented by a Second Supplemental Indenture of Trust, dated as of May 1, 2008, between the County and the Trustee (the "Second Supplemental Indenture"). The Series 2009 Subordinate Bonds were issued pursuant to the Master Indenture, as supplemented by a Fourth Supplemental Indenture of Trust, dated as of July 1, 2009, between the County and the Trustee (the "Fourth Supplemental Indenture").

The Series 2008 Senior Bonds and the Series 2008 Subordinate Bonds are collectively referred to herein as the "Series 2008 Bonds." The Series 2009 Senior Bonds and the Series 2009 Subordinate Bonds are collectively referred to herein as the "Series 2009 Bonds."

Capital Improvement Program

The County has developed a multi-year capital improvement program ("CIP") for the Airport System for Fiscal Years 2009-2015 that totals approximately $1.23 billion. The Terminal Modernization Program ("TMP") represents the largest project in the CIP with an estimated cost of $1.04 billion as of May 2010. As described herein, the TMP reflects reductions in the scope of the original plan which the County has made in response to the effect of current economic conditions on Airport System operations and financial projections. See "AIRPORT SYSTEM CAPITAL IMPROVEMENT PROGRAM." The proceeds of the Series 2010 Senior Bonds will be used to pay the final portion of the projected costs of the TMP. The Report of the Airport Consultant, dated August 11, 2010 (the "Airport Consultant's Report"), which is included as Appendix A to this Official Statement, contains a summary of the CIP and the TMP, as well as expected funding sources, which include the proceeds of the Series 2010 Senior Bonds, Series 2009 Bonds and Series 2008 Bonds, internally generated cash flow, Passenger Facility Charges, and state and federal grants. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for a description of the financing plan for the CIP.

Rate Covenant

The County has covenanted in the Indenture to establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the ownership and operation of the Airport System and for services rendered in connection therewith, at levels specified in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS – Rate Covenant" and APPENDIX D– "SUMMARY OF THE INDENTURE – THE MASTER INDENTURE – Covenants and Obligations of the County –Rates and Charges."

As described below under the heading "Certain Amendments to the Master Indenture" purchasers of the Series 2010 Senior Bonds will, by their purchase and acceptance of the Series 2010 Senior Bonds give their consent to amendments to the Master Indenture implementing certain changes in the way calculations are made with respect to the rate covenant. Such amendments will become effective when the Outstanding Series 2010 Senior Bonds and any other Senior Obligations, the Owners of which have also given their consent to such amendments (which includes the owners of the Series 2009 Senior Bonds), become a majority in aggregate principal amount of all Outstanding Senior Obligations.

Investment Considerations

An investment in the Series 2010 Senior Bonds involves risk. For a summary of certain risk factors associated with an investment in the Series 2010 Senior Bonds, see "INVESTMENT CONSIDERATIONS."

Continuing Disclosure

The County has covenanted for the benefit of the holders and beneficial owners of the Series 2010 Senior Bonds to provide certain financial information and operating data relating to the Airport System by not later than 210 days following the end of the County's Fiscal Year (presently June 30) (the

"Annual Report"), commencing with the report for Fiscal Year 2009-10, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the County electronically with the Electronic Municipal Market Access ("EMMA") system. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in APPENDIX F – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

The County has not failed to comply with such requirements in any material respect in the last five years. See "CONTINUING DISCLOSURE."

Report of the Airport Consultant

In preparing this Official Statement, the County has relied, in part, upon studies, considerations, assumptions, and opinions set forth in the Airport Consultant's Report furnished by Jacobs Consultancy, Burlingame, California, as Airport Consultant (the "Airport Consultant"), a copy of which is attached hereto as Appendix A. See "AIRPORT CONSULTANT'S REPORT" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." The Airport Consultant has provided various consulting and advisory services to the County in connection with the planning, business, and financial operations of the Airport System. No assurances can be given that the projections and expectations discussed in the Airport Consultant's Report will be achieved. The Airport Consultant's Report is an integral part of this Official Statement and should be read in its entirety.

Certain Amendments to the Master Indenture

In connection with the issuance of the Series 2010 Senior Bonds, the County is seeking to amend and clarify certain provisions of the Master Indenture. The amendments include, among others, (1) changes in the method of calculating the Senior Debt Service Reserve Requirement and the Subordinate Debt Service Reserve Requirement; (2) changes in the treatment of revenues derived from any future hotel that is owned by the County (or an entity controlled by the County) as part of, or in connection with, the Airport System; (3) a change to the definition of Revenues; (4) the addition of a definition of "Subsidy;" (5) changes in the way Aggregate Adjusted Annual Debt Service and Net Revenues are calculated for purposes of the incurrence of additional Senior Obligations and additional Subordinate Obligations; and (6) changes in the way Accrued Debt Service and Net Revenues are calculated for purposes of the rate covenant.

The amendments implementing these changes are described in more detail in this Official Statement under the headings "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS – Pledge of Trust Estate; Net Revenues," "—Released Revenues," "—Senior Debt Service Reserve Fund," "—Additional Senior Obligations, "—Additional Subordinate Obligations" and "—Rate Covenant" and in APPENDIX D – SUMMARY OF THE INDENTURE." See APPENDIX D – "SUMMARY OF THE INDENTURE – Certain Amendments to the Master Indenture." Paragraphs that are additions to the Master Indenture are described in *italicized* text. Additions to existing provisions of the Master Indenture are described in **bold double underlined text**.

Purchasers of the Series 2010 Senior Bonds will, by their purchase and acceptance of the Series 2010 Senior Bonds, give their consent to such amendments to the Master Indenture. Such amendments will become effective when the Outstanding Series 2010 Senior Bonds and any other Senior Obligations, the Owners of which have also given their consent to such amendments (which includes the owners of the Series 2009 Senior Bonds), become a majority in aggregate principal amount of all Outstanding Senior Obligations. Upon the issuance of the Series 2010 Senior Bonds, consent will have been received from approximately 41% of Owners of the Senior Obligations.

SUMMARIES AND ADDITIONAL INFORMATION

There follows in this Official Statement a description of the Airport System and its management and operations, and certain information relating to the County and sources of payment for the Series 2010 Senior Bonds, together with summaries of the terms of the Series 2010 Senior Bonds and certain provisions of the Indenture. All references herein to agreements and documents are qualified in their entirety by reference to the definitive forms thereof, and all references to the Series 2010 Senior Bonds are further qualified by reference to the information with respect thereto contained in the Indenture.

This Official Statement speaks only as of its date. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale on the basis hereof shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Airport System since the date hereof.

PLAN OF FINANCE

A portion of the proceeds of the Series 2010 Senior Bonds will be used to finance costs of the CIP described herein in "AIRPORT SYSTEM CAPITAL IMPROVEMENT PROGRAM." See "AIRPORT SYSTEM CAPITAL IMPROVEMENT PROGRAM" and "Financing Plan for the TMP; Future Financings."

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the Series 2010 Senior Bonds are as follows:

SOURCES:	
Par Amount	$128,300,000.00
Net Original Issue Premium	3,025,086.50
TOTAL	$131,325,086.50
USES:	
Series 2010 Construction Account	$113,283,478.76
Series 2010 Senior Bonds Capitalized Interest Account(1)	8,199,056.25
Senior Debt Service Reserve Fund	8,626,162.50
Costs of Issuance(2)	1,216,388.99
TOTAL	$131,325,086.50

(1) Represents capitalized interest in an amount equal to debt service on the Series 2010 Senior Bonds through January 1, 2012.
(2) Includes fees of Bond Counsel, Disclosure Counsel, the Financial Advisor, the Trustee, and the Rating Agencies; Underwriters' discount; printing costs; and other miscellaneous expenses. For a description of the Underwriters' discount, see "UNDERWRITING."

THE SERIES 2010 SENIOR BONDS

General

The Series 2010 Senior Bonds shall be dated the date of delivery, shall be issued in fully registered form in denominations of $5,000 or any integral multiple of $5,000 and shall mature on the dates and in the principal amounts as set forth on the inside cover pages. Interest on the Series 2010 Senior Bonds is payable on January 1, 2011 and semiannually thereafter on January 1 and July 1 in each year, at the rates set forth on the inside cover pages.

The Series 2010 Senior Bonds will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Series 2010 Senior Bonds. For so long as Cede & Co., as nominee of DTC, is registered owner of the Series 2010 Senior Bonds, payments of the principal of, premium, if any, and interest on the Series 2010

Senior Bonds will be made directly to DTC. Disbursement of such payment to Direct Participants and Indirect Participants is the responsibility of the Direct Participants and the Indirect Participants, each such term as hereinafter defined. See APPENDIX E– “BOOK-ENTRY ONLY SYSTEM.”

Redemption Provisions

Optional Redemption. The Series 2010 Senior Bonds maturing on and after July 1, 2021 are subject to redemption prior to their stated maturities, at the option of the County and from any source of funds, in whole or in part (in such amounts as may be specified by the County) on any date on or after July 1, 2020 at the Redemption Price equal to the principal amount of the Series 2010 Senior Bonds to be redeemed, plus unpaid accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Redemption.

The Series 2010 Senior Bonds maturing on July 1, 2030 are subject to mandatory redemption prior to their maturity, or payment at maturity, as the case may be, by the County, in part by lot on July 1 of each year on and after July 1, 2029, from and in the amount of the Sinking Fund Installments due and payable on the dates and in the amounts, as provided below, at the Redemption Price equal to the principal amount of such Series 2010 Senior Bonds to be redeemed, plus unpaid accrued interest thereon to the date fixed for redemption, without premium.

Sinking Fund Installment Date (July 1)	Sinking Fund Installment
2029	$4,800,000
2030†	5,045,000

† Maturity Date

The Series 2010 Senior Bonds maturing on July 1, 2040, are subject to mandatory redemption prior to their maturity, or payment at maturity, as the case may be, by the County, in part by lot on July 1 of each year on and after July 1, 2031, from and in the amount of the Sinking Fund Installments due and payable on the dates and in the amounts, as provided below, at the Redemption Price equal to the principal amount of such Series 2010 Senior Bonds to be redeemed, plus unpaid accrued interest thereon to the date fixed for redemption, without premium.

Sinking Fund Installment Date (July 1)	Sinking Fund Installment
2031	$5,295,000
2032	5,565,000
2033	5,840,000
2034	6,130,000
2035	6,435,000
2036	6,760,000
2037	7,095,000
2038	7,450,000
2039	7,825,000
2040†	8,220,000

† Maturity Date

Selection of Series 2010 Senior Bonds to Be Redeemed. If less than all of the Outstanding Series 2010 Senior Bonds are to be redeemed at the option of the County at any one time, the County may select the principal amounts, sinking fund installments and maturities of such Series 2010 Senior Bonds to be redeemed (which maturities, sinking fund installments and principal amounts to be redeemed shall be determined by the County in its sole discretion, subject to any limitations with respect thereto contained in the Indenture and provided that, with respect to any Series 2010 Bond to be redeemed in part, the portion of such Series 2010 Bond which is not to be redeemed shall be in an Authorized Denomination).

Notice. Notice of redemption shall be mailed, by first class mail, postage prepaid, not more than 60 nor less than 30 days before the redemption date to the Owners of any Series 2010 Senior Bonds to be redeemed (in whole or in part) at their addresses appearing in the Bond Register. Such notice shall specify the Series and maturity date of the Series 2010 Senior Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption shall be payable and, if less than all of the Series 2010 Senior Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2010 Senior Bonds so to be redeemed, and, in the case of Series 2010 Senior Bonds to be redeemed in part only, such notice shall also specify the respective portion of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series 2010 Senior Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portion of the principal amount thereof to be redeemed in the case of Series 2010 Senior Bonds to be redeemed in part only, and that, if sufficient moneys are available on the redemption date to pay the Redemption Price of all Series 2010 Senior Bonds to be redeemed, from and after such date interest on such Series 2010 Senior Bond or the portion of such Series 2010 Senior Bond to be redeemed shall cease to accrue and be payable.

Receipt of such notice shall not be a condition precedent to the redemption of Series 2010 Senior Bonds and failure of any Owner of a Series 2010 Senior Bond to receive any such notice or any insubstantial defect in such notice shall not affect the validity of the proceedings for the redemption of Series 2010 Senior Bonds. Any defect in such notice given to the Owners of less than all of the Series 2010 Senior Bonds to be redeemed shall not affect the validity of the proceedings for the redemption of the Series 2010 Senior Bonds as to which the notice of redemption did not contain such defect.

In the event that funds required to pay the Redemption Price of the Series 2010 Senior Bonds are not on deposit with the Trustee at the time the notice with respect to any redemption of Series 2010 Senior Bonds at the option of the County is given, such notice shall state that such redemption is conditioned upon the receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys sufficient to pay the Redemption Price of the Series 2010 Senior Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the County shall not be required to redeem such Series 2010 Senior Bonds. In the event a notice of redemption of Series 2010 Senior Bonds contains such a condition and such moneys are not so received, the redemption of Series 2010 Senior Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the Persons and in the manner in which the notice of redemption was given that such moneys were not so received and that there shall be no redemption of Series 2010 Senior Bonds pursuant to the conditional notice of redemption.

Effect of Redemption. If notice of redemption has been duly mailed to the Owners of the Series 2010 Senior Bonds to be redeemed (in whole or in part) and the amounts necessary to pay the Redemption Price of the Series 2010 Senior Bonds to be redeemed being available therefor on the date fixed for redemption then the Series 2010 Senior Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the applicable Redemption Price thereof, the Series 2010 Senior Bonds or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Series 2010 Senior Bonds or portions thereof shall cease to bear further interest and after the date fixed for redemption no Owner of such Series 2010 Senior Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of the Indenture, or any other rights, except with respect to payment of the Redemption Price thereof from the amounts so made available.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS

Pledge of Trust Estate; Net Revenues

Subject to the application of the moneys included in the Trust Estate on the terms and conditions and for the purposes set forth in the Indenture, and with the respective priorities set forth therein, the Series 2010 Senior Bonds are payable from and secured by the Trust Estate. The primary component of the Trust Estate is the Net Revenues derived by the County from the operation of the Airport System.

Under the Indenture, the "Airport System" means the whole and each and every part of the existing airport system of the County, including International Airport, Mather Airport, Executive Airport and Franklin Field and any other airport or aviation facility owned or operated by the County and designated by the County to be part of the Airport System, including runways, taxiways, landing pads, aprons, ramps, beacon sites, obstruction lights, navigational and landing aids, control towers, facilities for storage of aircraft and for parking of automobiles, roadways, passenger and freight terminals, land, easements and rights in land for clear zone and approach purposes, maintenance hangars and related facilities and all equipment, buildings, grounds, facilities, utilities and structures owned, leased or operated in connection with or for the promotion or the accommodation of air commerce and air navigation and services in connection therewith, together with all additions, betterments, extensions, replacements, renewals and improvements thereto which may hereafter be undertaken. The term "Airport System," however, does not include a Special Facility so long as Special Facility Obligations are Outstanding with respect to such Special Facility.

The Indenture defines "Net Revenues" as, for any period of time, the Revenues (defined below) for such period less the Operating Expenses (defined below) for such period. Under the Indenture "Revenues" means all income, receipts, earnings and revenues **(including, but not limited to, any Subsidy)** received by or accrued to the Airport System from the ownership or operation of the Airport System, excluding, except to the extent deposited in the Revenue Fund: (a) gifts, grants and other funds otherwise included in the definition of "Revenues" which are restricted by their terms to purposes inconsistent with the payment of Operating Expenses or payment of Obligations; (b) 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 Operating Expenses or the payment of Obligations; (c) except as and to the extent included in calculations made pursuant to the rate covenant contained in the Indenture and described under "—Rate Covenant," any Transfer; (d) except as provided in the Indenture, any Special Facility Revenue; (e) any gain from the sale, exchange or other disposition of capital assets of the Airport System; (f) any Released Revenues; (g) any unrealized gains on securities held for investment by or on behalf of the County; (h) any gains resulting from changes in valuation of any Swap; (i) any unrealized gains from the write-down, reappraisal or revaluation of assets; (j) the proceeds of Obligations; (k) Facilities Construction Credits; (l) Passenger Facility Charges; (m) Customer Facility Charges; (n) Grant Funds; (o) investment income derived from any moneys or securities which may be placed in escrow or trust to defease Obligations; (p) any arbitrage earnings which are required to be paid to the United States of America pursuant to Section 148 of the Code; and (q) interest earnings or other investment earnings on any Account in the Construction Fund established by any Supplemental Indenture unless otherwise provided in such Supplemental Indenture.

The bold double underlined text contained in the definition of "Revenues" above is one of the amendments to the Master Indenture described above under the heading "INTRODUCTION - Certain Amendments to the Master Indenture."

The Indenture provides that for purposes of testing compliance with the rate covenant contained in the Indenture and described below under "—Rate Covenant" and the limitations on the issuance of Obligations contained in the Indenture and described under "—Additional Senior Obligations," "—

Additional Subordinate Obligations" and "—Junior Subordinate Obligations, Junior Obligations and Special Facility Obligations," Revenues will be calculated based upon Generally Accepted Accounting Principles, except that such calculation will include and exclude those items specifically included or excluded in the definition thereof described above or in the definition of Accrued Debt Service or Aggregate Adjusted Annual Debt Service, as applicable.

In addition, the Indenture provides that for purposes of meeting any of the tests prescribed by the Indenture, including the rate covenant contained in the Indenture and described below under "—Rate Covenant" and the limitations on the issuance of Obligations contained in the Indenture and described under "—Additional Senior Obligations," "—Additional Subordinate Obligations" and "—Junior Subordinate Obligations, Junior Obligations and Special Facility Obligations," any transfers from the Capital Improvement Fund to the Revenue Fund will be deemed to be "Revenues." These transfers are not subject to any limit on amount.

The term "Operating Expenses" is defined in the Indenture as the reasonable and necessary costs and expenses of operating, maintaining and administering the Airport System, determined in accordance with Generally Accepted Accounting Principles, including (among other things) salaries and wages, payments in connection with medical, pension and post-retirement medical plans, fees for services, costs of materials, supplies and fuel, reasonable expenses of management, repairs and other expenses necessary to maintain and preserve the Airport System in good repair and working order, reasonable amounts for administration, insurance, taxes (if any) and other similar costs, legal fees and expenses, the fees and expenses of the Fiduciaries, charges under management agreements for the operation and maintenance of the Airport System, the fees and expenses of remarketing agents, auction agents and broker-dealers, the regularly scheduled fees to be paid pursuant to any Credit Support Agreement, expenses (but not debt service) incurred in connection with the purchase or redemption of Obligations, and all other costs properly allocable to the operation, maintenance or administration of the Airport System, but excluding in all cases: (a) amortization of intangibles or other bookkeeping entries of a similar nature; (b) amortization and depreciation of Airport System facilities and assets; (c) charges for the payment of principal, Redemption Price, Purchase Price, interest or other payments on any Obligations; (d) any items chargeable to a capital account; (e) any loss from the sale, exchange or other disposition of capital assets of the Airport System; (f) any unrealized losses on securities held for investment by or on behalf of the County for the Airport System; (g) any losses resulting from changes in valuation of any Swap; (h) any unrealized losses from the write-down, reappraisal or revaluation of assets including investments for "other than temporary" declines in book value; (i) any extraordinary losses; (j) any loss resulting from extinguishment of indebtedness; and (k) the costs and expenses of operating, maintaining and administering any Special Facility.

The Indenture provides that for purposes of testing compliance with the rate covenant contained in the Indenture and described below under "—Rate Covenant" and the limitations on the issuance of Obligations contained in the Indenture and described under "—Additional Senior Obligations," "—Additional Subordinate Obligations" and "—Junior Subordinate Obligations, Junior Obligations and Special Facility Obligations," Operating Expenses will be calculated based upon Generally Accepted Accounting Principles, except that such calculation will include and exclude those items specifically included or excluded in the definition thereof described above.

THE PRINCIPAL, OR REDEMPTION PRICE, OF AND INTEREST ON THE SERIES 2010 SENIOR BONDS ARE PAYABLE SOLELY FROM THE TRUST ESTATE PLEDGED FOR THE PAYMENT THEREOF, AND THE COUNTY IS NOT OBLIGATED TO PAY THE SERIES 2010 SENIOR BONDS EXCEPT FROM THE TRUST ESTATE. THE GENERAL FUND OF THE COUNTY IS NOT LIABLE AND THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COUNTY IS NOT PLEDGED FOR THE PAYMENT OF THE PRINCIPAL, OR REDEMPTION PRICE, OF OR INTEREST ON THE SERIES 2010 SENIOR BONDS. NO TAX OR ASSESSMENT SHALL EVER BE LEVIED OR COLLECTED TO PAY THE PRINCIPAL,

OR REDEMPTION PRICE, OF OR INTEREST ON THE SERIES 2010 SENIOR BONDS AND THE SERIES 2010 SENIOR BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF OR CHARGE, LIEN OR ENCUMBRANCE UPON ANY OF THE PROPERTY OF THE COUNTY OR ANY OF ITS INCOME OR RECEIPTS EXCEPT THE TRUST ESTATE AS PROVIDED IN THE INDENTURE. NEITHER THE PAYMENT OF THE PRINCIPAL, OR REDEMPTION PRICE, OF OR INTEREST ON THE SERIES 2010 SENIOR BONDS IS A GENERAL DEBT, LIABILITY OR OBLIGATION OF THE COUNTY OR THE STATE OF CALIFORNIA.

Released Revenues

The Indenture permits the County to cause a category of income, receipts or other revenues then included in the definition of "Revenues" to be excluded from such definition for all purposes of the Indenture (such Revenues so excluded constituting "Released Revenues"). Such exclusion will be effective from the date the County files all of the following with the Trustee: (a) a written request from an Authorized Airport Representative to release such category of income, receipts and other revenues from the definition of "Revenues" contained in the Indenture, accompanied by a written certificate of an Authorized Airport Representative certifying that the County is in compliance with all requirements of the Indenture; (b) a certificate of an Authorized Airport Representative or 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 Fiscal Years for which audited financial statements are available immediately preceding the date of such certificate or report, were sufficient to satisfy the rate covenant set forth in the Indenture and described under "—Rate Covenant" for each of the two such Fiscal Years, assuming that 150% (instead of 125%) was used in the provisions of the Indenture described in subparagraph (b)(i) under the subheading "—Rate Covenant" below, 125% (instead of 110%) was used in the provisions of the Indenture described in subparagraph (b)(ii) under the subheading "—Rate Covenant" below and 110% (instead of 100%) was used in the provisions of the Indenture described in subparagraph (b)(iii) under the subheading "—Rate Covenant" below; (c) a certificate of an Authorized Airport Representative or an Airport Consultant retained by the County 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 (and the preceding Fiscal Year if such year is not included in the certificate required by the Indenture described in clause (b) of this paragraph) are expected to be sufficient to satisfy the rate covenant set forth in the Indenture and described under "—Rate Covenant" below for such Fiscal Year, assuming that 150% (instead of 125%) was used in the provisions of the Indenture described in subparagraph (b)(i) under the subheading "—Rate Covenant" below, 125% (instead of 110%) was used in the provisions of the Indenture described in subparagraph (b)(ii) under the subheading "—Rate Covenant" below and 110% (instead of 100%) was used in the provisions of the Indenture described in subparagraph (b)(iii) under the subheading "—Rate Covenant" below; and (d) a Rating Confirmation in connection with the withdrawal of the category of income, receipts and other revenues proposed to become Released Revenues.

To date, the County has not designated any Released Revenues. Upon implementation of the amendments to the Master Indenture as described above under the heading "INTRODUCTION - Certain Amendments to the Master Indenture" income receipts and other revenues of the County derived from any hotel owned by the County (or another entity controlled by the County) as part of, or in connection with, the Airport System will be treated as Released Revenues without the need for compliance with the tests described above. See the definition of "Released Revenues" in APPENDIX D – "SUMMARY OF THE INDENTURE - CERTAIN DEFINITIONS."

Obligations Issued or Incurred under Indenture

Under the Indenture, Obligations may be issued or incurred subject to the terms, conditions and limitations established under the Master Indenture, any Supplemental Indenture or Issuing Instrument.

Obligations may consist of Bonds or any other obligation of the County issued pursuant to the Master Indenture, any Supplemental Indenture or Issuing Instrument and are secured under the Indenture as "Senior Obligations," "Subordinate Obligations" or "Junior Subordinate Obligations." In addition, nothing in the Indenture prohibits the County from issuing obligations payable from and secured by the Trust Estate if such obligations are subordinate in payment and priority to the Junior Subordinate Obligations, the Subordinate Obligations and the Senior Obligations (each, a "Junior Obligation"). Pursuant to the Indenture, all Senior Obligations shall be senior in payment and priority to all Subordinate Obligations, Junior Subordinate Obligations and Junior Obligations.

The Series 2010 Senior Bonds, the Series 2009 Senior Bonds and the Series 2008 Senior Bonds are Senior Obligations under the Indenture. "Senior Obligations" include Senior Bonds, Reimbursement Obligations related to Senior Bonds and Net Payments due under Qualified Swaps related to Senior Bonds but do not include Termination Payments under Qualified Swaps related to Senior Bonds.

The Series 2009 Subordinate Bonds and the Series 2008 Subordinate Bonds are Subordinate Obligations under the Indenture. "Subordinate Obligations" include Termination Payments under Qualified Swaps related to Senior Bonds, Subordinate Bonds, Reimbursement Obligations related to Subordinate Bonds and Net Payments under Qualified Swaps related to Subordinate Bonds but do not include Termination Payments under Qualified Swaps related to Subordinate Bonds.

"Junior Subordinate Obligations" include any Termination Payments under Qualified Swaps for Subordinate Bonds, Junior Subordinate Bonds, Reimbursement Obligations related to Junior Subordinate Bonds and Net Payments and Termination Payments under Swaps related to Junior Subordinate Bonds. As of the date of issuance of the Series 2010 Senior Bonds, there will be no Junior Subordinate Obligations or Junior Obligations Outstanding under the Indenture. See APPENDIX D– "SUMMARY OF THE INDENTURE."

Flow of Airport System Revenues

Under the Indenture, all Revenues are required to be promptly deposited upon receipt thereof to the credit of a special fund designated as the "Revenue Fund" held by the County. As soon as practicable in each month, but in any case no later than the first Business Day of such month, the County will withdraw moneys from the Revenue Fund and apply such moneys to the deposits and payments indicated below, in the amounts and in the priority, set forth below. In the event there is not then on deposit in the Revenue Fund sufficient moneys to make all such deposits and payments, then such deposits and payments will be made in the priority of the lettered paragraphs below. In the event any of the lettered paragraphs below requires more than one such deposit or payment and there is not then on deposit in the Revenue Fund sufficient moneys to make all such deposits and payments, then such deposits and payments will be made pro rata (based on the total amount of such deposits and payments then due) to the extent of available moneys.

(a) First, to the Operating Fund (to be held by the County) the amount which, together with any amount therein available to pay such Operating Expenses (other than amounts in the Operating Reserve Account), is equal to the total amount appropriated for Operating Expenses in such month pursuant to the then current Annual Budget.

(b) Second:

(i) to the Senior Debt Service Fund (to be held by the Trustee), the amount, if any, required so that the balance in said Fund shall equal the Accrued Debt Service on all Outstanding Senior Bonds (including the Series 2010 Senior Bonds) as of the last day of such month;

(ii) to the extent not included in Debt Service on Senior Bonds, to each Credit Provider of a Credit Support Instrument relating to the Senior Bonds, the amount of the Reimbursement

Obligation, if any, payable by the County as of the last day of such month in accordance with each applicable Credit Support Agreement;

(iii) to each Qualified Counterparty, the amount of Net Payments, if any, payable by the County as of the last day of such month in accordance with each applicable Qualified Swap relating to the Senior Obligations; and

(iv) to the applicable trustee or paying agent for, or owner or payee of, Outstanding Senior Obligations not specified above in this subparagraph (b), the amount, if any, required to be paid during such month to such trustee, paying agent, owner or payee as and to the extent required by the Supplemental Indentures or Issuing Instruments for payment of such Outstanding Senior Obligations.

(c) Third:

(i) subject to the provisions of the Indenture permitting the deposit of a Reserve Guaranty or Reserve Guaranties in lieu of cash, to the Senior Debt Service Reserve Fund (to be held by the Trustee) the amount, if any, required to maintain the Senior Debt Service Reserve Fund at the applicable Senior Debt Service Reserve Requirement; provided that the maximum amount required to be deposited into the Senior Debt Service Reserve Fund in any month shall not exceed one-twelfth (1/12) of the applicable Senior Debt Service Reserve Requirement;

(ii) to each Senior Series Debt Service Reserve Fund (to be held by the Trustee), the amount, if any, required to be paid during such month pursuant to the applicable Supplemental Indenture to maintain each Senior Series Debt Service Reserve Fund at the amount required by such Supplemental Indenture;

(iii) to the applicable trustee or paying agent for, or owner of, Outstanding Senior Obligations other than Senior Bonds, the amount, if any, required to be paid during such month to such trustee, paying agent or owner pursuant to the Issuing Instruments for such Outstanding Senior Obligations to maintain each debt service reserve for such Outstanding Senior Obligations at the amount required by the applicable Issuing Instrument; and

(iv) to each Reserve Guaranty Provider relating to Senior Obligations, the amount, if any, payable by the County as of the last day of such month in accordance with each applicable Reserve Guaranty Agreement.

(d) Fourth, to the Rebate Fund (to be held by the County), the amount required to be paid for Senior Obligations pursuant to the Rebate Instructions.

(e) Fifth:

(i) to the Subordinate Debt Service Fund (to be held by the Trustee), the amount, if any, required so that the balance in said Fund shall equal the Accrued Debt Service on all Outstanding Subordinate Bonds as of the last day of such month;

(ii) to the extent not included in Debt Service on Subordinate Bonds, to each Credit Provider of a Credit Support Instrument relating to the Subordinate Bonds, the amount of the Reimbursement Obligation, if any, payable by the County as of the last day of such month in accordance with each applicable Credit Support Agreement;

(iii) to each Qualified Counterparty, the amount of Net Payments, if any, payable by the County as of the last day of such month in accordance with each applicable Qualified Swap relating to the Subordinate Obligations or investments in funds established by the Indenture;

(iv) to the applicable trustee or paying agent for, or owner or payee of, Outstanding Subordinate Obligations not specified above in this subparagraph (e), the amount, if any, required to be paid during such month to such trustee, paying agent, owner or payee as and to the extent required by the Supplemental Indentures or Issuing Instruments for payment of such Outstanding Subordinate Obligations; and

(v) to each Qualified Counterparty, the balance of the amounts to be paid by the County, if any, as of the last day of such month in accordance with each applicable Qualified Swap relating to Senior Obligations, including any Termination Payments.

(f) Sixth:

(i) subject to the provisions of the Indenture permitting the deposit of a Reserve Guaranty or Reserve Guaranties in lieu of cash, to the Subordinate Debt Service Reserve Fund (to be held by the Trustee), the amount, if any, required to maintain the Subordinate Debt Service Reserve Fund at the applicable Subordinate Debt Service Reserve Requirement; provided that the maximum amount required to be deposited into the Subordinate Debt Service Reserve Fund in any month shall not exceed one-twelfth (1/12) of the applicable Subordinate Debt Service Reserve Requirement

(ii) to each Subordinate Series Debt Service Reserve Fund (to be held by the Trustee), the amount, if any, required to be paid during such month pursuant to the applicable Supplemental Indenture to maintain each Subordinate Series Debt Service Reserve Fund at the amount required by such Supplemental Indenture;

(iii) to the applicable trustee or paying agent for, or owner of, Outstanding Subordinate Obligations other than Subordinate Bonds, the amount, if any, required to be paid during such month to such trustee, paying agent or owner pursuant to the Issuing Instruments for such Outstanding Subordinate Obligations to maintain each debt service reserve for such Outstanding Subordinate Obligations at the amount required by the applicable Issuing Instrument; and

(iv) to each Reserve Guaranty Provider relating to Subordinate Obligations, the amount, if any, payable by the County as of the last day of such month in accordance with each applicable Reserve Guaranty Agreement.

(g) Seventh, to the Rebate Fund (to be held by the County), the amount required to be paid for Subordinate Obligations pursuant to the Rebate Instructions.

(h) Eighth, to the Operating Reserve Account (to be held by the County) one-twelfth (1/12) of the Operating Reserve Requirement, but only to the extent such deposit is required to make the amount on deposit in the Operating Reserve Account equal to the Operating Reserve Requirement.

(i) Ninth, to the Junior Subordinate Fund (to be held by the Trustee), the amount, if any, required to be paid during such month with respect to Junior Subordinate Obligations.

(j) Tenth, to the Rebate Fund (to be held by the County), the amount required to be paid for Junior Subordinate Obligations pursuant to the Rebate Instructions.

(k) Eleventh, to the Reserve and Contingency Fund (to be held by the County) an amount equal to the greater of (x) one-twelfth (1/12th) of $2,000,000 or (y) the amount, if any, provided for deposit therein during such month pursuant to the then-current Annual Budget, but only to the extent such deposit is required to make the amount on deposit in the Reserve and Contingency Fund equal to the Reserve and Contingency Requirement. “Reserve and Contingency Requirement” means, as of any date of calculation, and amount equal to $2,000,000 or such greater amount as is specified in the then-current Annual Budget.

(l) Twelfth, on the last Business Day of each month after making the deposits and payments required by subsection (a) through subsection (k) above, the County may withdraw from the Revenue Fund and deposit in the Capital Improvement Fund (to be held by the County) the balance, if any, of moneys remaining in the Revenue Fund.

Availability of Available PFC Revenues to Pay Debt Service With Respect to Series 2008 and Series 2009 Subordinate Bonds

Pursuant to the Second Supplemental Indenture and the Fourth Supplemental Indenture, the County has designated the Passenger Facility Charges ("PFCs") in the amounts in each of the Fiscal Years shown in the following table as "Available PFC Revenues," and determined that the Series 2008 Subordinate Bonds and Series 2009 Subordinate Bonds will be secured by such Available PFC Revenues. The County is not required to increase the amount of Available PFC Revenues upon the issuance or incurrence of any additional Obligations secured by Available PFC Revenues.

Fiscal Year Ending June 30	Passenger Facility Charges
2011	$22,005,931
2012	21,941,081
2013	21,939,794
2014	21,940,816
2015	21,942,737
2016	21,944,846

The Fourth Supplemental Indenture provides that the County will not reduce the amount of Available PFC Revenues designated in the Fourth Supplemental Indenture until after June 30, 2016 and the designation of Available PFC Revenues pursuant to the Fourth Supplemental Indenture will be irrevocable through and including June 30, 2016. The Fourth Supplemental Indenture further provides that, subject to the preceding sentence, notwithstanding any other provision of the Indenture, the County and the Trustee may amend the provisions of the Fourth Supplemental Indenture specifying the amount of Available PFC Revenues securing the Series 2009 Subordinate Bonds and the Series 2008 Subordinate Bonds, including to reduce (or eliminate completely) the amount of such Available PFC Revenues with respect to any Fiscal Year, without the consent of any Holder or Owner of any Obligation or any other Person (including any Credit Provider). The Indenture provides that at any time and from time to time the County may elect to use Available PFC Revenues securing the Series 2009 Subordinate Bonds and the Series 2008 Subordinate Bonds to secure any additional future Obligation. No consent from any Owner of any Obligation secured by Available PFC Revenues, or from any Credit Provider, is required as a condition to the issuance or incurrence of any future Obligations secured by Available PFC Revenues.

Debt service paid with Available PFC Revenues is not included in the calculation of the rate covenant set forth in the Indenture. Additionally, debt service on Obligations expected to be paid from irrevocably committed Available PFC Revenues is not included in the additional bonds tests set forth in the Indenture.

All Available PFC Revenues will be promptly deposited in the Available PFC Account established pursuant to the Indenture and held by the Trustee. Notwithstanding any other provision of the Indenture, the Available PFC Account and the Available PFC Revenues will secure on a pro rata pari passu basis all Obligations, whenever issued or incurred and whether Senior Obligations, Subordinate Obligations, or Junior Subordinate Obligations, that are specified in an applicable Supplemental Indenture or Issuing Instrument to be secured by the Available PFC Account and the Available PFC Revenues. The Available PFC Revenues do not secure the Series 2010 Senior Bonds. See "SUMMARY OF FINANCIAL OPERATIONS – Passenger Facilities Charges" for a discussion of certain matters relating to Available PFC Revenues.

Availability of Available Grant Revenues to Pay Debt Service With Respect to Series 2009 Subordinate Bonds

Pursuant to the Fourth Supplemental Indenture, the County has designated the Grant Funds in the amounts in each of the Fiscal Years shown in the following table as "Available Grant Revenues," and determined that the Series 2009 Subordinate Bonds will be secured by such Available Grant Revenues. "Grant Funds" means grants to be provided to the County by the United States or the State pursuant to a Letter of Intent in connection with Airport System facilities or projects, and which grants are permitted by the terms of such Letter of Intent to be used for the payment of Obligations. "Letter of Intent" means a written commitment to make grant payments to the County (which commitment may be subject to appropriations; see "INVESTMENT CONSIDERATIONS - Unavailability of, or Delay in, Anticipated Funding Sources") from the United States or any department or agency thereof, including the FAA and the Transportation Security Administration of the United States Department of Homeland Security, or from the State or any department or agency of the State. The County is not required to increase the amount of Available Grant Revenues upon the issuance or incurrence of any additional Obligations secured by Available Grant Revenues.

Fiscal Year Ending June 30	Available Grant Revenues
2011	$9,124,000
2012	8,171,000
2013	8,220,000
2014	8,271,000
2015	8,328,884

The Fourth Supplemental Indenture provides that the County will not reduce the amount of Available Grant Revenues designated in the Fourth Supplemental Indenture until after June 30, 2015 and the designation of Available Grant Revenues pursuant to the Fourth Supplemental Indenture will be irrevocable through and including June 30, 2015. The Fourth Supplemental Indenture further provides that, subject to the preceding sentence, notwithstanding any other provision of the Indenture, the County and the Trustee may amend the provisions of the Fourth Supplemental Indenture specifying the amount of Available Grant Revenues securing the Series 2009 Subordinate Bonds, including to reduce (or eliminate completely) the amount of such Available Grant Revenues with respect to any Fiscal Year, without the consent of any Holder or Owner of any Obligation or any other Person (including any Credit Provider). The Available Grant Revenues currently do not secure any other Obligations. However, the Indenture provides that at any time and from time to time the County may elect to use Available Grant Revenues securing the Series 2009 Subordinate Bonds to secure any additional future Obligation. No consent from any Owner of any Obligation (including Owners of Series 2009 Subordinate Bonds) secured by Available Grant Revenues, or from any Credit Provider, is required as a condition to the issuance or incurrence of any future Obligations secured by Available Grant Revenues. The County is not required to increase the amount of Available Grant Revenues upon the issuance or incurrence of any additional Obligations secured by Available Grant Revenues.

Debt service paid with Available Grant Revenues is not included in the calculation of the rate covenant set forth in the Indenture. Additionally, debt service on Obligations expected to be paid from irrevocably committed Available Grant Revenues is not included in the additional bonds tests set forth in the Indenture.

All Available Grant Revenues will be promptly deposited in the Available Grant Account established pursuant to the Indenture and held by the Trustee. Notwithstanding any other provision of the Indenture, the Available Grant Account and the Available Grant Revenues will secure on a pro rata pari passu basis all Obligations, whenever issued or incurred and whether Senior Obligations, Subordinate Obligations, or Junior Subordinate Obligations, that are specified in an applicable Supplemental Indenture or Issuing Instrument to be secured by the Available Grant Account and the Available Grant Revenues. The Available Grant Revenues do not secure the Series 2010 Senior Bonds. See "SUMMARY OF FINANCIAL OPERATIONS – AIP Grants" for a discussion of certain matters relating to Available Grant Revenues.

Senior Debt Service Reserve Fund

The Indenture provides that the Series 2010 Senior Bonds will be secured by a Senior Debt Service Reserve Fund established pursuant to the Indenture and held by the Trustee. The Senior Debt Service Reserve Fund also secures any Participating Senior Bonds. "Participating Senior Bonds" are defined in the Indenture as all Series of Senior Bonds except those which are determined by the County pursuant to a Supplemental Indenture not to be secured by the Senior Debt Service Reserve Fund. The Series 2008 Senior Bonds, the Series 2009 Senior Bonds and the Series 2010 Senior Bonds are Participating Senior Bonds.

If on the Business Day immediately preceding an Interest Payment Date for the Series 2010 Senior Bonds, the Series 2009 Senior Bonds, the Series 2008 Senior Bonds and any other Participating Senior Bonds, or any other date on which any principal or interest on the Outstanding Participating Senior Bonds is due, after applying amounts in the Senior Debt Service Fund ratably (based on the amounts due) to the payment of the principal and interest then due with respect to all Outstanding Senior Bonds, the amount in the Senior Debt Service Fund available for payment of the principal and interest then due with respect to all Outstanding Participating Senior Bonds is less than the amount due on such date, the Trustee will apply amounts in the Senior Debt Service Reserve Fund ratably (based on amounts due) to the extent necessary to make good the deficiency for the principal and interest then due with respect to the Outstanding Participating Senior Bonds. The Indenture requires the Senior Debt Service Reserve Fund to be maintained at the Senior Debt Service Reserve Requirement (defined below). Upon issuance of the Series 2010 Senior Bonds, the Senior Debt Service Reserve Requirement will equal $53,566,584.26 which will be satisfied by the deposit into the Senior Debt Service Reserve Fund of a portion of the proceeds of the Series 2010 Senior Bonds and the Series 2009 Senior Bonds and the 2008 Senior Reserve Policy. (Prior to the issuance of the Series 2010 Senior Bonds, the 2008 Senior Reserve Policy constitutes approximately 79% of the Senior Debt Service Reserve Requirement. Upon issuance of the Series 2010 Senior Bonds, the 2008 Senior Reserve Policy is expected to constitute approximately 66% of the Senior Debt Service Reserve Requirement.)

With respect to the Senior Debt Service Reserve Fund, "Senior Debt Service Reserve Requirement" means, as of any date of calculation, an amount equal to the least of (a) 10% of the initial offering price to the public of the Participating Senior Bonds as determined under the Code, or (b) the greatest amount of Bond Debt Service for the Participating Senior Bonds in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Participating Senior Bond is due, or (c) 125% of the sum of the Bond Debt Service for the Participating Senior Bonds for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the issuance of any Participating Senior Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service for the Participating Senior Bonds is due, divided by the number of such Fiscal Years, all as computed and determined by the County and specified in writing to the Trustee; provided, however that in determining Bond Debt Service with respect to any Participating Senior Bonds that constitute Variable Rate Obligations, the interest rate on such Participating Senior Bonds for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Participating Senior Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Participating Senior Bonds shall have been Outstanding (or if such Participating Senior Bonds that constitute Variable Rate Obligations have not yet been issued, then the interest rate on such Participating Senior Bonds shall be assumed to be equal to 110% of the average SIFMA Index during the last 12 months ending with the month preceding the date of calculation).

Upon implementation of the amendments to the Master Indenture as described above under "INTRODUCTION – Certain Amendments to the Master Indenture" the definition of "Bond Debt Service" will be modified as described in APPENDIX D –"SUMMARY OF THE INDENTURE – CERTAIN DEFINITIONS."

The Indenture permits the County to satisfy the Senior Debt Service Reserve Requirement by depositing in the Senior Debt Service Reserve Fund, in lieu of cash, a Reserve Guaranty or Reserve Guaranties in an aggregate amount equal to the difference between the applicable Senior Debt Service Reserve Requirement and the sums, if any, then on deposit in the Senior Debt Service Reserve Fund or being deposited in the Senior Debt Service Reserve Fund concurrently with such Reserve Guaranty or Guaranties. See APPENDIX D – "SUMMARY OF THE INDENTURE – THE MASTER INDENTURE– Establishment and Application of Funds – Senior Debt Service Reserve Fund."

Under the Indenture, all cash and investments in the Senior Debt Service Reserve Fund must be used for payment of debt service on Participating Senior Bonds before any drawing may be made on the 2008 Senior Reserve Policy or any other Reserve Guaranty credited to the Senior Debt Service Reserve Fund in lieu of cash. Draws on all Reserve Guaranties credited to the Senior Debt Service Reserve Fund (including the 2008 Senior Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Senior Debt Service Reserve Fund.

The 2008 Senior Reserve Policy provides that the 2008 Senior Reserve Policy Limit (defined below) will automatically and irrevocably be reduced from time to time by the amount of each reduction in the Senior Debt Service Reserve Requirement. The 2008 Senior Reserve Policy will terminate on the earlier of July 1, 2041 and the date that no Series 2008 Senior Bonds are Outstanding. The 2008 Senior Reserve Policy Limit shall be the dollar amount of the Senior Debt Service Reserve Requirement up to a maximum of $35,562,012.50.

As described above, the Indenture provides that the Senior Debt Service Reserve Fund will secure payment of principal of and interest on all Participating Senior Bonds (including the Series 2008 Senior Bonds, the Series 2009 Senior Bonds and the Series 2010 Senior Bonds). In addition to the Series 2008 Senior Bonds, the Series 2009 Senior Bonds and the Series 2010 Senior Bonds, additional Participating Senior Bonds secured by the Senior Debt Service Reserve Fund may be issued from time to time upon compliance with the terms of the Indenture. See "—Additional Senior Obligations" below.

The Indenture also permits the County to establish separate Senior Series Debt Service Reserve Funds upon the issuance of additional Senior Bonds that are not Participating Senior Bonds and to establish reserve funds for other Senior Obligations. Such Senior Series Debt Service Reserve Funds and reserve funds for other Senior Obligations will not secure payment of principal, or Redemption Price, of or interest on the Series 2010 Senior Bonds. In addition, the Indenture permits reserve funds to be established for Subordinate Obligations and Junior Subordinate Obligations. Such reserve funds will not secure payment of principal, or Redemption Price, of or interest on the Series 2010 Senior Bonds.

Subordinate Debt Service Reserve Fund

The Series 2008 Subordinate Bonds, the Series 2009 Subordinate Bonds and any other Participating Subordinate Bonds are secured by a Subordinate Debt Service Reserve Fund established pursuant to the Indenture and held by the Trustee. "Participating Subordinate Bonds" are defined in the Indenture as all Series of Subordinate Bonds except those which are determined by the County pursuant to a Supplemental Indenture not to be secured by the Subordinate Debt Service Reserve Fund. The Series 2009 Subordinate Bonds and the Series 2008 Subordinate Bonds constitute Participating Subordinate Bonds.

The Subordinate Debt Service Reserve Requirement is currently $29,465,119.

In connection with the issuance of the Series 2008 Subordinate Bonds, the County elected to satisfy the Subordinate Debt Service Reserve Requirement (as calculated on the date of issuance of the Series 2008 Subordinate Bonds) by utilizing the 2008 Subordinate Reserve Policy which was issued by the 2008 Reserve Policy Provider in the amount of $8,354,400.00 (which currently constitutes approximately 28% of the Subordinate Debt Service Reserve Requirement). The 2008 Subordinate Reserve Policy will terminate in 2026, prior to the final maturity of the Series 2009 Subordinate Bonds. At that time the County will be required to replenish the Subordinate Debt Service Reserve Fund in accordance with the requirements of the Indenture.

The Subordinate Debt Service Reserve Fund does not secure payment of principal, or Redemption Price, of or interest on the Series 2010 Senior Bonds or any other Senior Obligation, Junior Subordinate Obligation or Junior Obligation.

See "APPENDIX D – "SUMMARY OF THE INDENTURE – THE MASTER INDENTURE – Establishment and Application of Funds – Subordinate Debt Service Reserve Fund."

Additional Senior Obligations

The Series 2010 Senior Bonds are Senior Obligations under the Indenture. Under the Indenture, the County may, at any time and from time to time, issue any Additional Senior Obligations, provided:

(a) an Authorized County Representative or an Airport Consultant has provided to the Trustee a certificate stating that Net Revenues for either the most recent Fiscal Year for which audited financial statements of the Airport System are available or any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the month of issuance of the proposed Additional Senior Obligations were sufficient to satisfy the rate covenant set forth in the Indenture and described herein under "—Rate Covenant" for each of the next five full Fiscal Years following issuance of the Additional Senior Obligations, or each of the next two full Fiscal Years from the issuance of the Additional Senior Obligations during which there is no Capitalized Interest, whichever is later, including the Aggregate Adjusted Annual Debt Service during such Fiscal Years on such proposed Senior Obligations; or

(b) an Airport Consultant has provided to the Trustee a certificate stating that, based upon assumptions the Person signing the certificate deems reasonable, projected Net Revenues will be sufficient to satisfy the rate covenant set forth in the Indenture and described herein under "—Rate Covenant" for each of the next five full Fiscal Years following issuance of the Additional Senior Obligations, or each of the next two full Fiscal Years from issuance of the Additional Senior Obligations during which there is no Capitalized Interest, whichever is later, including the Aggregate Adjusted Annual Debt Service during such Fiscal Years on such proposed Senior Obligations.

The Indenture provides that, for purposes of (a) and (b) above, the Person signing the certificate required by such clause may assume that, in each relevant Fiscal Year, Accrued Debt Service for Outstanding Obligations will equal Aggregate Adjusted Annual Debt Service for such Fiscal Year.

Pursuant to the Indenture, for purposes of (a) above, the County will 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 Additional Senior Obligations but which, during the Fiscal Year or 12-month period utilized by the County for purposes of (a) above, 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 Fiscal Year or 12-month period under consideration, as determined by an Authorized County Representative.

Under the Indenture, for purposes of (b) above, in estimating Net Revenues, the Person signing the certificate required by such clause may take into account (1) Revenues from Capital Improvements 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 has been approved by the Board and will be in effect during the period for which the estimates are provided or (3) any other increases in Revenues which the Person signing the certificate believes to be a reasonable assumption for such period.

With respect to Operating Expenses of the County, the Person signing the certificate required by the provisions of the Indenture described in (b) above shall use such assumptions as such Person believes to be reasonable, taking into account (1) historical Operating Expenses of the County, (2) Operating Expenses associated with the Capital Improvements to be funded with the proceeds of the Additional Senior Obligations proposed to be issued and any other new Capital Improvements and Airport System facilities and (3) such other factors, including inflation and changing operations or policies of the County, as the Person signing such certificate believes to be appropriate. The Person signing the certificate required by the provisions of the Indenture described in (b) above shall include in such 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 Adjusted Annual Debt Service, which calculations may be based upon information provided by the County.

For purposes of preparing the certificate or certificates described above, the Authorized County Representative or Airport Consultant, as applicable, may rely upon financial statements prepared by the County 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 County 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) or (b) above shall be required if the proceeds of Additional Senior Obligations being issued will be used to pay Costs of completing the Construction of a Capital Improvement for which Senior Obligations have previously been issued and the principal amount of such Additional Senior Obligations being issued for completion purposes does not exceed an amount equal to 10% of the principal amount of the Senior Obligations originally issued for such Capital Improvement as shown in a written certificate of an Authorized County Representative and there is delivered to the Trustee (1) a certificate of an Authorized County Representative or an Airport Consultant stating that the nature and purpose of such Capital Improvement has not materially changed and that the proceeds of such Additional Senior Obligations plus any other moneys in the Construction Fund available to pay the Costs of such Capital Improvement are expected to be sufficient to pay the Costs of competing the Construction of the Capital Improvement, and (2) a certificate of an Authorized County Representative to the effect that (A) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Capital Improvement) of the Senior Obligations issued to finance such Capital Improvement have been or will be used to pay Costs of the Capital Improvement, indicating the amount of such proceeds and investment earnings; and (B) the then estimated Costs of the Construction of the Capital Improvement.

The County is utilizing the provisions of (b) above to satisfy the requirements of the Indenture with respect to the issuance of the Series 2010 Senior Bonds.

Without satisfying the requirements of the Indenture described above under this subheading "—Additional Senior Obligations," the County may, at any time and from time to time, issue or enter into an Obligation which is a Qualified Swap, the Net Payments under which shall constitute Senior Obligations, provided that at the time of entering into such Swap (1) the Qualified Swap shall relate to a principal amount of Outstanding Senior Obligations or Senior Obligations issued or expected to be issued; (2) the notional amount of the Qualified Swap shall not exceed the principal amount of the related Senior

Obligations or Senior Obligations expected to be issued; and (3) the counterparty shall be a Qualified Counterparty.

The County may, at any time and from time to time, issue Refunding Senior Obligations provided that either: (1) the requirements of the Indenture, with respect to issuing Additional Senior Obligations generally, described above under this subheading "—Additional Senior Obligations," are satisfied upon the issuance of such Refunding Senior Obligations and the application of the proceeds thereof; or (2) the Trustee has received a certificate of an Authorized County Representative certifying that the Aggregate Adjusted Annual Debt Service for all Obligations to be Outstanding after the issuance of such Refunding Senior Obligations shall not exceed the Aggregate Adjusted Annual Debt Service for all Obligations Outstanding immediately prior to the issuance of such Refunding Senior Obligations in each Test Year.

Without satisfying the requirements of the Indenture described above under this subheading "—Additional Senior Obligations," the County may, at any time and from time to time, enter into Credit Support Agreements or otherwise become obligated for Reimbursement Obligations with respect to Senior Obligations.

All Senior Obligations shall be senior in payment and priority to all Subordinate Obligations and Junior Subordinate Obligations, shall be paid with the priority provided in the Indenture, and shall be entitled to all of the benefits provided to Senior Obligations by the terms of the Indenture and any applicable Issuing Instrument.

Upon implementation of the amendments to the Master Indenture as described above under the heading "INTRODUCTION – Certain Amendments to the Master Indenture" the following paragraph will be added to the Master Indenture:

For purposes of complying with any of the tests relating to the issuance of Additional Senior Obligations described above, (1) any calculation of Aggregate Adjusted Annual Debt Service with respect to specified Obligations for any period of time shall be reduced by the amount of any Subsidy that the County expects to receive during such period of time relating to or in connection with such Obligations and (2) any calculation of Net Revenues for any period of time shall be reduced by the amount of any Subsidy received or expected to be received by the County with respect to or in connection with the specified Obligations during such period of time.

A new definition of "Subsidy" will also be added to the Master Indenture in connection with such amendments. See APPENDIX D – "SUMMARY OF THE INDENTURE – CERTAIN DEFINITIONS."

As described above under "—Released Revenues," upon compliance with the terms of the Indenture, the County may cause a category of income, receipts or other revenues then included in the definition of "Revenues" to be excluded from such definition for all purposes of the Indenture. The Indenture provides that Debt Service paid from such Released Revenues, or to be paid from any money other than Revenues (including Released Revenues) deposited with the Trustee or another Fiduciary exclusively for such purpose, is excluded from the calculation of Aggregate Adjusted Annual Debt Service under the Indenture and thus, Debt Service paid from such Released Revenues or to be paid from any money other than Revenues (including Released Revenues) deposited with the Trustee or another Fiduciary exclusively for such purpose, is not taken into account with respect to the tests contained in the Indenture and described under this subheading "—Additional Senior Obligations." See also "—Rate Covenant" below.

The Indenture also permits the County, upon the terms described below under "—Rate Covenant," to specify that certain Obligations will be payable from and secured by Available Revenues. Under the Indenture, if Available Revenues or moneys other than Revenues have been irrevocably committed pursuant to a Supplemental Indenture or Issuing Instrument for the purpose of paying Debt Service on specified Obligations, then the Debt Service to be paid from such amounts is excluded from the calculation of Aggregate Adjusted Annual Debt Service under the Indenture and thus such Debt Service is not taken into account with respect to the tests contained in the Indenture and described under this subheading "—Additional Senior Obligations."

In addition, as described above under "—Pledge of Trust Estate; Net Revenues," the Indenture permits the County to transfer amounts from the Capital Improvement Fund to the Revenue Fund in which case, the amounts so transferred will be deemed to be Revenues for the purposes of all tests under the Indenture, including the tests described above under this subheading "—Additional Senior Obligations." Such actual transfers of amounts in the Capital Improvement Fund to the Revenue Fund are not subject to the limitations on "Transfers" described below under "—Rate Covenant."

Existing Senior Obligations

The Series 2008 Senior Bonds and Series 2009 Senior Bonds, which are currently outstanding in the aggregate principal amount $678,510,000, constitute Senior Obligations pursuant to the Indenture.

Additional Subordinate Obligations

Under the Indenture, the County may, at any time and from time to time, issue any Additional Subordinate Obligations upon compliance with the terms of the Indenture. See "APPENDIX D – SUMMARY OF THE INDENTURE – Authorization and Issuance of Bonds and Obligations – Conditions to Issuance of Subordinate Obligations."

Existing Subordinate Obligations

The Series 2008 Subordinate Bonds and Series 2009 Subordinate Bonds, which are currently outstanding in the aggregate principal amount of $351,745,000, constitute Subordinate Obligations pursuant to the Indenture.

Junior Subordinate Obligations, Junior Obligations and Special Facility Obligations

Under the Indenture, the County may, at any time and from time to time, issue Junior Subordinate Obligations, Junior Obligations or Special Facility Obligations upon compliance with the terms of the Indenture. See APPENDIX D– "SUMMARY OF THE INDENTURE – THE MASTER INDENTURE – Authorization and Issuance of Bonds and Obligations – Conditions to Issuance of Junior Subordinate Obligations" and "—Special Facilities and Special Facility Obligations."

The Indenture permits the County to issue obligations payable from and secured by the Net Revenues and amounts in the Revenue Fund if such obligations are subordinate in payment and priority to the Junior Subordinate Obligations, the Subordinate Obligations and the Senior Obligations (such obligations constituting "Junior Obligations" pursuant to the Indenture). See APPENDIX D – "SUMMARY OF THE INDENTURE – THE MASTER INDENTURE – Covenants and Obligations of the County – Creation of Prior Liens."

The County has previously issued its Variable Rate Demand Special Facilities Airport Revenue Bonds, Series 1998 (The Cessna Aircraft Company Project) (the "Cessna Special Facilities Bonds"). The Cessna Special Facilities Bonds are secured by contractual payments payable to the County by the owner of the financed facility, and are not secured by or payable from Revenues. The Cessna Special Facilities Bonds are a Special Facility Obligation under the Indenture.

Rate Covenant

Pursuant to the Indenture the County covenants to fulfill the following requirements:

(a) The County will, while any of the Obligations remain Outstanding, establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the ownership and operation of the Airport System and for services rendered in connection therewith, so that Net Revenues in each Fiscal Year will be at least equal to 100% of the aggregate amount of transfers required to be made by the County pursuant to the provisions of the Indenture described herein in paragraphs (b) through (k) under the subheading "—Flow of Airport System Revenues" above during such Fiscal Year.

(b) (i) The County further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the ownership and operation of the Airport System and for services rendered in connection therewith, so that for each Fiscal Year the Net Revenues for such Fiscal Year plus any Transfer will be equal to at least 125% of Accrued Debt Service on all Outstanding Senior Obligations for such Fiscal Year. For purposes of the provisions of the Indenture described in this subparagraph (b)(i), the amount of any Transfer taken into account will not exceed 25% of the Accrued Debt Service on the Outstanding Senior Obligations for such Fiscal Year.

(ii) The County further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the ownership and operation of the Airport System and for services rendered in connection therewith, so that for each Fiscal Year the Net Revenues for such Fiscal Year plus any Transfer will be equal to at least 110% of Accrued Debt Service on all Outstanding Senior Obligations and Subordinate Obligations for such Fiscal Year. For purposes of the provisions of the Indenture described in this subparagraph (b)(ii), the amount of any Transfer taken into account shall not exceed 10% of the Accrued Debt Service on the Outstanding Senior Obligations and Subordinate Obligations for such Fiscal Year.

(iii) The County further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the ownership and operation of the Airport System and for services rendered in connection therewith, so that for each Fiscal Year the Net Revenues for such Fiscal Year will be equal to at least 100% of Accrued Debt Service on all Outstanding Senior Obligations, Subordinate Obligations and Junior Subordinate Obligations for such Fiscal Year.

(iv) Upon implementation of the amendments to the Master Indenture as described above under the heading "INTRODUCTION – Certain Amendments to the Master Indenture" the following addition will be made to the Master Indenture: *For purposes of complying with any of the requirements described in subparagraph (b), (1) any calculation of Accrued Debt Service with respect to specified Obligations for any period of time shall be reduced by the amount of any Subsidy that the County received during such period of time relating to or in connection with such Obligations and (2) any calculation of Net Revenues for any period of time shall be reduced by the amount of any Subsidy received by the County with respect to or in connection with the specified Obligations during such period of time.* In addition, a new definition of "Subsidy" will be added to the Master Indenture in connection with such amendments. See APPENDIX D – "SUMMARY OF THE INDENTURE – CERTAIN DEFINITIONS."

(c) The County covenants that if Net Revenues in any Fiscal Year are less than the amount specified by the provisions of the Indenture described in paragraph (a) above, or that if Net Revenues together with any Transfer in any Fiscal Year are less than the amount specified by the provisions of the Indenture described in paragraph (b) above, the County will retain and direct an Airport Consultant to make recommendations as to the revision of the County's business operations and its schedule of rates, tolls, fees, rentals and charges for the use of the Airport System and for services rendered by the County in connection with the Airport System. After receiving such recommendations, the County shall, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the County, take all lawful measures to comply with the recommendations of the Airport Consultant as to revisions of the County's business operations and schedule of rates, tolls, fees, rentals and charges as may be necessary to produce Net Revenues, together with any Transfer (only as applied pursuant to the provisions of the Indenture described in paragraph (b) above), in the amount specified in paragraph (a) or (b) above in the next Fiscal Year.

In the event that Net Revenues, together with any Transfer (only as applied pursuant to the provisions of the Indenture described in paragraph (b) above), for any Fiscal Year (referred to in this paragraph as “Fiscal Year One”) are less than the amount specified by the provisions of the Indenture described in paragraph (a) or (b) above but, prior to or during the next succeeding Fiscal Year (referred to in this paragraph as “Fiscal Year Two”), the County has taken all lawful measures to comply with the recommendations of the Airport Consultant as to revisions of the County’s business operations and schedule of rates, tolls, fees, rentals and charges as required by the provisions of the Indenture described in paragraph (c) above, such deficiency in Net Revenues for Fiscal Year One shall not constitute an Event of Default under the Indenture. Nevertheless, even if the measures required by the provisions of the Indenture described in paragraph (c) above to revise the schedule of rates, tolls, fees, rentals and charges have been taken by the County, in the event the Net Revenues in Fiscal Year Two (as evidenced by the audited financial statements of the County for such Fiscal Year), together with any Transfer (only as applied pursuant to the provisions of the Indenture described in paragraph (b) above), are less than the amount specified by the provisions of the Indenture described in paragraph (a) or (b) above, such deficiency in Net Revenues for Fiscal Year Two, as the second successive year of deficiencies in Net Revenues, shall, with the applicable notice, constitute an Event of Default under the Indenture.

As used in the Indenture, the term “Transfer” means with respect to a Fiscal Year (a) the amount in the Capital Improvement Fund on the last Business Day of such Fiscal Year plus (b) any amounts withdrawn from the Capital Improvement Fund during such Fiscal Year to pay Operating Expenses and to make any required payments or deposits to pay or secure the payment of Obligations less (c) any amounts credited to the Capital Improvement Fund from the Revenue Fund during such Fiscal Year.

As described above under “—Pledge of Trust Estate; Net Revenues,” the Indenture permits the County to transfer amounts from the Capital Improvement Fund to the Revenue Fund in which case the amounts so transferred will be deemed to be Revenues for the purposes of all tests under the Indenture, including the tests described above under this subheading “—Rate Covenant.” Such actual transfers of amounts in the Capital Improvement Fund to the Revenue Fund are not subject to the limitations on “Transfers” described above under this subheading “—Rate Covenant.”

In addition, as described above under “—Released Revenues,” upon compliance with the terms of the Indenture, the County may cause a category of income, receipts or other revenues then included in the definition of “Revenues” to be excluded from such definition for all purposes of the Indenture. The Indenture provides that Debt Service paid from such Released Revenues, or to be paid from any money other than Revenues (including Released Revenue) deposited with the Trustee or another Fiduciary exclusively for such purpose, is excluded from the calculation of Accrued Debt Service under the Indenture and thus, Debt Service paid from such Released Revenues or to be paid from any money other than Revenues (including Released Revenues) deposited with the Trustee or another Fiduciary exclusively for such purpose, is not taken into account with respect to the tests contained in the Indenture and described under this subheading “—Rate Covenant.”

The Indenture also provides that at any time and from time to time, the County and the Trustee, without the consent of the Owner of any Obligation and without the consent of any Credit Provider, may enter into a Supplemental Indenture or Issuing Instrument that (1) specifies the amount of Passenger Facility Charges that shall constitute Available PFC Revenues, the amount of Customer Facility Charges that shall constitute Available CFC Revenues or the amount of Grant Funds that shall constitute Available Grant Revenues during each Fiscal Year specified in such Supplemental Indenture or Issuing Instrument or (2) specifies Obligations that will be secured by Available Revenues. Under the Indenture, Debt Service paid from Available Revenues or moneys other than Revenues, including any investment earnings thereon, and Debt Service to be paid from Available Revenues including investment earnings thereon, deposited with the Trustee or another Fiduciary exclusively for such purpose, is excluded from the calculation of Accrued Debt Service under the Indenture and thus, Debt Service paid from such Available Revenues or moneys other than Revenues and Debt Service to be paid from Available Revenues or moneys other than Revenues deposited with the Trustee or another Fiduciary exclusively for such purpose is not taken into account with respect to the tests contained in the Indenture and described above under this subheading "—Rate Covenant."

The covenants of the County set forth in the Indenture and described in this caption are referred to herein as the "Rate Covenant."

Debt Service Schedule

The following table sets forth the Debt Service Schedule for the Series 2010 Senior Bonds, the Series 2008 and Series 2009 Senior Bonds, and the Series 2008 and Series 2009 Subordinate Bonds.

TABLE 1
DEBT SERVICE SCHEDULE

	Series 2008 and Series 2009		Series 2010			Series 2008 and Series 2009			
	Senior Bonds		Senior Bonds		Total Senior Obligation Debt Service	Subordinate Bonds		Total Subordinate Obligation Debt Service	Total Debt Service
Year Ending July 1	Principal	Interest	Principal	Interest		Principal	Interest	Debt Service	
2011	$8,395,000	$34,883,624		$5,162,369	$48,440,993	$11,865,000	$19,264,931	$31,129,931	$79,570,924
2012	10,395,000	34,544,509	$1,000,000	6,073,375	52,012,884	11,375,000	18,737,081	30,112,081	82,124,965
2013	10,540,000	34,133,699	1,400,000	6,053,375	52,127,074	11,930,000	18,229,794	30,159,794	82,286,868
2014	8,420,000	33,682,696	1,300,000	6,025,375	49,428,071	12,520,000	17,691,816	30,211,816	79,639,888
2015	11,590,000	33,345,526	2,630,000	5,999,375	53,564,901	13,180,000	17,091,621	30,271,621	83,836,523
2016	12,130,000	32,808,926	2,690,000	5,933,625	53,562,551	5,490,000	16,454,846	21,944,846	75,507,398
2017	12,680,000	32,260,421	2,770,000	5,852,925	53,563,346	5,740,000	16,205,496	21,945,496	75,508,843
2018	13,275,000	31,663,684	2,865,000	5,762,900	53,566,584	6,000,000	15,941,696	21,941,696	75,508,280
2019	13,930,000	31,009,304	2,975,000	5,648,300	53,562,604	6,280,000	15,662,126	21,942,126	75,504,730
2020	14,600,000	30,339,379	3,125,000	5,499,550	53,563,929	6,585,000	15,358,864	21,943,864	75,507,793
2021	15,345,000	29,592,204	3,260,000	5,364,550	53,561,754	6,905,000	15,038,093	21,943,093	75,504,846
2022	16,130,000	28,807,591	3,425,000	5,201,550	53,564,141	7,245,000	14,696,855	21,941,855	75,505,996
2023	16,955,000	27,983,541	3,595,000	5,030,300	53,563,841	7,605,000	14,336,509	21,941,509	75,505,350
2024	17,820,000	27,118,091	3,765,000	4,860,500	53,563,591	8,000,000	13,942,856	21,942,856	75,506,448
2025	18,730,000	26,209,354	3,950,000	4,672,250	53,561,604	8,415,000	13,527,319	21,942,319	75,503,923
2026	19,680,000	25,260,273	4,150,000	4,474,750	53,565,023	8,840,000	13,102,619	21,942,619	75,507,641
2027	20,685,000	24,252,673	4,360,000	4,267,250	53,564,923	9,300,000	12,641,794	21,941,794	75,506,716
2028	21,825,000	23,110,655	4,580,000	4,049,250	53,564,905	9,815,000	12,130,294	21,945,294	75,510,199
2029	23,035,000	21,903,868	4,800,000	3,823,000	53,561,868	10,355,000	11,590,469	21,945,469	75,507,336
2030	24,240,000	20,695,618	5,045,000	3,583,000	53,563,618	10,935,000	11,008,000	21,943,000	75,506,618
2031	25,515,000	19,424,068	5,295,000	3,330,750	53,564,818	11,590,000	10,351,900	21,941,900	75,506,718
2032	26,850,000	18,085,530	5,565,000	3,066,000	53,566,530	12,285,000	9,656,500	21,941,500	75,508,030
2033	28,260,000	16,676,863	5,840,000	2,787,750	53,564,613	13,025,000	8,919,400	21,944,400	75,509,013
2034	29,760,000	15,179,613	6,130,000	2,495,750	53,565,363	13,805,000	8,137,900	21,942,900	75,508,263
2035	31,335,000	13,602,863	6,435,000	2,189,250	53,562,113	14,635,000	7,309,600	21,944,600	75,506,713
2036	33,010,000	11,927,500	6,760,000	1,867,500	53,565,000	15,510,000	6,431,500	21,941,500	75,506,500
2037	34,775,000	10,162,450	7,095,000	1,529,500	53,561,950	16,445,000	5,500,900	21,945,900	75,507,850
2038	36,635,000	8,302,913	7,450,000	1,174,750	53,562,663	17,410,000	4,534,775	21,944,775	75,507,438
2039	38,595,000	6,343,775	7,825,000	802,250	53,566,025	18,430,000	3,511,963	21,941,963	75,507,988
2040	40,640,000	4,294,550	8,220,000	411,000	53,565,550	19,530,000	2,413,800	21,943,800	75,509,350
2041	42,735,000	2,201,350			44,936,350	20,700,000	1,242,000	21,942,000	66,878,350
Totals:	$678,510,000	$709,807,106	$128,300,000	$122,992,069	$1,639,609,175	$351,745,000	$370,663,316	$722,408,316	$2,362,017,492

THE AIRPORT SYSTEM

General

The Airport System is owned by the County (except for Mather Airport and Executive Airport, which are leased as described herein) and currently consists of International Airport, Mather Airport, Executive Airport, and Franklin Field. International Airport is located about 12 miles northwest of downtown Sacramento and is the principal air carrier airport serving the County and a wide region surrounding the County. Mather Airport is located 12 miles east of downtown Sacramento and is a general aviation airport emphasizing civilian cargo operations. Executive Airport is located about 5 miles south of downtown Sacramento, and is a general aviation airport with no scheduled airline service. Franklin Field is located about 15 miles south of downtown Sacramento and is a general aviation airstrip used primarily for training.

Sacramento International Airport

International Airport is classified as a medium air traffic hub by the FAA. According to U.S. Department of Transportation data, International Airport was the nation's 37th busiest airport during the 12 months ended June 30, 2009 in terms of enplaned passengers. In Fiscal Year 2008-09, 4,603,182 passengers were enplaned at International Airport, a decrease of 13.1% from the prior Fiscal Year. As described herein, the number of enplaned passengers decreased 3.4% in Fiscal Year 2009-10, as compared to Fiscal Year 2008-09. In Fiscal Year 2008-09, International Airport was the fifth busiest airport in California in terms of total passengers, behind Los Angeles, San Francisco, San Diego and Oakland. International Airport primarily serves origin-destination passengers (i.e., passengers beginning or ending their journeys at International Airport). In Fiscal Year 2008-09, the County estimates that origin-destination passengers accounted for approximately 96.2% of passengers using International Airport. International Airport is served by 14 scheduled passenger airlines, including three low-cost carriers and one foreign-flag airline, which together provided 143 daily non-stop departures from International Airport as of July 2010. International Airport is also served by two all-cargo airlines. International Airport occupies approximately 6,000 acres of land and has two 8,600-foot-long parallel runways, 16R-34L and 16L-34R. Runway 16R is equipped with a Category III Instrument Landing System ("CAT III ILS"). CAT III ILS is a ground-based precision instrument approach system which provides properly-equipped aircraft with visual and electronic navigational aids to help a pilot safely land with minimal outside visibility.

Terminal A provides 13 gates, Terminal B provides 12 gates and the Interim International Building provides one gate, for a total of 26 gates. Terminal B, which opened in 1967, is over 40 years old and cannot reasonably or economically be modernized to meet future needs. The 13-gate Terminal A was placed into service in October 1998 and doubled the number of Airport gates. Terminal A currently serves Delta Air Lines, Hawaiian Airlines, Southwest Airlines, and USAirways. Terminal B currently serves Alaska Airlines, American Airlines, Continental Airlines, Horizon Air, JetBlue Airways, Mexicana de Aviacion (for ticketing activities) and United Airlines/United Express. All 26 gates can accommodate B737/A320 aircraft, three can accommodate B757 aircraft, and two can accommodate widebody aircraft. The Interim International Building serves Mexicana. The Terminal A parking garage opened in 2004 with six floors and 5,300 parking spaces.

Other Airports

Mather Airport. Mather Airport was originally a United States Air Force base. In March 1995, the County executed a 55-year lease with the U.S. Air Force authorizing the use of 2,875 acres of the former Air Force Base as a civilian airport. Mather Airport reopened to aviation uses on May 5, 1995 and is now operated as part of the Airport System, serving general aviation and cargo users. Mather Airport is a reliever airport for International Airport. Mather Airport has two runways (4R-22L, at 11,300 feet, and 4L-22R, at 6,040 feet), an aircraft parking apron, and various cargo and other buildings. Mather Airport is currently served with regularly scheduled service by one all cargo carrier – UPS. In Fiscal Year 2009-10, approximately 37% of all cargo handled at the Airport System was handled at Mather Airport. Mather Airport offers cargo carriers a longer runway, and more office and warehouse space, while freeing up aircraft ramp space at International Airport to accommodate passenger airline growth. The County does not intend for Mather Airport to be used for scheduled passenger airline service.

In November 2008, the County adopted an emergency plan, which would move commercial operations from International Airport to Mather Airport should the Natomas area flood. As part of the emergency plan, in the event of an emergency affecting operations at International Airport, the County would seek an operating certificate (a Part 139 certificate) from the FAA that would allow Mather Airport to serve scheduled and non-scheduled air carrier aircraft with more than 30 seats.

Executive Airport. Executive Airport is a designated reliever airport for International Airport and has tie down and hangar facilities to accommodate 500 general aviation aircraft. In Fiscal Year 2008-09, 94,035 general aviation and military flight operations were performed at Executive Airport. Executive Airport is leased by the County from the City of Sacramento. The term of the lease is 25 years. The lease contains an "evergreen" clause, whereby it is automatically extended each year by an additional year (subject to the right of either party to avoid such extension).

Franklin Field. Franklin Field is also a general aviation airport and has tie down and hangar facilities to accommodate 12 general aviation aircraft.

McClellan Airport. McClellan Airport, about 10 miles northeast of downtown Sacramento, was closed as a military installation in July 2001. McClellan Airport is not part of the Airport System, and the operation and development of McClellan Airport is not a financial obligation of the Airport System. The County does not intend to include operation of McClellan Airport in the Airport System in the future.

Insurance

The County maintains an "All Risk" pooled blanket property insurance program with limits in the aggregate amount of $2.260 billion. Flood coverage limits are at $2.260 billion. These coverages apply to all County-owned buildings and personal property, including the Airport System. The All Risk coverage carries a $50,000 deductible per occurrence. The Flood coverage carries a deductible of 2% of insured value subject to a minimum of $100,000. In addition, sub-limits on the property program include: an Earthquake coverage sub-limit of $25 million with a deductible of 5% of insured value (per unit) subject to a minimum of $100,000; a sub-limit of $200 million applies to Sabotage and Terrorism; and Boiler and Machinery coverage has a $100 million limit for any one loss subject to a $5,000 deductible.

Property coverage is placed through the California State Association of Counties – Excess Insurance Authority ("CSAC-EIA") Property Program. The CSAC-EIA Property Program utilizes risk-sharing pools and excess insurance policies to provide member coverage. In addition to providing coverage for the Airport System, the County, and various entities related to the County, the insurance policies provided by CSAC-EIA described in the first paragraph also provide coverage for other government entities. In the event of a single covered event which affects the County and other government entities participating in the CSAC-EIA program, the limits set forth above would apply with respect to all of the claims made, and therefore there can be no assurance that insurance proceeds in the amounts described above would actually be available to the Airport System.

The County carries a separate $500 million per occurrence airport liability policy on the Airport System which covers general liability including a $15 million sublimit for War Risk/Extended Coverage, automobile liability and hangarkeepers liability and is subject to a deductible of $25,000 per occurrence. This policy provides liability coverage at International Airport, Mather Airport, Executive Airport and Franklin Field. The Airport System Liability insurance policy is placed through the CSAC-EIA Aviation Program. The County is self-insured for Workers' Compensation and carries an Excess Workers'

Compensation policy placed through the CSAC-EIA with statutory limits and Employers' Liability limit of $5 million, both limits are in excess of a $2 million Self-Insured Retention.

Internal service funds are used to account for the County's self-insurance activities (which relate primarily to liability claims under the policies described above). It is the County's policy to provide in each fiscal year, by charge to affected operating funds, amounts sufficient to cover the estimated liabilities incurred during such year for self-insured claims. Charges to operating funds are recorded as expenditures of such funds and as revenues to the internal service funds relating to self-insurance. As a result of a recent accounting change, the County's self-insurance program is currently treated as an unfunded liability of the County. Deductibles and uninsured losses under the Property coverage are the responsibility of the Airport System.

With respect to the TMP, the County has elected to utilize an Owners Controlled Insurance Program ("OCIP") which is separate from the County's insurance programs. The OCIP provides liability limits of $200 million per occurrence subject to a $250,000 per occurrence deductible; workers' compensation with statutory limits subject to a $250,000 per occurrence deductible; and employers' liability with $1 million limit subject to a $250,000 per occurrence deductible. The liability and workers' compensation coverages are written through various programs with AIG. The County also has owners' protective professional liability with a $10 million each claim limit subject to a $250,000 per claim deductible written through Zurich. Finally, the County has a builders' risk policy covering the project property while it is under construction. The All Risk limits are $400 million. The All Risk coverage carries a $100,000 deductible per occurrence. Flood coverage limits are at $50 million. The Flood coverage carries a deductible of 5% of total project value at risk at the time of loss subject to a maximum of $15,000,000 and subject to a minimum of $1,000,000 per occurrence. The builders' risk policy is written through Allianz.

Capital Improvement Plan

The County has developed a multi-year CIP for the Airport System for Fiscal Years 2009-2015 that totals approximately $1.23 billion. The CIP is consistent with the International Airport Master Plan, which the County adopted in 2007 as the major planning document with respect to International Airport. The TMP represents the largest project in the CIP with an estimated cost of $1.04 billion. As described herein, the TMP reflects reductions in the scope of the original plan which the County has made in response to the effect of current economic conditions on Airport System operations and financial projections. See "AIRPORT SYSTEM CAPITAL IMPROVEMENT PROGRAM." The Airport Consultant's Report contains a summary of the CIP and the TMP, as well as expected funding sources, which include a portion of the proceeds of the Series 2010 Senior Bonds, the Series 2009 Bonds and the Series 2008 Bonds, internally generated cash flow, Passenger Facility Charges and state and federal grants. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for a description of the financing plan for the CIP.

Environmental Regulations

Operation of the Airport System is subject to various local, state, and federal regulations. The following is a discussion of certain regulatory requirements.

CEQA/NEPA. All Airport System development is subject to the requirements for environmental studies and appropriate clearances under the California Environmental Quality Act ("CEQA") and, where federal funding or other federal actions such as approving amendments to the Airport Layout Plan ("ALP") are involved, to the requirements of the National Environmental Policy Act ("NEPA"). The FAA acts as the "lead agency" for NEPA review of airport development projects.

The final environmental impact report ("Final EIR") for the International Airport Master Plan Update was certified by the Board of Supervisors pursuant to the requirements of CEQA on August 7, 2007, at which time the Board of Supervisors also approved the CEQA Mitigation Monitoring and Reporting Program ("MMRP"), Findings of Fact and Statement of Overriding Considerations, and the Master Plan Update which includes the TMP. The statute of limitations under CEQA has expired, so future litigation challenging the legal adequacy of the Final EIR and the Board's approval of the Master Plan Update is barred.

The TMP also requires compliance with NEPA because of the existence of federal funding for portions of the TMP and modifications to the ALP. An Environmental Assessment ("EA") was completed pursuant to NEPA in March 2008. A Finding of No Significant Impact and Record of Decision ("FONSI/ROD") for the EA was issued by the FAA on April 7, 2008.

The United States Army Corps of Engineers ("Corps") has determined that the TMP does not require a permit under Section 404 of the Clean Water Act. The United States Fish and Wildlife Service (Service) issued a Biological Opinion and incidental take permit for the TMP, which concludes that it is not likely to result in jeopardy to any threatened or endangered species.

Land Use Compatibility Measures. Since the late 1960s, the County has undertaken a series of land use compatibility measures to minimize the effects of aircraft noise on neighborhoods surrounding the airports in the Airport System, and to provide airport approach zones. These measures have included land acquisition, navigation easements, and use of planning and building code measures to increase compatibility with airport operations. As required by the FAA, a Wildlife Hazard Management Plan ("WHMP") was adopted in 1992 for the purpose of describing Airport System practices and policies for reducing wildlife hazards on and near International Airport. The WHMP has been amended several times, most recently in March 2007.

Clean Water Act. Under the Federal Clean Water Act and Environmental Protection Agency regulations, the County is required to obtain a non-point source discharge permit. In 1992 the County filed a Notice of Intent, along with a Storm Water Pollution Prevention Plan, which covers all Airport System facilities, with the California Water Quality Control Board. Under the implementing regulations, the filing of the Notice of Intent brought the County under the Statewide General Industrial Activities Storm Water Discharge permit. An Annual Report, which is due to the State Water Quality Control Board on July 1 of each year, requires the County to update the Storm Water Pollution Prevention Plan. The County is currently in compliance with this requirement.

MANAGEMENT OF THE AIRPORT SYSTEM

Background

The County's Board of Supervisors oversees the operation of the Airport System. The County was incorporated in 1850 as one of the original 27 counties of the State of California. The County's largest city, Sacramento, is the seat of government for the State of California and also serves as the County seat. The County has a charter form of government. The Board of Supervisors is composed of five members elected to serve staggered four-year terms. A County Executive, appointed by the Board of Supervisors, manages the day-to-day business of the County.

Administration

The Airport System is operated by the County as a self-supporting enterprise and is administered by the Director of Airports. The Director of Airports reports to the County Executive. The finances of the Airport System are reviewed by the County Chief Operations Officer in coordination with the County Department of Finance.

The principal officials of the County responsible for the management and operation of the Airport System are:

G. Hardy Acree. Mr. Acree is the Director of Airports for the County, responsible for the airports in the Airport System. Mr. Acree has over 30 years of experience in airport administration. A licensed pilot and accredited airport executive, Mr. Acree has a master's degree in business administration from Embry-Riddle Aeronautical University. He oversees 419 County employees at the Airport System and facilities that generate over $2.0 billion in economic impact to the region.

Lisa J. Stanton. Ms. Stanton is the Chief Administrative Officer for the Airport System. Ms. Stanton has over 20 years experience in airport administration, military base conversion and airport management consulting. She held consulting positions with three nationally recognized airport consulting firms. Ms. Stanton has a bachelor's degree, with distinction, in Business Administration from San Jose State University. Ms. Stanton oversees the accounting, business services, properties and business development, and information technology and telecommunication functions for the Airport System.

Michael La Pier. Mr. La Pier is the Chief Operating Officer for the Airport System. Mr. La Pier has over 29 years experience in airport administration. Mr. La Pier has a Business Administration degree from Rockford College. Mr. La Pier oversees the operations, maintenance and facilities, security, aircraft rescue firefighting and satellite airport functions for the Airport System. Mr. La Pier recently announced his resignation from the Airport System, to be effective September 3, 2010. Lisa Stanton will assume the duties of Chief Operating Officer until a permanent replacement is selected.

Amanda Thomas. Ms. Thomas is the Deputy Director of Finance and Administration for the Airport System. Ms. Thomas has over 10 years experience in airport administration and airport management consulting. Ms. Thomas has a bachelor's degree in economics from Stanford University. She directs the accounting, business services, properties and business development, and organization development functions for the Airport System.

Management of the Airport System is organized into the Office of the Director of Airports and seven divisions: Finance and Administration, Information Technology and Telecommunications, Operations, Maintenance and Facilities, Planning and Development, Special Projects, and Marketing and Public Relations. The Finance and Administration Division is responsible for property management, accounting and financial functions, budget, contract administration and Disadvantaged Business Enterprise programs. The Information Technology and Telecommunications Division is responsible for the installation and maintenance of the data and communications networks at the Airport System, as well as the installation and maintenance of security access control and monitoring systems, audio alert systems and baggage information display systems. The Operations Division is responsible for Airport System operations, coordination of ground transportation and public parking services, aircraft rescue fire fighting services and security. The Maintenance and Facilities Division is responsible for building maintenance, custodial services, pavement, grounds and equipment repair and maintenance, and operation of the satellite airports (Mather Airport, Executive Airport, and Franklin Field). The Planning and Development Division is responsible for Airport System planning, environmental impact reports, master plan activity, Airport System design and construction, coordination of capital improvement programs, land acquisition programs, and federal and state grant processing. The Special Projects Division is responsible for the contract management and oversight of construction and construction-related activities associated with the Terminal Modernization Program. The Marketing and Public Relations Division is responsible for air trade development, marketing and public relations.

Labor Relations

As of June 20, 2010, the County had 419 permanent full-time equivalent positions in connection with the Airport System, of which 46 do not belong to a collective bargaining unit. The County Code requires that the salaries and benefits of these unrepresented employees be reviewed annually. The majority of the employees in connection with the Airport System are represented by one of 11 collective bargaining organizations as set forth in the following table.

TABLE 2
Collective Bargaining Units
(as of June 20, 2010)

Bargaining Unit	Employees Represented
Local 39	220
Local 39 – Water Quality	1
Sacramento County Aircraft Rescue Firefighters Association	35
Teamsters, Local 228	30
United Public Employees, Local 1	35
Sacramento County Professional Accountants Association	5
Data Processing Professionals Association	3
Association of Professional Engineers	3
Engineering Technician and Technical Inspection Association	4
Environmental Management Specialists of Sacramento County	1
Sacramento County Management Association	36

Source: The County

In December 2009, the Sacramento County Management Association (SCMA) successfully petitioned to begin a process to certify SCMA as a recognized employee organization for these currently unrepresented management employees. Elections for two proposed units of representation, a management representation unit of approximately 800 employees and an Attorney-Civil representation unit of approximately 50 employees, were conducted on April 29, 2010, resulting in a new recognized employee organization with two units of representation, and labor agreements are currently being negotiated.

Most agreements with the collective bargaining units will expire on June 30, 2011. International Airport has never been closed by a strike. In addition to the County employees directly related to the Airport System, employees from the County's Sheriff's Department and General Services Department are assigned to the Airport System. The Sheriff's Department has assigned 45 permanent employees to provide security check point response, traffic control and landside police response for the Airport System. The General Services Department has assigned 40 permanent employees to maintain Airport System facilities. The County's general fund is reimbursed from Airport System revenues for these assigned personnel.

AIRPORT SYSTEM OPERATIONS

Background

International Airport is classified as a medium air traffic hub by the FAA. According to data published by the U.S. Department of Transportation, International Airport was the nation's 37th busiest airport during the 12 months ended June 30, 2009 in terms of enplaned passengers. In Fiscal Year 2008-09, 4,603,182 passengers were enplaned at International Airport, a decrease of 13.1% from the prior Fiscal Year. As described herein, the number of enplaned passengers decreased 3.4% in Fiscal Year 2009-10, as compared to Fiscal Year 2008-09.

As of July 2010, 14 scheduled passenger airlines, including three low-cost carriers and one foreign-flag airline, offered 143 daily non-stop flights at International Airport. In addition, the Airport System is also served by two scheduled all-cargo airlines. International Airport continues principally to serve origin-destination passengers, with a fairly even distribution between intra-California and interstate travelers.

Tables 3 through 5 are summaries of certain Airport System operating statistics for the periods indicated.

Table 3 sets forth historical enplanement information for International Airport for Fiscal Years 1999-00 through 2009-10.

TABLE 3
Historical Enplaned Passengers
International Airport
Fiscal Years Ended June 30

Fiscal Year	Total	Percent Change From Prior Year
2000	3,837,471	4.3%
2001	4,093,049	6.7
2002	4,042,585	(1.2)
2003	4,314,273	6.7
2004	4,563,607	5.8
2005	4,986,171	9.3
2006	5,150,229	3.3
2007	5,307,289	3.0
2008	5,294,737	(0.2)
2009	4,603,182	(13.1)
2010	4,445,991	(3.4)

Source: The County

Table 4 sets forth historical Aircraft Landed Weight for Fiscal Years 2002-03 through 2009-10 classified into categories of passenger airlines and all cargo airlines. Total aircraft landed weight increased from approximately 6,394,000 1,000 lb. units in Fiscal Year 2002-03 to approximately 7,809,000 1,000 lb. units in Fiscal Year 2007-08, for an average annual rate of growth of approximately 4.1%. As described in the Airport Consultant's Report, landed weight decreased by 13.4% in Fiscal Year 2008-09 to 6,761,000 1,000 lb. units. Landed weight decreased another 6.5% in Fiscal Year 2009-10 compared to Fiscal Year 2008-09.

TABLE 4
Historical Aircraft Landed Weight
International and Mather Airports
Fiscal Years Ended June 30
(In 1,000,000 lb. units)

Fiscal Year	Passenger Airlines	All-Cargo Airlines	Total	Percent Change from Prior Year
2003	5,639	754	6,394	-
2004	5,916	765	6,681	4.5%
2005	6,275	771	7,047	5.5
2006	6,453	729	7,182	1.9
2007	6,774	950	7,724	7.5
2008	6,779	1,029	7,809	1.1
2009	5,975	786	6,761	(13.4)
2010	5,709	611	6,321	(6.5)

Note: Excludes general aviation and training activity.
Source: The County

Table 5 shows the airlines' market shares of enplaned passengers at International Airport for Fiscal Years 2007-08 through 2009-10.

TABLE 5
Airlines' Market Shares of Enplaned Passengers
International Airport
Fiscal Years 2007-08 through 2009-10

Major Airlines	Fiscal Year 2007-08 Percentage of total	Fiscal Year 2008-09 Percentage of total	Fiscal Year 2009-10 Percentage of total
Southwest Airlines	50.1%	52.6%	52.8%
United Airlines	10.2	10.6	10.7
Delta Air Lines (1)	8.3	8.0	7.8
Alaska	7.2	6.8	7.0
U.S. Airways (2)	5.7	6.5	5.3
Continental Airlines	2.9	3.5	3.6
American Airlines	3.8	3.2	4.0
Frontier Airlines	2.6	2.9	3.2
JetBlue Airlines	2.3	2.1	2.4
Hawaiian Airlines	1.7	1.8	1.9
Mexicana(3)	1.1	1.3	1.3
ExpressJet(4)	2.8	0.6	--
Air Canada(4)	0.4	0.1	--
Aloha Airlines(4)	0.9	--	--
Total	100.0%	100.0%	100.0%

Totals may not add due to rounding.
(1)Northwest is included here with Delta for all years shown, although the merger with Delta occurred in October 2008.
(2) America West is included with US Airways for all years shown, although the merger with US Airways occurred in October 2005.
(3) Mexicana filed for bankruptcy protection in August 2010,and notified the County that it was suspending operations at International Airport through the end of August 2010. There can be no assurances that Mexicana will resume operations at International Airport after August 2010.
(4) Aloha and Air Canada ceased service at the Airport in April 2008 and October 2008, respectively. ExpressJet ceased branded service in September 2008.
Source: Sacramento County Airport System.

SUMMARY OF FINANCIAL OPERATIONS

Sources of Airport System Revenues

Revenues include airline rents and fees and non-airline revenues from terminal concessions, space rentals, fuel sales, automobile parking, car rentals, general aviation activity, and other non-operating sources. In Fiscal Year 2008-09 revenues generated at International Airport represented approximately 95% of overall Airport System revenues.

Airline Agreements and Rate Ordinance

Until April 30, 2008, the passenger and cargo airlines operating at International Airport and Mather Airport operated pursuant to the Scheduled Airline Operating Agreement and Terminal Building Lease (the "Prior Airline Lease") which became effective July 1, 2000, expired June 30, 2006, and continued in month-to-month holdover status until April 30, 2008. The Prior Airline Lease was based on a residual rate methodology. Prior to the termination of the Airline Lease, the County and the airlines serving International Airport had attempted to reach a new agreement, but were unable to do so.

As a result, the County terminated the month-to-month Prior Airline Lease, effective April 30, 2008. Effective May 1, 2008, the provisions of Chapter 11.32 of County Code (the "Prior Rate Ordinance") governed the assignment of space and associated rentals and fees.

On May 27, 2008 the County Board of Supervisors adopted a new Rate Ordinance which became effective July 1, 2008 (the "Rate Ordinance"). Under the Rate Ordinance, landing fee rates are calculated according to a cost center residual methodology; terminal rental rates are calculated according to a commercial compensatory methodology; Revenues, after deposits required pursuant to the Indenture, are retained by the County; and the County has no obligation to share remaining Revenues with the airlines. Airlines are not obligated to pay increases in landing fees to ensure that Revenues from landing fees together with Revenues from other sources would be sufficient to meet the Rate Covenant.

Federal Law Affecting Airport Rates and Charges. In general, federal aviation law requires that airport fees be reasonable and that, in order to receive federal funding (such as PFCs, Airport Improvement Program ("AIP") grants in aid, Transportation Security Administration ("TSA") funding, and other federal grants) all airport generated revenues must be expended for the capital or operating costs of the airport, the local airport system or other local facilities owned or operated by the airport owner that are directly and substantially related to air transportation of passengers or property. Pursuant to the requirements of the Federal Aviation Administration Authorization Act of 1994 (the "1994 Aviation Act"), the United States Department of Transportation ("USDOT") and FAA have promulgated regulations setting forth an expedited hearing process to be followed in determining the reasonableness of airport rates and charges, and have also promulgated a policy statement (the "Rates and Charges Policy") which sets forth the standards that the USDOT uses in determining the reasonableness of the fees charged to airlines and other aeronautical users.

On August 1, 1997, the United States Court of Appeals for the District of Columbia Circuit (the "U.S. Court of Appeals") vacated the Rates and Charges Policy in part and remanded it to the USDOT. On October 15, 1997, the U.S. Court of Appeals determined that a portion of the Rates and Charges Policy was arbitrary and capricious, including use of any "reasonable methodology" for valuation of non-airfield assets, and therefore vacated the policy and remanded it to the USDOT. The USDOT has not yet adopted revisions to the Rates and Charges Policy. The costs that will be permitted to be included in determining an airport's rate base and the extent to which such future guidelines may limit the County's flexibility in negotiating new airline agreements or in setting rates and charges for use of International Airport's airfield and non-airfield facilities cannot be determined at this time. Any new FAA guidelines or any standards promulgated by a court in connection with a dispute could limit the amounts and allocation of costs payable by airlines serving International Airport. Until the USDOT promulgates a new policy regarding rates and charges, the guiding principle for determining whether rates and charges established for use of airport assets is the requirement of federal law that such charges be "reasonable."

The County is not aware of any formal dispute involving International Airport over any existing rates and charges. Under federal law and FAA regulations, FAA approval of the rates charged by the County pursuant to the Rate Ordinance is not required prior to its adoption and implementation. However, airlines have the right to challenge the Rate Ordinance to the extent they believe that such rates are not reasonable or otherwise not in compliance with federal law or applicable FAA regulations.

The County would be authorized to collect such rates during the pendency of any challenge; provided, however, that the County would be required to post a bond or letter of credit to secure potential refunds resulting from a determination that the rates were not reasonable or otherwise violated applicable federal law or FAA regulations.

The County believes that the rates and charges methodology utilized by the County under the Rate Ordinance and the rates and charges imposed by it upon air carriers, foreign air carriers and other aeronautical users are reasonable and consistent with applicable law. However, there can be no assurance that a complaint will not be brought against the County challenging such methodology and the rates and charges established by the County pursuant to the Rate Ordinance and, if a judgment is rendered against the County, there can be no assurance that rates and charges paid by aeronautical users of the Airport System will not be reduced.

A successful challenge to the compensatory rates which limits the ability of the County to charge rates materially below the levels anticipated by the County could have a material adverse impact on the financial condition of the Airport System.

See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for a discussion of the Rate Ordinance and related matters.

Revenues, Expenses and Changes in Net Assets

Table 6 shows Revenues, Expenses and Changes in Net Assets for Fiscal Year 2004-05 through Fiscal Year 2008-09, and for the first nine months of Fiscal Years 2008-09 and 2009-10. The results for Fiscal Year 2004-05 through Fiscal Year 2008-09 contained in Table 6 have been excerpted from the Comprehensive Annual Financial Reports for the Sacramento County Airport System. The information relating to the periods ending March 31, 2010 and March 31, 2009 has been prepared by the County, and has not been audited. The calculation of Revenues and Expenses reflected in Table 6 has not been prepared in accordance with the conventions of the documents pursuant to which certain bonds refunded with the Series 2008 Bonds (such refunded bonds constituting the "Prior Bonds") were issued.

TABLE 6
Statement of Revenues, Expenses and Changes in Net Assets -Sacramento County Airport System
Fiscal Years 2004-05 through 2008-09, and First Nine Months of Fiscal Years 2008-09 and 2009-10

	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	1st Nine Months Fiscal Year 2008-09	1st Nine Months Fiscal Year 2009-10
OPERATING REVENUES							
Concessions	$54,307,418	$60,367,151	$64,892,106	$66,416,283	$68,600,549	$51,209,543	$47,112,076
Building rents	14,170,114	16,087,912	16,644,929	17,152,979	35,384,002	25,818,079	27,395,272
Airfield charges	17,107,966	17,779,295	15,680,196	22,352,752	10,710,482	6,702,218	19,920,998
Ground leases	3,607,645	4,403,407	4,723,344	3,641,980	2,314,441	1,785,500	1,943,283
Sale of aviation fuel	1,332,966	1,339,214	652,942	808,229	580,904	474,023	403,602
Airport services	636,999	900,536	1,015,551	911,360	1,100,127	787,771	664,743
Other	1,386,070	102,681	39,528	101,491	299,511	327,252	98,698
TOTAL OPERATING REVENUES	$92,549,178	$100,980,196	$103,648,596	$111,385,074	$118,990,016	$87,104,386	$97,538,672
NONOPERATING REVENUES							
Interest income	$4,303,953	$6,623,389	$7,915,789	$7,519,233	$6,155,861	$9,107,286	$6,558,168
PFC revenue	24,454,819	24,511,950	27,182,405	26,653,518	21,489,873	14,471,517	14,516,473
Capital contributions	24,598,339	10,889,564	12,663,761	13,932,530	6,935,457	2,975,816	6,149,334
Intergovernmental revenue	880,166	849,340	686,586	1,620,376	978,992	912,346	574,191
Other nonoperating revenue	247,124	223,468	82,107	(40,754)	157,388	135,605	237,270
TOTAL NONOPERATING REVENUES	$54,484,401	$43,097,712	$48,530,648	$49,684,903	$35,717,571	$27,602,570	$28,035,436
TOTAL REVENUES	$147,033,579	$144,077,908	$152,179,244	$161,069,977	$154,707,587	$114,706,956	$125,574,108
OPERATING EXPENSES							
Salaries and benefits	$27,313,968	$28,897,193	$30,274,323	$32,174,897	$33,640,076	$23,847,669	$23,348,165
Services and supplies	37,688,533	41,462,233	46,452,761	54,266,378	49,870,807	36,620,622	35,993,901
Cost of goods sold	914,185	1,081,550	573,187	665,627	497,815	412,805	323,417
Depreciation and amortization	16,103,705	20,162,706	21,062,790	23,707,907	25,750,395	19,359,241	18,934,748
Other	909,682	670,163	769,160	837,710	881,876	664,557	654,612
TOTAL OPERATING EXPENSES	$82,930,073	$92,273,845	$99,132,221	$111,652,519	$110,640,969	$80,904,894	$79,254,843
NONOPERATING EXPENSES							
Interest expense	$12,631,716	$10,536,254	$12,057,704	$12,651,944	$18,203,544	$13,657,277	$22,138,969
Loss (gain) on disposal of assets	(503,692)	(993)	(84,711)	17,151	(64,262)	(1,458)	75,332
Amortization of bond issuance cost	171,740	175,358	271,965	257,068	563,240	398,549	522,134
TOTAL NONOPERATING EXPENSES	$12,299,764	$10,710,619	$12,244,958	$12,926,163	$18,702,522	$14,054,368	$22,736,435
TOTAL EXPENSES	$95,229,837	$102,984,464	$111,377,179	$124,578,682	$129,343,491	$94,959,262	$101,991,278
CHANGES IN NET ASSETS	$51,803,742	$41,093,444	$40,802,065	$36,491,295	$25,364,096	$19,747,694	$23,582,830

Source: Consolidated Annual Financial Report for Airport System for Fiscal Years 2004-05 through 2008-09. Partial year results for Fiscal Years 2008-09 and 2009-10 are unaudited and provided by the County.

Operating Revenues

Operating revenues are categorized as concessions, building rents, airfield charges, ground leases, sale of fuel, airport services and other. Total operating revenues for the Fiscal Year ended 2008-09 compared to the prior year increased by $7.6 million or 6.8%. The increase was primarily due to gains in concession revenue and building rents.

Concessions. Concessions revenue constituted approximately 57.7% of total operating revenues in Fiscal Year 2008-09. The major sources of concessions revenue include public automobile parking, rental car revenues, food and beverage concessions, merchandise concessions, and other concession revenues.

Total concession revenues for Fiscal Year 2008-09 increased approximately $2.2 million, or 3.3% compared to the prior year due primarily to a 5.6% increase in parking revenue as a result of rate increases effective as of July 1, 2008.

Public Automobile Parking Revenues. Public automobile parking is the largest source of revenue for the Airport System, accounting for $49.8 million in Fiscal Year 2008-09, equal to approximately 32.2% of total revenues or approximately 61.1% of nonairline revenues.

AMPCO AirPark (AMPCO) currently operates the public parking facilities at International Airport under a parking management agreement executed in December 2005 that expires on December 31, 2010. The agreement provides for an additional 5-year option period, to be exercised in the sole discretion of the Director of Airports by providing notice to AMPCO no later than November 1, 2010. Pursuant to the AMPCO agreement, AMPCO is responsible for maintaining and operating the existing facilities and collecting parking fees. AMPCO remits all gross parking revenues to the County and is reimbursed for operating expenses and paid a management fee.

Rental Car Revenues. Seven rental car companies currently operate at International Airport under agreements with the County which expire in 2014. All rental car companies operate their counters and offices from a common rental car reception building, and rental car customers are transported from the terminal buildings by shuttle bus to the rental car reception building. Under the rental car agreements, the County receives the greater of privilege fees equal to 10% of gross receipts or a minimum annual guarantee, plus rentals for counter space, office space, and service facility ground areas. The County also receives certain cost-recovery fees for the rental car shuttle operation. The County assesses fees and charges on off-Airport rental car businesses accessing International Airport, including an annual permit fee and privilege fees of 10% of annual gross receipts that exceed $150,000 per company. Rental car revenues were approximately $12.5 million in Fiscal Year 2008-09.

Food and Beverage Concessions. HMSHost has the nonexclusive concession privilege to provide food and beverage services in the terminal facilities, including in-terminal restaurants, cafeterias, snack bars, and cocktail bars. HMSHost operates a mix of branded-food outlets designed to increase food choices and spending by persons using International Airport. The HMSHost agreement is scheduled to expire on July 31, 2014, and provides for payment to the County of percentages of gross sales or a minimum annual guarantee, whichever is greater.

During Fiscal Year 2008-09, gross sales for food/beverage outlets were $21.6 million, providing approximately $3.2 million in concession revenues to the Airport System.

In June 2010, the County released a request for proposals to operate food and beverage concessions in the new landside terminal and airside concourse buildings. Proposals will be accepted for one package containing seven locations and five single-location packages. The County expects to award the food and beverage concession agreements in October 2010.

Merchandise Revenues. The County has entered into agreements with a number of concessionaires to operate the retail concessions in all terminal building facilities. The merchandise concessions program at International Airport includes a mix of retail merchandise outlets and national brand name concessionaires designed to increase passenger choices and spending. The retail concession agreements provide for the payment to the County of percentages of gross sales or a minimum annual guarantee, whichever is greater.

During Fiscal Year 2008-09, gross sales from retail shops were approximately $13.6 million, providing $2.1 million in concession revenues to the Airport System.

In June 2010, the County released a request for proposals to operate retail concessions in the new landside terminal and airside concourse buildings. Proposals will be accepted for a package containing five locations, a package containing two locations, and eight single-location packages. The County expects to award the retail concession agreements in November 2010.

Other Concession Revenues. Other terminal building concessions revenues of approximately $0.6 million during Fiscal Year 2008-09 include advertising, public telephone and vending machines.

Building Rents. Building rents constituted approximately 29.7% of total operating revenues in Fiscal Year 2008-09 and include revenues from Terminal Building rentals, aircraft parking position fees, loading bridge use fees, hangar rentals, fixed base operator rentals and fees and rentals from building leases. Revenues derived from building rentals were approximately $35.4 million in Fiscal Year 2008-09, a 106.3% increase over Fiscal Year 2007-08 revenues due to the increase in terminal rental rates resulting from the adoption of a commercial compensatory ratemaking methodology.

Airfield Charges. Airfield charges constituted approximately 9% of total operating revenues in Fiscal Year 2008-09 and include aircraft tiedown fees, landing fees and commercial operating fees. The largest single source of revenue in this category is landing fees from scheduled and cargo airlines which together represent 99% of airfield charges revenue. Revenues derived from airfield charges were approximately $10.7 million in Fiscal Year 2008-09, a 52.1% decrease from Fiscal Year 2007-08, resulting from $10.4 million net credit to airlines following the final settlement of airline rates and charges according to the Prior Airline Lease agreement.

Ground Leases. Ground lease revenue constituted approximately 1.9% of total operating revenues in Fiscal Year 2008-09 and includes rental payments associated with ground leases at Airport System airports. Revenues derived from ground leases were approximately $2.3 million in Fiscal Year 2008-09, which represented a decrease of 36.5% from Fiscal Year 2007-08. The decrease results primarily from the reclassification of certain revenue sources, including ground leases related to the rental car facility which are included with other rental car revenues in the concessions category for Fiscal Year 2008-09. The elimination of ground lease revenue from the former airport hotel, which was demolished to allow for construction of the TMP, accounts for approximately $254,000 of the decrease.

Sale of Fuel. Fuel sales constituted less than 1% of total operating revenues in Fiscal Year 2008-09. Revenues derived from fuel sales were approximately $0.6 million in Fiscal Year 2008-09, a decrease of 28.1% from Fiscal Year 2007-08 revenues of $0.8 million.

Airport Services. Airport services revenues constituted less than 1% of total operating revenues in Fiscal Year 2008-09 and are comprised of payments from the County for services the Airport System provides to McClellan Air Park for airfield operating services, and refuse collection, landscaping, communication and building maintenance service charges. Airport services revenue for Fiscal Year 2008-09 was approximately $1.1 million, an increase of 20.7% from the prior year.

Other. Other revenues include miscellaneous taxable and insurance proceeds and totaled approximately $0.3 million in Fiscal Year 2008-09.

Nonairline Revenues. Nonairline revenues, which include parking, rental car, and terminal concessions revenues constituted approximately 65.6% of operating revenues in Fiscal Year 2008-09.

The following table shows the amount of various nonairline revenues for Fiscal Year 2008-09.

Table 7
Nonairline Revenues
Fiscal Year 2008-09

Parking	$49,811,395
Rental car	12,458,888
Terminal concessions	5,904,975
Other	10,874,984
Interest Income	3,460,986
Total Nonairline Revenues	$82,511,228

Source: The County

Airline Revenues. Airline revenues, which include terminal building rents and fees and landing fees, are included in the rows entitled Building Rents and Airfield Charges in Table 6 and constituted approximately 34.5% of total operating revenues in Fiscal Year 2008-09. Airline revenues were approximately $41.1 million in Fiscal Year 2008-09.

Unaudited Results Through March 31, 2010. Operating revenues for the nine months ended March 2010 compared to the nine months ended March 2009 increased by $10.4 million or 12%. The increase was primarily due to increased revenues from building rents and airfield charges, resulting from a net amount due from the airlines of $2.3 million as a result of the rates and charges settlement compared to a $10.4 million net credit to the airlines in the prior year.

Excluded Revenues

Pursuant to the Indenture, "Revenues" does not include certain specified income, receipts, earnings and revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS – Pledge of Trust Estate; Net Revenues."

Passenger Facility Charges

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

In January 1993, the County received approval from the FAA to impose a PFC of $3.00 per eligible enplaned passenger at International Airport, and has imposed the PFC since April 1, 1993. Since 1993, the County has submitted various applications and received approval to use PFC revenues to fund Airport System improvements, including approval to use PFC revenues to pay debt service on the bonds issued to finance Terminal A.

The County subsequently received approval to collect a $4.50 PFC, and began collecting at the $4.50 level on February 1, 2002. The financial forecasts set forth herein assume that the PFC level will remain at $4.50 through 2016.

The County has FAA approval in connection with various PFC applications to use $891.3 million in PFC revenues for project and financing costs associated with the construction of various approved projects. These approvals include the authorization for the County to impose and use $603.5 million in PFC revenues in connection with the TMP. The County has received approximately $278.5 million in PFC revenues and interest earnings from April 1, 1993 through March 31, 2010. The County believes that use of PFC revenues to pay debt service with respect to the Series 2009 Subordinate Bonds and the Series 2008 Subordinate Bonds as described in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS - Availability of Available PFC Revenues to Pay Debt Service With Respect to Series 2008 and Series 2009 Subordinate Bonds," is in compliance with applicable FAA regulations and does not require further FAA approval. PFCs may not be used to pay debt service on the Series 2010 Senior Bonds.

PFCs generally do not constitute Revenues pursuant to the Indenture and PFCs do not secure the payment of debt service on the Series 2010 Senior Bonds. However, the financial projections set forth in the Airport Consultant's Report anticipate receipt of PFCs in amounts ranging from approximately $19.1 million in Fiscal Year 2009-10 to approximately $20.4 million in Fiscal Year 2015-2016, and the use of such PFCs to pay the cost of capital projects as well as the payment of a portion of the debt service on the Series 2009 Subordinate Bonds and the Series 2008 Subordinate Bonds as described in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS - Availability of Available PFC Revenues to Pay Debt Service with Respect to Series 2008 and Series 2009 Subordinate Bonds."

The amount of PFCs received by the County in future years will vary based upon the actual number of PFC-eligible passenger enplanements at the Airport. No assurance can be given that any level of enplanements will be realized. Additionally, the FAA may terminate the County's ability to impose the PFC, subject to informal and formal procedural safeguards, if (a) PFC revenues are not being used for approved projects in accordance with the FAA's approval, or applicable law and regulations; or (b) the County otherwise violates applicable law or regulations relating to PFCs. In the event that PFCs are not available in the amounts and during the times projected in the Airport Consultant's Report, there can be no assurances that such circumstances would not materially adversely affect the financial condition of the Airport System.

AIP Grants

The FAA also provides funds to airports for capital improvements through the AIP. On March 6, 2009, the FAA approved an AIP Letter of Intent ("LOI") for certain of the airfield elements of the TMP, in the amount of $59.9 million through 2015. Grants generally do not constitute Revenues pursuant to the Indenture and do not secure the payment of debt service on the Series 2010 Senior Bonds. However, the financial projections set forth in the Airport Consultant's Report anticipate receipt of Grants in amounts ranging from approximately $9.7 million in Fiscal Year 2009-10 to approximately $8.3 million in Fiscal Year 2014-2015, and the use of such Grants to pay the cost of capital projects as well as the payment of a portion of the debt service on the Series 2009 Subordinate Bonds as described in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS – Availability of Available Grant Revenues to Pay Debt Service With Respect to the Series 2008 and Series 2009 Subordinate Bonds." The County believes that use of such Grants to pay debt service with respect to the Series 2008 Subordinate Bonds and Series 2009 Subordinate Bonds is in compliance with applicable FAA regulations and does not require further FAA approval. In the event that Grants are not available in the amounts and during the times projected in the Airport Consultant's Report, there can be no assurances that such circumstances would not materially adversely affect the financial condition of the Airport System.

Operating Expenses

Operating expenses for Fiscal Year 2008-09 decreased $1 million (0.9%), compared to the prior fiscal year. This decrease in operating expenses is primarily due to decreases in services and supplies of $4.4 million (8.1%), reflecting decreases in air trade development, building maintenance services, land improvement services and other professional services. Salaries and benefits increased by $1.5 million (4.6%) and depreciation expense increased by $2 million (8.6%).

Operating expenses for the nine months ended March 2010 compared to the nine months ended March 2009 have decreased by $1.7 million (2.0%). The decrease was due to decreases in salaries and benefits, services and supplies and depreciation and amortization expense. Salaries and benefits decreased $0.5 million (2.1%), due primarily to certain vacancies not being filled and furloughs for unrepresented employees. Services and supplies decreased $0.6 million (1.7%), due to decreases in insurance annual premiums ($0.3 million), building services ($0.3 million), temporary services ($0.2 million), legal services ($0.2 million) and other professional services ($1.4 million). Depreciation and amortization expense decreased $0.4 million (2.2%).

Management Discussion of Response to Current Economic Conditions

As described in the Airport Consultant's Report, current economic conditions have adversely impacted the Airport System, resulting in reductions in the number of daily flights being offered by the airlines serving International Airport and significant reductions in enplaned passengers in Fiscal Year 2008-09 and Fiscal Year 2009-10. These circumstances have a direct negative impact on Airport System Revenues. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

As a result of these circumstances, as described herein in "Airport System Capital Improvement Program" in 2009 the County revised the terminal modernization program, deferring the parking garage which was to have been constructed in Fiscal Year 2012-13, and removing the in-terminal hotel. These two modifications to the immediate scope of the terminal modernization program resulted in a reduction to the TMP budget of approximately $192 million. Additionally, other capital improvement projects which are not part of the TMP for which there is no grant funding will be deferred unless such improvements are required in order to comply with law or to ensure the safety of airport operations.

In addition, steps have been implemented (either on a County-wide basis or specifically applicable to the Airport System) that mitigate the effects of the current economic conditions on the Airport System, including:

- Cost-of-living increases were not granted for unrepresented employees in Fiscal Year 2009-10 and will not be granted to those remaining unrepresented employees for Fiscal Year 2010-11. This equates to an estimated savings of $268,491 in Fiscal Year 2009-10 and $120,146 in Fiscal Year 2010-11. Additionally, one-day per month furloughs for unrepresented employees in Fiscal Year 2009-10 resulted in estimated savings of $318,075.

- Approximately 25 vacant positions are being deleted with the Fiscal Year 2010-11 budget, resulting in an estimated savings of $1,735,079.

- Other measures implemented in FY 2008-09 and remaining in effect during Fiscal Year 2010-11 include:

    - Conversion of close-in public parking lot to employee parking, eliminating approximately $500,000 of annual cost associated with employee shuttle service.

    - Extension of the computer replacement cycle from 3 years to 5 years.

- Travel, conference and training is restricted to that directly related to the employee's core responsibilities or where necessary to meet legal or credentialing requirements.

- The number of positions qualifying for home-retention of vehicles has been reduced, with life-safety duties serving as the sole qualifying rationale.

- Energy savings measures have been implemented, including an adjustment of building thermostats to reduce heating and cooling expenses.

- Other cost reduction measures have been implemented, including double-sided printing and prohibition of expenditures for food.

As a result of these and other efforts to control expenses, Airport System management anticipates actual Operating Expenses for Fiscal Year 2009-10 to be approximately $6 million below budget. The Airport System's budget for Supplies and Services for Fiscal Year 2010-11 is flat as compared to the revised Fiscal Year 2009-10 spending plan.

Pension and OPEB Liability. Salaries and benefits costs shown in Table 6 include funding of retirement benefits for employees of the Airport System who, as County employees, participate in the Sacramento County Employee Retirement System ("SCERS"). For a variety of reasons, including investment losses and enhanced retirement benefits for County employees, SCERS has experienced significant unfunded liabilities, and retirement costs payable with respect to all County employees, including Airport System employees, have increased significantly in recent years. County required payments to SCERS, with respect to employees of the Airport System, were $2,644,000 in Fiscal Year 2004-05, $3,201,000 in Fiscal Year 2005-06, $3,131,000 in Fiscal Year 2006-07, $3,199,000 in Fiscal Year 2007-08; $3,448,250 in Fiscal Year 2008-09; and $3,652,375 in Fiscal Year 2009-10. The County estimates that the required contribution for Fiscal Year 2010-11 will be $ $4,634,969. As a result of significant losses in prior years and a significant unfunded liability with respect to SCERS, required contributions from the Airport System are expected to continue to increase.

In addition to required contributions for retirement benefits for employees of the Airport System employees, the County pays certain post-employment health care and other non-pension ("OPEB") benefits for such employees. County OPEB related payments with respect to employees of the Airport System were $499,322 in Fiscal Year 2008-09; $267,173 in Fiscal Year 2009-10; and are expected to be $183,770 in Fiscal Year 2010-11. See APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEARS ENDED JUNE 30, 2008 AND 2009" – Note 12 to the Basic Financial Statements" for a discussion of OPEB liabilities payable from the Airport System.

Investment of Airport System Funds; County Pool

Airport System funds, which constitute monies of the County, are invested in the Sacramento County Pooled Investment Fund (the "County Pool"), which is managed by the Director of Finance. The County Pool is governed by the Sacramento County Annual Investment Policy for the Pooled Investment Fund (the "Investment Policy"). This policy defines investible funds, authorized instruments, credit quality required, maximum maturities and concentrations, collateral requirements, and provides the approved credit standards, investment objectives and specific constraints of the portfolios managed. Authorized investments are required to match the general categories established by Sections 53601 et seq., 53635 et seq., and 16429.1 et seq. of the California Government Code; including the specific categories of financial futures and financial options contracts established by California Government Code Section 53601.1. See APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEARS ENDED JUNE 30, 2008 AND 2009" – Note 2 to the Basic Financial Statements."

Summary of Historical Revenues, Expenses and Debt Service Coverage

The following tables contain a summary of revenues, operating expenses and debt service coverage for Fiscal Years 2003-04 through Fiscal Year 2008-09. The information in Table 8A reflects the provisions of the documents pursuant to which the Prior Bonds were issued.

TABLE 8A
Summary of Historical Revenues, Expenses and Debt Service Coverage
Sacramento County Airport System
Fiscal Years 2003-04 through 2007-08

	2003-04	2004-05	2005-06	2006-07	2007-08
Total Operating Revenues	$79,730,527	$ 92,549,178	$100,980,196	$103,648,596	$111,385,074
Certain Non-Operating Revenues[1]	10,593,301	12,220,192	10,486,622	12,961,598	7,555,183
Revenues	$90,323,828	$104,769,370	$111,466,818	$116,610,194	$118,940,257
Operating Expenses [2]	(66,842,925)	(67,524,525)	(72,668,987)	(78,636,521)	(87,769,525)[3]
Net Revenues	$23,480,903	$37,244,845	$38,797,831	$37,973,673	$31,170,732
Debt Service Requirement [4]	$16,840,105	$16,835,805	$14,721,391	$12,458,165	$15,507,142[5]
Debt Service Coverage	1.39x	2.21x	2.63x	3.05x	2.01x

(1) Includes certain interest income, PFC revenues used to pay debt service with respect to Prior Bonds which constituted Senior Bonds under the documents pursuant to which the Prior Bonds were issued, and prepaid revenues.
(2) Operating Expenses include all Airport System operating costs and certain capital.
(3) Operating Expenses in Fiscal Year 2007-08 include a one-time payment of $4.98 million for funding of the Willey Wetland endowment and initial management fee.
(4) Represents debt service requirement only with respect to bonds which were previously issued to finance Airport System improvements but are no longer outstanding ("Prior Bonds"), which Prior Bonds constituted Senior Bonds under the documents pursuant to which the Prior Bonds were issued. The debt service with respect to Prior Bonds which constituted Subordinate Bonds under the documents pursuant to which the Prior Bonds were issued is not included in Table 8. The Prior Bonds outstanding as of May 2008 were refunded with a portion of the proceeds of the Series 2008 Bonds
(5) Debt service payable with respect to Prior Bonds and Series 2008 Bonds from Net Revenues during Fiscal Year 2007-08.

Source: The County.

The following table contains a summary of revenues, operating expenses and debt service coverage for Fiscal Year 2008-09. The information in the following table reflects the definitions, conventions and debt service coverage calculation methodology set forth in the Indenture.

TABLE 8B
Historical Revenues, Operating Expenses and Debt Service Coverage for Fiscal Year 2008-09
(in thousands)

Rate Covenant per Section 6.04 (b)(i)	
Revenues	$134,667
Operating Expenses	(84,890)
Net Revenues	$49,777
Transfer	3,993
Net Revenues + Transfer	$53,770
Accrued Debt Service on Senior Obligations	$15,972
DEBT SERVICE COVERAGE (>1.25)	3.37x
Rate Covenant per Section 6.04 (b)(ii)	
Net Revenues	$49,777
Transfer	1,597
Net Revenues + Transfer	$51,374
Accrued Debt Service of Senior Obligations	$15,972
Debt Service on Subordinate Obligations	6,940
LESS: Available PFC Revenues	(6,940)
LESS: Available Grant Revenues	0
Accrued Debt Service of Sr. & Sub. Obligations	$15,972
DEBT SERVICE COVERAGE (>1.10)	3.22x

Source: The County

REPORT OF THE AIRPORT CONSULTANT

The Airport Consultant has been retained on a non-contingent basis to prepare an Airport Consultant's Report for inclusion in this Official Statement as Appendix A. The Airport Consultant has provided various consulting and advisory services to the County in connection with the planning, business, and financial operations of the Airport System. The Airport Consultant's Report provides certain information with respect to the Airport System and the CIP and presents forecasts of Revenues, Operating Expenses, Net Revenues, PFCs, and debt service coverage for the Series 2010 Senior Bonds and the other fund deposit requirements of the Indenture in each year of the forecast period (Fiscal 2009-10 through Fiscal Year 2015-16), and sets forth the information and assumptions upon which the forecasts and the findings of the Airport Consultant's Report are based. Certain information concerning the Airport System in this Official Statement has been excerpted from the Airport Consultant's Report.

Calculation of Forecast Airport System Revenues, Operating Expenses and Debt Service Coverage

The exhibits to the Airport Consultant's Report present forecast Revenues, Operating Expenses, and debt service coverage, all calculated in accordance with the Indenture. As described in the Airport Consultant's Report, the forecasts are based on a variety of assumptions as set forth in the Airport Consultant's Report, that were provided by, or reviewed and approved by, the County. In the opinion of the Airport Consultant, the assumptions provide a reasonable basis for the forecasts set forth in the Airport Consultant's Report. Specific assumptions regarding the forecasts of airline traffic are discussed in the section "Key Factors Affecting Future Airline Traffic," and "Enplaned Passenger and Landed Weight Forecast," plan of finance and debt service requirements are discussed in the section "CIP Funding Plan," assumptions regarding PFCs are discussed in the section "PFC Revenues," assumptions regarding operating expenses in the section "Operating Expenses;" and assumptions regarding airline and nonairline revenues in the section "Airport System Revenues" of the Airport Consultant's Report.

As noted in the Airport Consultant's 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 will be differences between the forecast and the actual results, and those differences may be material. See APPENDIX A –"REPORT OF THE AIRPORT CONSULTANT."

The following table has been excerpted from the Airport Consultant's Report. The Airport Consultant's Report must be read in its entirety for a description of the information set forth in the table, the underlying assumptions, as well as the various factors taken into account for purposes of preparing the assumptions.

Table 9
Calculation of Forecast Airport System Revenues, Operating Expenses and Debt Service Coverage ($ in thousands)

This table is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by Airport System management as described in the accompanying text. Inevitably some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Estimated	Forecast					
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Rate Covenant per section 6.04(b)(i)							
Revenues	$133,972	$135,131	$157,409	$175,548	$177,058	$188,309	$193,069
Less: Operating Expenses	(90,659)	(97,564)	(100,946)	(115,679)	(120,672)	(125,889)	(131,340)
Net Revenues	$43,313	$37,567	$56,463	$59,869	$56,386	$62,420	$61,729
Transfer (limited to 25%)	4,302	4,322	8,995	13,032	12,357	13,391	13,391
Net Revenues + Transfer	$47,615	$41,889	$65,458	$72,900	$68,743	$75,811	$75,119
Accrued Debt Service on Senior Obligations*	$17,207	$17,287	$35,981	$52,127	$49,428	$53,565	$53,563
Debt service coverage (>1.25)	2.77	2.42	1.82	1.40	1.39	1.42	1.40
Debt service coverage w/o Transfer	2.52	2.17	1.57	1.15	1.14	1.17	1.15
Rate Covenant per Section 6.04(b)(ii)							
Net Revenues	$43,313	$37,567	$56,463	$59,869	$56,386	$62,420	$61,729
Transfer (limitedto10%)	1,721	1,729	3,598	5,213	4,943	5,356	5,356
Net Revenues + Transfer	$45,034	$39,295	$60,061	$65,081	$61,328	$67,776	$67,085
Accrued Debt Service on Senior Obligations*	$17,207	$17,287	$35,981	$52,127	$49,428	$53,565	$53,563
Debt Service on Subordinate Obligations	30,131	31,130	30,112	30,160	30,212	30,272	21,945
Less: Available PFC Revenues	(20,449)	(22,006)	(21,941)	(21,940)	(21,941)	(21,943)	(21,945)
Less: Available Grant Revenues	(9,682)	(9,124)	(8,171)	(8,220)	(8,271)	(8,329)	-
Accrued Debt Service of Senior* & Subordinate Obligations	$17,207	$17,287	$35,981	$52,127	$49,428	$53,565	$53,563
Debt service coverage (>1.10)	2.62	2.27	1.67	1.25	1.24	1.27	1.25
Debt service coverage w/o Transfer	2.52	2.17	1.57	1.15	1.14	1.17	1.15
Rate Covenant per section 6.04(b)(iii)							
Net Revenues	$43,313	$37,567	$56,463	$59,869	$56,386	$62,420	$61,729
Accrued Debt Service on							
Senior Obligations*	$17,207	$17,287	$35,981	$52,127	$49,428	$53,565	$53,563
Subordinate Obligations	-	-	-	-	-	-	-
Junior Subordinate Obligations	-	-	-	-	-	-	-
Total	$17,207	$17,287	$35,981	$52,127	$49,428	$53,565	$53,563
Debt service coverage(>1.00)	**2.52**	**2.17**	**1.57**	**1.15**	**1.14**	**1.17**	**1.15**

Source: Report of the Airport Consultant, included in the Appendix A of the Official Statement.

AIRPORT SYSTEM CAPITAL IMPROVEMENT PROGRAM

The County has developed a multi-year CIP for the Airport System through Fiscal Year 2015 that totals approximately $1.23 billion (including costs already expended on the TMP). The Airport Consultant's Report contains a summary of the CIP, as well as funding sources, which include the proceeds of the Series 2010 Senior Bonds, the Series 2009 Bonds and the Series 2008 Bonds, internally generated cash flow, PFCs, state and federal grants. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for a description of the financing plan for the CIP.

Terminal Modernization Program

The primary project in the CIP is the TMP, which accounts for $1.04 billion or 84% of the total CIP. The TMP has been designed to accommodate forecast growth in commercial passenger activity. The original estimated cost of the TMP was $1.27 billion. However, in November 2008 the County determined to defer the construction of a new parking garage beyond 2016, and in March 2009 the County eliminated the planned hotel from the landside terminal project. In June 2010, based on construction experience to date, the County reduced the size of the contingency allowance. The overall budget reduction as a result of these actions is estimated to be $233 million, resulting in the current estimated TMP cost of $1.04 billion.

As more particularly described in the Airport Consultant's Report, one of the major elements of the TMP is a new landside Central Terminal B to replace the existing Terminal B which was originally constructed in the mid-1960s. The new Central Terminal B is conceived as a landside terminal connected to a 19-gate airside concourse building by an automated people mover system. Central Terminal B will be served by a dual level roadway system. The TMP also includes construction of a centralized receiving warehouse, landscaping and demolition of existing facilities, and modifications to Terminal A to provide 2 additional gates, for a total of 34 gates at the Airport in the initial build-out.

TMP Construction

The County currently anticipates that there will be two Dates of Beneficial Occupancy ("DBO") for the Central Terminal B. The first will be when the initial 16 gates are open for operations (expected to occur in late 2011) and the second will be when all 19 gates are open (expected to occur in early 2012). The various components of the TMP are being procured utilizing "design-build" or "D-B" and "design-bid-build" or "D-B-B" delivery methods or traditional equipment contracts procured directly by the County. The County has experienced a high level of participation on the contract procurements that have been completed to date resulting in a favorable competitive outcome. D-B-B contracts are low bid awards based on 100% complete design documents. D-B contracts are best value awards. The County believes these methods will allow the County the ability to expedite the more complex terminal and airside construction, and reduce the cost and schedule, while providing the more traditional contracting method for the smaller ancillary facilities. The major TMP components are:

- "Landside" Terminal Design-Build Contract, with an estimated cost of approximately $393 million. (The February 2008 estimated cost was approximately $361 million.)

- "Airside" Concourse Design-Build Contract, with an estimated cost of approximately $288 million. (The February 2008 estimated cost was approximately $319 million.)

- Ancillary Projects Design-Bid-Build Contracts with an estimated cost of approximately $17 million. (The February 2008 estimated cost was approximately $30 million.)

- Airport Procured Contracts, with an estimated cost of $64 million. (The February 2008 estimated cost was approximately $98 million.)

In addition to these components, the TMP cost estimate includes approximately $190 million in "soft" costs, including design and project management, $34 million for an owner controlled insurance program, and $51 million for contingencies. The February 2008 contingency amount was approximately $96 million and was reduced to reflect costs to pay a settlement in connection with litigation relating to the termination of the previous hotel operating arrangements at International Airport; costs associated with the owner controlled insurance; removal of the contingency related to the hotel and to the procurement of the Landside Terminal contract. The contingency amount was further reduced to $10 million in June 2010 to reflect the award of significant contracts as well as construction experience to date.

Each of the major TMP components and delivery methods is summarized below:

"Landside" Terminal Design-Build Contract. The design build contract for this portion of the TMP is valued at approximately $393 million. The County issued a request for bids with respect to this contract in January 2008, received bids in early April 2008, and awarded the contract in June 2008. Construction of this element of the TMP commenced in August 2008, and construction completion of Phase 1 is anticipated to occur in November 2011. Phase 2 of this contract, which consists of commercial roadway tie-ins and completion of the at-grade parking and associated civil construction, is expected to be completed in mid-2012. This contract includes all portions of the TMP necessary to complete a fully functional landside terminal, including:

- Terminal Building – The terminal building is comprised of a 4-story facility plus a basement encompassing approximately 375,000 square feet.
- Pedestrian Bridges – To access the terminal from existing Garage A and future Garage B, two pedestrian skybridges will be constructed over the terminal roadway.
- Terminal Roadways – New vehicular roadways will be constructed to support the Central Terminal B. A two-level structured roadway will loop the terminal providing access on both the east and west faces of the facility.
- Site Improvements/Utilities – All landside utilities and miscellaneous site improvements will be constructed to support the landside terminal.
- Modifications to existing surface parking will be made to support the operations of the existing Terminal B and the new Central Terminal B upon completion.

The original Terminal design-build contract included the construction of an in-terminal hotel to be constructed on levels 5 through 10 of Terminal B, housing approximately 185 guest rooms. The County in March 2009 elected not to proceed with the construction of the hotel. The cost of the program was reduced by approximately $27 million with the elimination of the hotel scope.

The design-build procurement method utilizes work authorizations to authorize the contractor to actually construct the various packages which comprise the design-build contract. As of May 2010, the Landside contractor had been authorized to construct scope valued at approximately $390 million.

The construction is progressing on schedule with the completion of the structural steel, pre-cast panels, placement of all concrete floor decks, and roof decks. Interior construction of utilities and equipment in the central utility plant including boilers, chillers and main switchgear is progressing. In the administration block of the Terminal, interior framing, rough in and system work is in progress. Installation of elevators has commenced. The exterior work and elevated roadway is under construction and proceeding ahead of schedule. Work on both elevated garage/parking access towers and cooling towers is progressing. Terminal approach roadways have started with site clearing and grading activities.

"Airside" Concourse Design-Build Contract. The design-build contract for this portion of the TMP is valued at approximately $288 million. The County issued a request for bids with respect to this contract in January 2008, received bids in early April 2008, and awarded the contract in June 2008.

Construction of this element of the TMP commenced in July 2008, and construction completion is anticipated to occur in November 2011 for Phase 1. Phase 2, which consists of the demolition of the existing Terminal B and associated civil work and is expected to be completed early 2012. This contract includes all portions of the TMP necessary to complete a fully functional airside concourse, including:

- Airside Concourse – The concourse building is comprised of a 2-story facility encompassing approximately 300,000 square feet. The concourse will house all of the aircraft gate operations including passenger hold lounges, concessions and a large passenger security checkpoint on Level 2. Level 1 will include building support, airline support area, APM maintenance, and the new international arrivals facility.
- Automated People Mover – Access between the terminal and airside will be provided via an automated people mover ("APM") system on an above grade guideway structure. The APM system has been procured under a separate contract by the County.
- Aircraft Apron – A new concrete aircraft apron will be constructed to support the aircraft movement around the airside concourse.
- Site Improvement/Utilities – All landside utilities and miscellaneous site improvements will be constructed to support the airside concourse.
- Cross-field Taxiway – A new cross-field taxiway will be constructed north of existing Taxiway A to increase the terminal platform area.

As of May 2010, the Airside contractor had been authorized to construct $264 million in scope. The construction has progressed ahead of schedule. The early civil work for the overnight aircraft parking pad and Taxiway W were completed and are in operation. Additionally, the asphalt base is totally complete and the final pavement surrounding the concourse will be placed in the third quarter of 2010. Work on the tug tunnel which connects the Airside portion to the Landside portion is complete. Construction of the APM elevated guideway is nearing completion ahead of the July 2010 milestone date.

Work is progressing on the building enclosure and roof system. Interior walls are framed and rough-in of mechanical, electrical and plumbing work is proceeding. Electrical switch gear, main air-handlers, emergency generators, and all other major building system components are on site. Installation of escalators and elevators is underway. With progress to date, the County expects all contract milestones to be achieved on or ahead of schedule.

Ancillary Projects Contracts. To complete the TMP, various ancillary projects are planned to support or enhance airport operations. The contracts for this element of the TMP are valued at approximately $17 million and will be awarded at various intervals throughout the duration of the TMP. The County began issuing requests for bids with respect to these contracts beginning in December 2007, will continue to issue requests for bids through June 2010, and anticipates awarding the contracts from March 2008 to September 2011. The construction period for these elements of the TMP is expected to be May 2008 through October 2011, and construction completion for these elements is anticipated to occur between December 2008 and February 2012. These contracts include renovation/addition to existing facilities as well as new construction, including:

- Terminal A Modifications – A renovation to the ticket hall and upgrades to the existing gate hold lounges will be completed as part of this work. The County expects to issue a request for bids in the second quarter of 2010 with a three-phased construction period from the third quarter of 2010 to first quarter of 2012.
- Temporary Project Management Office – To effectively manage the construction of the TMP, a temporary project management office has been constructed on the west side of International Airport. The County issued a request for bids in December 2007 with a construction period from April 2008 to December 2008, with beneficial occupancy reached on December 20, 2008. This project is complete.

- Remote Central Receiving Facility – A new remote central receiving facility is planned as a central receiving point for all goods entering International Airport. The County issued a request for bids in April 2008 with a construction period from July 2008 to August 2009. This project is in close-out.
- Public Safety Building – Once the Central Terminal B is complete, Airport System administrative functions will be vacated from the existing Administration Building. This existing facility will be converted into a Public Safety Building housing the Airport Bureau of the Sheriff's Department and other security related functions. The County expects to issue a request for bids in June 2011 with an expected construction period from the fourth quarter of 2011 to the second quarter of 2012.
- Passenger Remote Parking – To meet passenger parking demands, a new remote surface parking lot has been constructed near the airport entrance and West general aviation ramp. This parking lot is being used as a "cell phone lot" for vehicles waiting to pick up arriving passengers and will also be utilized to accommodate holiday and overflow parking needs. The lot provides approximately 3,600 spaces. The County issued a request for bids in April 2008 with a construction period from July 2008 to November 2008, with beneficial occupancy occurring in November 2008. This project is complete.

Airport Procured Contracts. The systems and equipment contracts to be procured directly by the County (as opposed to being procured as part of the contracts described above) are valued at approximately $87 million. The contracts will be awarded at various intervals throughout the duration of the TMP. The County issued requests for bids with respect to these contracts in January 2008 through May 2009. The County began awarding these contracts in June 2008 and awarded contracts through July 2009. Construction of these elements of the TMP commenced in June 2008, and construction completion is anticipated to occur in September 2011. These contracts include various systems necessary to support International Airport and airline operations, including:

- Automated People Mover – The APM System is composed of a dual shuttle train system that will provide passenger access between the new Central Terminal B and airside facilities. This system will be a self-propelled system capable of transporting approximately 3,300 passengers per hour. The County issued a request for bids in January 2008, received bids in early April 2008, and awarded a contract in June 2008. Construction commenced in July 2008 with completion expected in October 2011.
- Baggage Handling System – A baggage handling system will transport baggage from the ticket hall down two levels to the screening matrix in the terminal basement. Once cleared, the baggage handling system will sort baggage to the individual airline make-up areas. The screening equipment will be provided by the TSA. The County issued a request for bids in May 2009 and awarded the contract in October 2009 with an expected construction period of November 2009 to September 2011.
- Vertical Transportation Systems – To maintain consistency of product type, the facility elevators and escalators will be procured under a single contract and assigned to individual contractors. This method will allow a single manufacturer for these systems and provide the Airport System with a single maintenance contract. The County issued a request for bids in December 2008 and awarded the contract in June 2009 with an expected construction period from June 2009 to May 2011.
- Passenger Boarding Bridges – Passenger boarding bridges to be attached to the airside of Concourse B allowing passenger access from the aircraft to the concourse. A total of 19 bridges will be required for the TMP. The County issued a request for bids in December 2009 and awarded the contract in April 2010 with an expected construction period from May 2010 to July 2011.

Cost Estimation Methodology. Project costs and the phasing of these costs were estimated by the County's consultants. The design team is composed of over twenty different firms specializing in architecture, structural, mechanical, electrical, civil, and other similar engineering disciplines. The County has engaged the services of Corgan Associates, Inc. to be the Architect/Engineer of Record in association with Fentress Architects and to prepare drawings and specifications for the TMP. Corgan Associates, Inc. was established in 1938 and is a national architecture firm which specializes in the planning and design of airport terminal facilities. The firm's first airport project was completed in the 1950's, and the firm has since been involved in projects ranging from terminal additions to multi-million dollar terminal programs. Recent projects include International Terminal D at Dallas/Fort Worth International Airport the North Terminal Development at Miami International Airport and Terminal E at Houston Intercontinental Airport.

For program elements under contract, the project budget reflects the contract value. Project cost estimates for program elements not yet under contract include allowances for engineering fees, design fees, design and construction administration costs, other "soft costs," contingencies, and escalation for inflation. Costs for the TMP were estimated after a well-defined level of architectural and engineering layouts, systems, and outline specifications had been developed. Two independent professional cost estimating firms were engaged to develop detailed cost estimates of the TMP and the County requested that estimates be reconciled by the two firms. The source of the unit costs are based on recently constructed projects and discussions with vendors based on current market conditions. The available TMP programwide contingency allowance is approximately $10 million.

Construction Risks. The Architect/Engineer of Record for the TMP identified a number of challenges that must be overcome to complete the TMP. The primary cause of these challenges revolves around the need to perform construction activities on an active airport. If airport and airline operations are impacted, there can be no assurances that significant financial losses will not occur. To mitigate this potential, the County has planned for many construction activities to occur in phases or during off-hours of operations to ensure on-going operations are maintained. Particular challenges specific to the TMP include the following:

- Because of the location of the Airside Concourse, aircraft access to the existing Terminal B will be affected, requiring modification of existing facilities, relocation of aircraft parking positions and the movement of passenger boarding bridges to maintain operations during construction. Risk associated with the airline relocations is being managed by making use of available Concourse B gate areas requiring minimal facility modifications.
- In addition, due to the existing Terminal B on-going operations, contractor access to the Airside Concourse construction site is severely limited from the landside. As such, the contractor job compound and staging area has been established on the airfield side of International Airport. To access the construction site, the contractor must cross an active taxiway. This has the potential to impact operations, security and safety. This has required the construction of paved haul routes, installation of security gates and posting of security guards, and the use of escorts to safely cross the active taxiway. This risk has been managed by extensive coordination and phasing of construction operations with the design build contractor and priced into the Airside contract.
- TMP construction will adversely affect access to, and the number of passenger surface parking spaces. In order to minimize impacts, new entry/exit access routes have been constructed and temporary revenue control booths installed. The risk associated with surface parking has been mitigated by the surface parking improvements and the completion of the remote parking facility.

The estimated costs of, and the projected schedule for, the TMP are subject to a number of uncertainties. The ability of the County to complete the TMP may be adversely affected by various factors. See "INVESTMENT CONSIDERATIONS – Cost of Capital Improvement Program."

Additional Projects

In addition to the TMP project elements, the CIP includes approximately $197 million in additional projects for the Airport System, including projects at International Airport, Executive Airport, Franklin Field, and Mather Airport. The County intends to undertake the remainder of the future CIP projects as warranted by demand considerations and to the extent the County believes the projects are financially viable. The County expects to finance these CIP projects primarily with AIP grants and internally generated funds. The County does not expect to fund any of these projects with Senior, Subordinate or Junior Subordinate Obligations at this time. Many of the projects eligible for federal grants will only be undertaken if federal funds are received.

Financing Plan for TMP

As described in the Airport Consultant's Report, the County anticipates that funding for the TMP will be provided through internally generated cash flow, PFCs, state and federal grants, and the proceeds of the Series 2008 Bonds, the Series 2009 Bonds and the Series 2010 Senior Bonds and other moneys. There can be no assurances that such sources will be available in the amounts and at the times contemplated by the County. In the event one or more sources of expected funding are not available, there can be no assurances that such circumstances will not significantly delay the completion of the TMP and materially adversely affect the Airport System.

INVESTMENT CONSIDERATIONS

The following information should be considered by prospective investors, in addition to the other matters set forth in this Official Statement in evaluating the Series 2010 Senior Bonds. However, it does not purport to be a comprehensive or exhaustive discussion of risks or other considerations which may be relevant to an investment in the Series 2010 Senior Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Rate Covenant Not a Guarantee; Failure to Meet Projections

The ability of the County to pay the principal of and interest on the Series 2010 Senior Bonds depends on the ability of the County to generate Net Revenues in the levels required by the Indenture. Although, as more particularly described herein, the County expects that sufficient revenues will be generated through the imposition and collection of the fees, rents charges and other Revenues described herein, there is no assurance that such imposition of fees, rents charges or other Revenues will result in the generation of Net Revenues in the amounts required by the Indenture. As a result, the Rate Covenant set forth in the Indenture does not constitute a guarantee that sufficient Net Revenues will be available to make debt service payments on the Series 2010 Senior Bonds.

The County can provide no assurances that operation of the Rate Covenant set forth in the Indenture will not be limited by the requirement of federal law that all aeronautical rates and charges be reasonable. If the Rate Covenant set forth in the Indenture would require the County to increase airline rates and charges in order to provide sufficient funds to make payments on the Series 2010 Senior Bonds, but the increased airline rates or charges would not be reasonable, then the County will not be able to increase such rates or charges and would be required to increase non-airline rates and charges or take other actions to meet the Rate Covenant. Under such circumstances there could be delays or reductions in payments on the Series 2010 Senior Bonds. See "–Federal Law Affecting Airport Rates and Charges."

In addition, the financial forecasts contained in the Airport Consultant's Report are based on a number of assumptions. Changes in circumstances could have a material adverse impact on the ability of the County to pay the principal of and interest on the Series 2010 Senior Bonds.

Information Concerning the Airlines

Revenues may be affected by the ability of the airlines serving the Airport System, individually or collectively, to meet their obligations to pay rates, rentals, fees and charges. Certain of the airlines (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the SEC. Certain information, including financial information, concerning such airlines (or their respective parent corporations) is disclosed in reports and statements filed with the SEC. Such reports and statements can be inspected and copies obtained at prescribed rates at the SEC's principal offices at 100 F Street, N.E., Washington, D.C. 20549, and should he available for inspection and copying at the SEC's regional offices located at 233 Broadway, New York, New York 10279, and 500 W. Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information on the hours of operation of the Public Reference Room by calling the SEC at 1 -800-SEC-0380. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically the SEC. Some of the airlines are required to file periodic reports of financial and operating statistics with the USDOT. Such reports can be inspected at the Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs Administration, USDOT, 400 Seventh Street, S. W., Washington, D.C. 20590, and copies of such reports can he obtained from the USDOT at prescribed rates.

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

The County has no responsibility for the completeness or accuracy of information available from the USDOT or SEC, including, but not limited to, updates of information on the SEC's Internet site or links to other Internet sites accessed through the SEC's site. The County has not reviewed or verified any of the information contained in such reports filed with the SEC and makes no representation as to the accuracy, completeness or fairness of any such reports or other information made available to the public by the airlines or their respective parent corporations.

Effect of Airline Bankruptcies

A bankruptcy of an airline operating at the Airport System could result in delays or reductions in payments on the Series 2010 Senior Bonds.

In the last several years, US Airways, United Airlines, Delta Air Lines, Northwest Airlines and Frontier Airlines have emerged from bankruptcy. In August 2010, Mexicana de Aviacion filed for bankruptcy, and notified the County that it was suspending operations at International Airport through the end of August 2010. There can be no assurances that Mexicana will resume operations at International Airport as it reorganizes under bankruptcy protection. Additional bankruptcy filings may occur in the future. The bankruptcy of an airline with significant operations at the Airport System could have a material adverse effect on operations of the Airport System, Revenues, and the cost to the other airlines operating at the Airport System.

In the event of an airline bankruptcy, the automatic stay provisions of the United States Bankruptcy Code (the "Bankruptcy Code") could prevent (unless approval of the bankruptcy court was obtained) any action to collect any amount owing by the airline to the County or any action to enforce any obligation of the airline to the County. With the authorization of the bankruptcy court, the airline may be able to repudiate some or all of its agreements with the County and stop performing its obligations (including payment obligations) under such agreements. Such a repudiation could also excuse the other parties to such agreements from performing any of their obligations. The airline may be able, without the consent and over the objection of the County, the Trustee, and the holders of the Series 2010 Senior

Bonds, to alter the terms, including the payment terms, of its agreements with the County, as long as the bankruptcy court determines that the alterations are fair and equitable. In addition, with the authorization of the bankruptcy court, the airline may be able to assign its rights and obligations under any of its agreements with the County to another entity, despite any contractual provisions prohibiting such an assignment. The Trustee and the holders of the Series 2010 Senior Bonds may be required to return to the airline as preferential transfers any money that was used to make payments on the Series 2010 Senior Bonds and that was received by the County or the Trustee from the airline during the 90 days immediately preceding the filing of the bankruptcy petition. Claims by the County under any lease with the airline may be subject to limitations.

An airline is likely to be in possession of PFCs at the time it goes into bankruptcy. While there are provisions in the law requiring airlines to treat PFCs as trust funds, the application of these provisions in a bankruptcy case is not clear. The airline may not be required to turn over to the County or the Trustee any PFCs in its possession at the time it goes into bankruptcy. Even while the airline is in bankruptcy, it may not be required to turn over PFCs that are collected prior to the time that the County or the Trustee demands the turnover of the PFCs. Even after a demand is made, it is possible that the airline would not be required to turn over subsequently-collected PFCs.

There may be delays in payments on the Series 2010 Senior Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of an airline that could result in delays or reductions in payments on the Series 2010 Senior Bonds. Regardless of any specific adverse determinations in an airline bankruptcy proceeding, the fact of an airline bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2010 Senior Bonds.

Effect of Concessionaire Bankruptcies

A bankruptcy of any significant concessionaire at International Airport could also result in delays or reductions in payments on the Series 2010 Senior Bonds, for reasons similar to those discussed above with respect to airline bankruptcies. Regardless of any specific adverse determinations in a concessionaire bankruptcy proceeding, the fact of such a bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2010 Senior Bonds.

Effect of County Bankruptcy

The County is able to file for bankruptcy under Chapter 9 of the Bankruptcy Code. A bankruptcy of the County could result in delays or reductions in payments on the Series 2010 Senior Bonds.

Should the County become the debtor in a bankruptcy case, the holders of the Series 2010 Senior Bonds will not have a lien on Revenues received by the County or the Trustee after the commencement of the bankruptcy case unless such revenues constitute "special revenues" within the meaning of the Bankruptcy Code. "Special revenues" are defined to include receipts from the ownership, operation, or disposition of projects or systems that are primarily used to provide transportation services, as well as other revenues or receipts derived from particular functions of the debtor. While the County believes that the Revenues should be treated as special revenues, no assurance can be given that a court would not find otherwise. If Revenues are not special revenues, there could be delays or reductions in payments on the Series 2010 Senior Bonds. Even if a court determines that Revenues are special revenues, the County will be able to use such revenues to pay operation and maintenance costs of the Airport System, notwithstanding any provision of the Indenture or any other agreement to the contrary.

There may be other possible effects of a bankruptcy of the County that could result in delays or reductions in payments on the Series 2010 Senior Bonds.

Regardless of any specific adverse determinations in a County bankruptcy proceeding, the fact of a County bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2010 Senior Bonds.

Uncertainties of the Airline Industry and Dominance of Southwest Airlines

There are numerous factors which affect air traffic generally and air traffic at the Airport System more specifically. Demand for air travel is influenced by factors such as population, levels of disposable income, the nature, level and concentration of industrial and commercial activity in the service area, and the price of air travel. The price of air travel is, in turn, affected by the number of airlines serving a particular airport and a particular destination, the financial condition, cost structure and hubbing strategies of the airlines serving an airport, the willingness of competing airlines to enter into an airport market, the cost of operating at an airport, the price of fuel, and any operating constraints (due to capacity, environmental concerns or other related factors) limiting the frequency or timing of airport traffic within the national system or at a particular airport, such as the National Air Traffic Control System.

In Fiscal Year 2008-09, Southwest Airlines accounted for approximately 52.6% of the total enplaned passengers at International Airport. Where an airport has a significant market share accounted for by a single airline, there is also risk associated with the potential for that airline to reduce or discontinue service. However, in the case of Southwest Airlines at International Airport, this risk is mitigated by the following factors: (i) Southwest Airlines does not operate a connecting hub at International Airport, and the passengers served are primarily origin-destination passengers; (ii) the development of service by Southwest Airlines has demonstrated the level of locally-generated passenger demand that could be served by other airlines at International Airport if Southwest Airlines were to reduce service; and (iii) Southwest Airlines has a proven record, with very few exceptions, of maintaining and increasing service at the airports it serves. However, as described in the Airport Consultant's Report in the Fiscal Year 2008-09 and Fiscal Year 2009-10 several airlines, including Southwest Airlines, reduced the number of seats offered to International Airport.

The industry is cyclical and subject to intense competition and variable demand. Traffic volumes are responsive to economic circumstances and seasonal patterns. Other factors, such as fuel and regulatory costs, can also have a significant impact on the industry. As a result, financial performance can fluctuate dramatically from one reporting period to the next.

Fuel is a significant cost component of airline operations and continues to be an important and uncertain determinate of an air carrier's operating economics. Historically, aviation fuel prices have been particularly sensitive to worldwide political instability. Continued or new hostilities in the Middle East or other petroleum producing regions could dramatically impact the price and availability of aviation fuel. Economic expansion in emerging markets also contributes to higher aviation fuel prices. Significant and prolonged increases in the cost of aviation fuel have had and are likely to continue to have an adverse impact on the air transportation industry by increasing airline operating costs, hampering airline recovery plans and reducing airline profitability.

Since the economic deregulation of the airline industry in 1978, the industry has undergone significant changes including a number of airline mergers, acquisitions, bankruptcies and closures. In addition, the financial results of the airline industry have been subject to substantial volatility since deregulation. The financial strength and stability of airlines serving International Airport are key determinants of future airline traffic. The financial results of the airline industry have been subject to substantial volatility since deregulation, and many carriers have not been profitable, particularly after the events of September 11, 2001, the Severe Acute Respiratory Syndrome outbreak in 2003, the war in Iraq, recessions, availability and increases in aviation fuel prices. Additional bankruptcy filings, mergers, consolidations and other major restructuring by airlines are possible. In addition, individual airline decisions regarding level of service, particularly hubbing activity, at International Airport will affect total enplanements. No assurance can be given as to the levels of aviation activity which will be achieved at International Airport.

There is no assurance that International Airport, despite a demonstrated level of airline service and operations, will continue to maintain such levels in the future. The continued presence of the airlines serving International Airport, and the levels at which that service will be provided, are a function of a variety of factors. Future airline traffic at International Airport will be affected by, among other things, the growth or decline in the population and the economy of International Airport service region and by national and international economic conditions, federal regulatory actions, airline service, air fare levels and the operation of the air traffic control system.

The County makes no representation whatsoever with respect to the continued viability of any of the carriers serving International Airport.

Competition

The other major airports that compete with the Airport System for passengers and cargo traffic are San Francisco International Airport, Oakland International Airport and Norman Y. Mineta San Jose International Airport. While the County expects International Airport to continue to be the major air traffic center for the Sacramento area, based on passenger preferences stemming from the Airport System's location and service, there can be no assurance that such passenger preferences will continue and that passengers will not choose to fly from competing airports.

Federal Law Affecting Airport Rates and Charges

In general, federal aviation law requires that airport fees charged to airlines and other aeronautical users be reasonable and that in order to receive federal grant funding, all airport generated revenues must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner that are directly and substantially related to air transportation of passengers or property. Pursuant to the requirements of the 1994 Aviation Act the USDOT and FAA have promulgated regulations setting forth an expedited hearing process to be followed in determining the reasonableness of the fees charged to airlines and other aeronautical users.

The County is not aware of any formal dispute involving International Airport over any existing rates and charges. The County believes the rates and charges it imposes upon air carriers, foreign air carriers and other aeronautical users, and the rates and charges methodology utilized for the Rate Ordinance, are reasonable and consistent with federal law and applicable FAA regulations.

However, there can be no assurances that one or more airlines will not challenge the compensatory rates established by the County with respect to the Rate Ordinance or, if such a challenge were to be brought, that it would not be successful. A successful challenge to the compensatory rates set forth in the Rate Ordinance could limit the ability of the County to charge the airlines and other aeronautical rates required by the provisions of the Indenture and would require the County to increase rates and fees charged to non-aeronautical users, which could have a material adverse impact on the financial condition of the Airport System.

The County can provide no assurances that the operation of the Rate Covenant set forth in the Indenture will not be limited by the requirement of federal law that all aeronautical rates and charges be reasonable. If the Rate Covenant set forth in the Indenture would require the County to increase aeronautical rates and charges in order to provide sufficient funds to make payments on the Series 2010 Senior Bonds, but the increased rates or charges would not be reasonable, then the County will not be able to increase such rates or charges and would require the County to increase rates and charges to non-aeronautical users (such as automobile parking, rental cars, terminal concessions, and other nonairline tenants). Under such circumstances there could be delays or reductions in payments on the Series 2010 Senior Bonds.

Additional Obligations Can Be Issued Without Bondholder Consent

Under the Indenture the County is permitted to issue additional obligations without obtaining any consent from any holder of existing Series 2010 Senior Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS. Such newly issued obligations may be junior to, or on a parity with the Series 2010 Senior Bonds, as long as the requirements of the Indenture are satisfied. Any such additional obligations may be secured by the Trust Estate and thus an increased amount of debt will be outstanding, but the amount of collateral for those obligations will not be increased. Certain of the conditions for the issuance of additional obligations relate to financial projections regarding the future operations of the Airport System. The County can provide no assurance that such projections will be achieved. If such projections are not achieved, there may be insufficient Revenues to make the required payments on all of the Series 2010 Senior Bonds, unless airport rates and charges are increased. The County, however, may be unable to increase airport rates and charges as a result of federal law that requires all airport rates and charges to be reasonable. See "INVESTMENT CONSIDERATIONS – Federal Law Affecting Airport Rates and Charges." Under such circumstances, there could be delays or reductions in payments on the Series 2010 Senior Bonds.

Collateral Can Be Released to the County

Under the Indenture the County is permitted to direct the Trustee to release portions of the Trust Estate to the County, free and clear of the lien of the Indenture, without obtaining any consent from any holder of the Series 2010 Senior Bonds, as long as certain conditions are satisfied. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 SENIOR BONDS – Released Revenues." Certain of the conditions for the release of collateral relate to financial projections regarding the future operations of the Airport System. The County can provide no assurance that such projections will be achieved. If such projections are not achieved, there may be insufficient Revenues remaining in the Trust Estate to make the required payments on the Series 2010 Senior Bonds, unless airport rates and charges are increased. The County, however, may be unable to increase airport rates and charges as a result of federal law that requires all airport rates and charges to be reasonable. See "INVESTMENT CONSIDERATIONS – Federal Law Affecting Airport Rates and Charges." Under such circumstances, there could be delays or reductions in payments on the Series 2010 Senior Bonds.

Factors Affecting Capital Improvement Program

As described herein, the County is undertaking a significant capital improvement program with respect to the Airport System. The County has entered into and will enter into agreements for the construction of such capital improvements. See "AIRPORT SYSTEM CAPITAL IMPROVEMENT PROGRAM –TMP Construction." The County anticipates that such contracts will be subject to adjustment for a variety of circumstances, including higher than anticipated costs of labor and materials or subcontractor bids, changes in scope, unforeseen site conditions and force majuere events. The estimated costs of, and the projected schedule for, the CIP are subject to a number of uncertainties. The ability of the County to complete the CIP may be adversely affected by various factors including: (1) estimating errors, (2) design and engineering errors, (3) changes to the scope of the projects, including changes to federal security regulations, (4) delays in contract awards, (5) material and/or labor shortages, (6) unforeseen site conditions, (7) adverse weather conditions and other force majuere events, (8) contractor defaults, (9) labor disputes, (10) unanticipated levels of inflation and (11) environmental issues. No assurance can be made that the existing projects in the CIP, including the TMP, will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue additional indebtedness and may result in increased costs per enplaned passenger to the airlines, thereby making International Airport less economically competitive. There can be no assurances that significant increases in costs over the amounts projected by the County will not materially adversely affect the financial condition or operations of the Airport System.

Unavailability of, or Delay in, Anticipated Funding Sources

As described herein, the County anticipates that funding for the TMP will be provided through a portion of the proceeds of the Series 2010 Senior Bonds, the Series 2009 Bonds and the Series 2008 Bonds, internally generated cash flow, PFCs, federal grants, and other sources. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for a description of the financing plan for the CIP. In the event that any of such sources are unavailable for any reason, including unavailability of internally generated cash flow; reduction in the amount of PFC or federal grants available to the Airport System; non-appropriation of, or delay in payment of, federal grants; the inability of the County to issue or sell additional Senior Obligations or Subordinate Obligations if necessary; or any other reason, the completion of the TMP could be substantially delayed and financing costs could be higher than projected. There can be no assurances that such circumstances will not materially adversely affect the financial condition or operations of the Airport System.

Report of the Airport Consultant

The Airport Consultant's Report included as Appendix A to this Official Statement contains certain assumptions and forecasts. The Airport Consultant's Report should be read in its entirety for a discussion of historical and forecast results of the Airport System and the assumptions and rationale underlying the forecasts. As noted in the Airport Consultant's Report, 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 Airport Consultant's Report or that may be contained in any future certificate of the County or a consultant are not necessarily indicative of future performance, and neither the Airport Consultant nor the County assumes any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the County are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the Series 2010 Senior Bonds are cautioned not to place undue reliance upon the Airport Consultant's Report 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, PFCs and federal grants may be materially less than expected and consequently, the ability of the County to make timely payment of the principal of and interest on the Series 2010 Senior Bonds may be materially adversely affected.

Neither the County'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.

Impact of Potential Floods

During the severe winter storms in the Sacramento area in 1986, 1997 and 2006, the American River and Sacramento River levee systems carried a record volume of water due to heavy rainfall of long duration. Although these storms caused some flooding in certain areas, the major levee systems that protect properties in the Sacramento area from disaster withstood the record water flows. However, as described below, certain levee systems in the area, including those protecting International Airport, have been determined to provide significantly less protection against flooding than previously thought.

In June 2006, the United States Army Corps of Engineers (the "Corps") stated that, primarily because of underseepage, levees in the Natomas Basin area of the County (which includes International Airport) were no longer certifiable for a 100 year flood event (i.e., a flood event that has a 1% chance of occurrence in any year). In January 2008, the Corps completed additional analysis and concluded that it could not certify the Natomas Basin levee system for a 33 year flood event (i.e., a flood event that has a 3% chance of occurrence in any year). As a result, future development starting after December 2008 in the Natomas Basin will be severely limited until the deficiencies in the levee system are corrected. Mandatory flood insurance requirements do not apply to International Airport.

Federal and state agencies are currently taking various actions to remedy the deficiencies in the system of levees providing protection to the Natomas Basin. The Sacramento Area Flood Control Agency ("SAFCA"), the local agency responsible for the construction of levee improvements, has publicly stated that 100 year protection can be restored by the end of 2014. However, there can be no assurance that the levee improvements will be completed by the date anticipated by SAFCA.

Flooding of the Sacramento area could result in significant damage to International Airport or to a shutdown of International Airport operations which could materially adversely affect the financial condition or operations of the Airport System and the ability of the County to generate Net Revenues in the amounts required by the Indenture.

Impact of Potential Earthquakes

Generally, seismic activity occurs on a regular basis within the State. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential damage to property located at or near the center of such seismic activity. A serious earthquake could result in damage within the County and to roads, bridges, and other property, including International Airport. Damage to International Airport could include pavement displacement (which could, in the worst case, necessitate the closing of one or more runways for extended periods of time), distortions of pavement grades, breaks in utility, loss of water supply, drainage and sewage lines, displacement or collapse of buildings, rupture of gas and fuel lines, and collapse of levees adjacent to International Airport with consequential flooding. The facilities of the Airport System were each designed to the seismic standards existing at the later of the time of original construction or renovation. However, there can be no assurances that damage resulting from an earthquake will not materially adversely affect the financial condition or operations of the Airport System or the ability of the County to generate Net Revenues in the amounts required by the Indenture.

Climate Change Issues

Climate change concerns are leading to new laws and regulations at the federal and state levels that could have a material adverse effect on airlines operating at the Airport System and could also affect ground operations at airports.

The U.S. Environmental Protection Agency ("EPA") very recently has taken steps towards the regulation of greenhouse gas ("GHG") emissions under existing federal law. Those steps may in turn lead to further regulation of aircraft GHG emissions. On April 24, 2009, EPA published a proposed "endangerment and cause or contribute finding" under the Clean Air Act. In the proposed finding, EPA declared that the weight of scientific evidence "requires" a finding that it is very likely that the six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The proposed rule also finds that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. If the proposed rule becomes final, EPA would be required to regulate emissions of certain GHGs from motor vehicles. The Clean Air Act regulates aircraft emissions under provisions that are parallel to the requirements for motor vehicle emissions. Accordingly, EPA may elect or be forced by the courts to regulate aircraft emissions as a result of this endangerment finding.

Regulation by the EPA can be initiated by private parties or by governmental entities other than EPA. In 2007, several states, including California, petitioned EPA to regulate GHGs from aircraft. On July 30, 2008, EPA issued an Advanced Notice of Proposed Rulemaking ("ANPR") relating to GHG emissions and climate change. Part of the ANPR requested comments on whether and how to regulate GHG emissions from aircraft. While EPA has not yet taken any action to regulate GHG emissions from aircraft, the request for comments and proposed rule on motor vehicles may eventually result in such regulation.

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, including California, and have been proposed on the federal level. California recently passed Assembly Bill 32, the Global Warming Solutions Act, which requires the statewide level of GHGs to be reduced to 1990 levels by 2020. A recently proposed federal bill, the American Clean Energy and Security Act of 2009, would, if passed, amend the Clean Air Act to require regulation of aircraft GHG emissions, require a reduction in emissions from transportation fuels including jet fuel, and generally would cap GHG emissions.

The County is unable to predict what Federal and/or state laws and regulations with respect to GHG emissions will be adopted, or what effects such laws and regulations will have on airlines serving the Airport System or on Airport System operations. The effects, however, could be material.

Economic Conditions

Historically, the financial performance of the air transportation industry has correlated with the state of the national economy. Future increases in passenger traffic will depend largely on the ability of the U.S. to sustain growth in economic output and income. In addition, traffic at the International Airport will depend in part on the economic conditions in the State and local service area. In 2008 and most of 2009, the local, national and world economies experienced a significant recession. During this period there have been significant and dramatic changes in the financial markets. The short and long term effects of these developments on the broader economy are not known at this time. There can be no assurances that continuing weakness in the national, state and/or local economy will not have an adverse effect on the air transportation industry, and on the Airport System.

Pandemic

On April 25, 2009, the Director-General of the World Health Organization convened the Emergency Committee in compliance with International Health Regulations (2005) to assess an outbreak of influenza A (H1N1) or the "Swine Flu" in the United States and Mexico. Since that time, the Director-General has increased the level of influenza pandemic alert several times. (Subsequent published reports indicate that Swine Flu cases occurred throughout the United States and Europe.) The Director-General recommended against restricting international travel and advocated mitigation measures against the virus rather than attempts at containment. Current conditions relating to the Swine Flu, or future outbreaks of Swine Flu or other communicable diseases, however, could result in a reluctance to travel on a discretionary or non-business basis, including for vacations.

LITIGATION

There is no litigation now pending against the County or, to the knowledge of its respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2010 Senior Bonds or in any way contesting or affecting the validity of the Series 2010 Senior Bonds or any proceedings of the County taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2010 Senior Bonds or the use of the Series 2010 Senior Bond proceeds.

There are a number of litigation matters pending against the County for incidents at the Airport System. These claims and suits are of a nature usually incident to the operation of the Airport System and, in the aggregate, in the opinion of the management of the Airport System, based upon the advice of the County Counsel, will not have a material adverse effect on the Net Revenues of the Airport System or financial condition or operations of the Airport System. It should be noted that a significant portion of the claims relating to personal injuries and property damage are covered by a comprehensive insurance program maintained by the County for the Airport System.

RATINGS

The Series 2010 Senior Bonds have been assigned ratings of "A2" (with a negative outlook) and "A" (with a stable outlook), respectively, by Moody's and S&P. Certain information was supplied by the County to such rating agencies to be considered in evaluating the Series 2010 Senior Bonds. The ratings reflect only the views of the rating agencies and any explanation of the significance of such ratings may be obtained only from such rating agencies as follows: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007 and Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, or any of them, if, in their respective judgment, circumstances so warrant. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the Series 2010 Senior Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010 Senior Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes, except that no opinion is expressed as to the status of interest on any Series 2010 Senior Bonds for any period that such Series 2010 Senior Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2010 Senior Bonds or by a "related person" within the meaning of Section 147(a) of the Code. In the further opinion of Bond Counsel, interest on the Series 2010 Senior Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix G hereto.

To the extent the issue price of any maturity of the Series 2010 Senior Bonds is less than the amount to be paid at maturity of such Series 2010 Senior Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2010 Senior Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2010 Senior Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2010 Senior Bonds is the first price at which a substantial amount of such maturity of the Series 2010 Senior Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2010 Senior Bonds accrues daily over the term to maturity of such Series 2010 Senior Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2010 Senior Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2010 Senior Bonds. Beneficial Owners of the Series 2010 Senior Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2010 Senior Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2010 Senior Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2010 Senior Bonds is sold to the public.

Series 2010 Senior Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2010 Senior Bonds. The County has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2010 Senior Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2010 Senior Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2010 Senior Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2010 Senior Bonds may adversely affect the value of, or the tax status of interest on, the Series 2010 Senior Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2010 Senior Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010 Senior Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2010 Senior Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2010 Senior Bonds. Prospective purchasers of the Series 2010 Senior Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2010 Senior Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the County, or about the effect of future changes in the

Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The County has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2010 Senior Bonds ends with the issuance of the Series 2010 Senior Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the County or the Beneficial Owners regarding the tax-exempt status of the Series 2010 Senior Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the County and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2010 Senior Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2010 Senior Bonds, and may cause the County or the Beneficial Owners to incur significant expense.

LEGAL MATTERS

The validity of the Series 2010 Senior Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix G. Certain matters will be passed upon on behalf of the County by the Sacramento County Counsel, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, its Disclosure Counsel, and on behalf of the Underwriters by their counsel, Kutak Rock LLP. Bond Counsel, Disclosure Counsel and Underwriters' counsel have not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement.

CONTINUING DISCLOSURE

The County has covenanted for the benefit of owners of the Series 2010 Senior Bonds to provide certain financial information and operating data relating to the County and the Airport System by not later than 210 days after the end of the County's Fiscal Year in each year, commencing with Fiscal Year ending June 30, 2010 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the County electronically with the EMMA system. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of material events by the County to provide certain information is summarized in APPENDIX F - "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The County has not failed in the last five years to comply in all material respects with such requirements.

FINANCIAL ADVISOR

Public Financial Management, Inc. is employed as Financial Advisor to the County in connection with the issuance of the Series 2010 Senior Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2010 Senior Bonds is contingent upon the issuance and delivery of the Series 2010 Senior Bonds. Public Financial Management Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2010 Senior Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. The Financial Advisor to the County has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the County and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITING

Morgan Stanley & Co. Incorporated, as representative of the Underwriters set forth on the cover page hereof (the "Underwriters"), has agreed, subject to certain conditions, to purchase the Series 2010 Senior Bonds at a price of $130,637,557.58 (which is equal to the aggregate principal amount of the Series 2010 Senior Bonds of $128,300,000, plus net original issue premium of $3,025,086.50, and less an underwriters' discount of $687,528.92). The purchase contract relating to the Series 2010 Senior Bonds provides that the Underwriters will purchase all the Series 2010 Senior Bonds if any are purchased. The Series 2010 Senior Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than such public offering price, and such public offering price may be changed, from time to time, by the Underwriters.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, one of the underwriters of the Series 2010 Senior Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2010 Senior Bonds.

J.P. Morgan Securities Inc. ("JPMSI"), one of the underwriters of the Series 2010 Senior Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Series 2010 Senior Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Series 2010 Senior Bonds from JPMSI at the original issue price less a negotiated portion of the selling concession applicable to any Series 2010 Senior Bonds that such firm sells.

FINANCIAL STATEMENTS

The audited financial statements of the Airport System set forth in Appendix B in the Comprehensive Annual Financial Report for Fiscal Years Ended June 30, 2008 and 2009 have been examined by Vavrinek, Trine, Day & Co. LLP, independent certified public accountants, for the periods indicated and to the extent set forth in their report thereon and should be read in their entirety. Vavrinek, Trine, Day & Co. LLP , has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Vavrinek, Trine, Day & Co., LLP also has not performed any procedures relating to this Official Statement.

The audited financial statements prepared by the County each Fiscal Year are provided to the Trustee within 210 days after the end of each such year in accordance with the Indenture.

Set forth in Appendix C is certain unaudited financial information for the nine months ended March 31, 2009 and 2010, as prepared by the County. Such unaudited financial information was prepared by the County, and has not been audited or otherwise reviewed by the County's independent certified public accountant.

MISCELLANEOUS

The foregoing summaries or descriptions of provisions in the Indenture and Rate Ordinance, and all references to other materials not purporting to be quotations in full, are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is thereby made to the complete documents relating to such matters for further information. Copies of the Indenture and the Rate Ordinance are available from the office of the County Counsel.

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

This Official Statement has been duly authorized and approved by the County and duly executed and delivered on its behalf by the officials signing below.

COUNTY OF SACRAMENTO

By: Navdeep S. Gill
Chief Operations Officer

By: G. Hardy Acree
Director of Airports

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

REPORT OF THE AIRPORT CONSULTANT

[THIS PAGE INTENTIONALLY LEFT BLANK]

Appendix A

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

COUNTY OF SACRAMENTO
AIRPORT SYSTEM SENIOR REVENUE BONDS
SERIES 2010

Prepared for

County of Sacramento
Sacramento, California

Prepared by

Jacobs Consultancy
Burlingame, California

August 11, 2010

[THIS PAGE INTENTIONALLY LEFT BLANK]

JACOBS
CONSULTANCY

555 Airport Boulevard, Suite 300
Burlingame, California 94010 U.S.A.
1.650.579.7722 Fax: 1.650.343.5220

August 11, 2010

Mr. Navdeep S. Gill
Chief Operations Officer
County of Sacramento
700 H Street, Room 7650
Sacramento, California 95814

Mr. G. Hardy Acree
Director of Airports
Sacramento County Airport System
6900 Airport Boulevard
Sacramento, California 95837

Re: Report of the Airport Consultant
County of Sacramento
Airport System Senior Revenue Bonds, Series 2010

Dear Mr. Gill and Mr. Acree:

We are pleased to submit this Report of the Airport Consultant (Report) in connection with the proposed issuance of Airport System Senior Revenue Bonds, Series 2010 (the 2010 Bonds) by the County of Sacramento, California (the County) in an aggregate principal amount of $128,300,000. This letter and the accompanying attachment and financial exhibits constitute our Report.

The Airport System consists of Sacramento International Airport (the Airport or SMF), Mather Airport, Executive Airport, and Franklin Field. The County owns SMF and Franklin Field, and leases Mather Airport and Executive Airport from the U.S. Air Force and the City of Sacramento, respectively. The County operates the Airport System through a department referred to as the Sacramento County Airport System (SCAS).

CAPITAL IMPROVEMENT PROGRAM

The County has developed a multiyear capital improvement program (CIP) for the Airport System that extends through the Fiscal Year ending June 30, 2015 (FY 2015) with an estimated cost of $1,234 million.

The primary project in the CIP is the Terminal Modernization Program (the TMP). The TMP, as originally conceived, consisted of a new landside terminal to replace the existing Terminal B, a dual-level roadway system and a parking garage to serve the new landside terminal, a 19-gate airside concourse (together with the new landside terminal, referred to as Central Terminal B) to be connected to the landside terminal via an automated people mover, an in-terminal hotel, and various related projects. As of April 2008, the TMP was estimated to cost $1,270 million. In 2009, in response to economic and industry conditions, the County modified the TMP by canceling the in-terminal hotel project and deferring the parking garage project until after FY 2016. The TMP is to be constructed and operational in late 2011. As of June 2010, the TMP was estimated to cost approximately $1,037 million.

In addition to the TMP, the CIP also includes approximately $197 million for other Airport System projects (the Non-TMP Projects) from FY 2011 to FY 2015. The County intends to undertake the Non-TMP Projects as demand warrants and to the extent that the projects are financially viable.

LONG-TERM FUNDING PLAN

The County plans to finance $811 million of the $1,037 million TMP with the Bonds, including $276 million from the proceeds of the Series 2008 Bonds, $421 million from the proceeds of the Series 2009 Bonds and $114 million from the proceeds of the proposed 2010 Bonds. The balance ($226 million) is to be funded with passenger facility charge (PFC) revenues used on a pay-as-you-go basis ($120 million), SCAS internally generated funds ($82 million), and other sources. The County imposes a $4.50 PFC on each eligible passenger enplaned at the Airport.

The County plans to finance the Non-TMP Projects primarily with federal grants received under the Airport Improvement Program (AIP) and with SCAS internally generated funds. The County does not expect to fund any of the Non-TMP Projects with Bonds or other Obligations. Many of the projects eligible for AIP grants will only be undertaken if such federal funds are received.

THE INDENTURE

The proposed 2010 Bonds are being issued under the Master Indenture of Trust dated as of May 1, 2008, by and between the County and The Bank of New York Mellon Trust Company, N.A. (the Trustee), as previously supplemented (the Master Indenture), and the Fifth Supplemental Indenture of Trust, dated as of August 1, 2010, by and between the County and the Trustee (together with the Master Indenture, the Indenture). The proposed 2010 Bonds are being issued to finance a portion of the cost of the TMP. Capitalized terms not otherwise defined in this Report have the meanings set forth in the Indenture. References in this Report to the Indenture do not purport to be comprehensive or definitive, and all such references are qualified in their entirety by reference thereto.

The Indenture provides for the issuance of Bonds pursuant to a Supplemental Indenture and the issuance of Obligations other than Bonds pursuant to an Issuing Instrument. After the proposed 2010 Bonds are issued, the County will have Outstanding Senior Obligations consisting of $807 million of Senior Bonds payable solely from Net Revenues, Outstanding Subordinate Obligations consisting of $315 million of Subordinate Bonds payable from Available PFC Revenues and from Net Revenues on a subordinate basis, and Outstanding Subordinate Obligations consisting of $37 million of Subordinate Bonds payable from Available PFC Revenues and Available Grant Revenues and from Net Revenues on a subordinate basis.

RATE COVENANT

The Indenture defines Net Revenues, for any period of time, as Revenues for such period less Operating Expenses for such period. Pursuant to the Indenture, the County agrees to prescribe and collect rates, tolls, fees, rentals, and charges in connection with the ownership and operation of the Airport System and for the services rendered in connection therewith, so that in each Fiscal Year:

a. Net Revenues will be at least equal to 100% of the aggregate amount of transfers required to be made pursuant to Sections 5.04(b) through (k) of the Indenture (described in the section of the attachment to this Report entitled "Application of Airport System Revenues,") primarily for the payment of debt service and deposit to the Operating Reserve Account during such Fiscal Year;
b. Net Revenues plus any Transfer* will be at least equal to 125% of Accrued Debt Service on all Outstanding Senior Obligations for such Fiscal Year, provided that the amount of any Transfer shall not exceed 25% of the Accrued Debt Service on the Outstanding Senior Obligations for such Fiscal Year;
c. Net Revenues plus any Transfer will be at least equal to 110% of Accrued Debt Service on all Outstanding Senior Obligations and Subordinate Obligations for such Fiscal Year, provided that the amount of any Transfer shall not exceed 10% of the Accrued Debt Service on the Outstanding Senior Obligations and Subordinate Obligations for such Fiscal Year; and
d. Net Revenues will be at least equal to 100% of Accrued Debt Service on all Outstanding Senior Obligations, Subordinate Obligations, and Junior Subordinate Obligations for such Fiscal Year.

---

*The Indenture defines a Transfer with respect to a Fiscal Year as (a) the amount in the Capital Improvement Fund on the last Business Day of such Fiscal Year plus (b) any amounts withdrawn from the Capital Improvement Fund during such Fiscal Year to pay Operating Expenses and to make any required payments or deposits to pay or secure the payment of Obligations less (c) any amounts credited to the Capital Improvement Fund from the Revenue Fund during such Fiscal Year.

These provisions of the Indenture are referred to as the Rate Covenant.

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 Airport System Revenues").

In a Supplemental Indenture or Issuing Instrument, the County may also specify an amount of PFC revenue, customer facility charge (CFC) revenue, or Grant Funds as a form of Available Revenues to secure certain Obligations issued under the Indenture. The calculation of Accrued Debt Service excludes (i) debt service paid from Available Revenues or moneys other than Revenues and (ii) debt service to be paid from Available Revenues or moneys other than Revenues deposited with the Trustee or another Fiduciary exclusively for such purpose.

ADDITIONAL OBLIGATIONS

Conditions for the issuance of Additional Senior Obligations are set forth in Section 2.08 of the Indenture. The prospective Net Revenues test for Additional Senior Obligations provides, in part, that:

> …(ii) an Airport Consultant has provided to the Trustee a certificate stating that, based upon assumptions the Person signing the certificate deems reasonable, projected Net Revenues will be sufficient to satisfy the rate covenant set forth in Section 6.04 for each of the next five full Fiscal Years following issuance of the Additional Senior Obligations, or each of the next two full Fiscal Years from issuance of the Additional Senior Obligations during which there is no Capitalized Interest, whichever is later, including the Aggregate Adjusted Annual Debt Service during such Fiscal Years on such proposed Senior Obligations.

The certificate of the Airport Consultant to fulfill the requirements of Section 6.04 of the Indenture will be provided to the County as a separate document.

SECURITY FOR THE PROPOSED 2010 BONDS

The proposed 2010 Bonds are to be limited obligations of the County, payable solely from the Trust Estate. The primary component of the Trust Estate is the Net Revenues of the Airport System. The faith and credit of the County are not pledged to the payment of the proposed 2010 Bonds.

RATE ORDINANCE

On May 27, 2008, the County Board of Supervisors adopted a Rate Ordinance that became effective July 1, 2008. Under the Rate Ordinance, landing fee rates are calculated according to a cost center residual methodology; terminal rental rates are calculated according to a commercial compensatory methodology; and Revenues, after deposits required pursuant to Sections 5.04(b) through (k) of the Indenture are made, are retained by the County. The County has no obligation to share remaining Revenues with the airlines. The airlines are not obligated to pay landing fees or terminal rentals to ensure that Net Revenues are sufficient to meet the Rate Covenant. Airlines do not have the right to approve or disapprove Airport System capital expenditures.

In May 2010, the airlines expressed an interest in negotiating an airline use and lease agreement with the County, and the County has agreed to enter into negotiations with the airlines. The County expects a future airline agreement, if any, to be subordinate to the Indenture including the County's obligations under the Rate Covenant. There are no timeframes to these discussions. In developing the forecasts included in this Report, it was assumed that the Rate Ordinance will remain in effect through FY 2016, the last Fiscal Year of the forecast period.

AIRLINES OPERATING AT THE AIRPORT SYSTEM

In July 2010, SMF was served by 14 scheduled passenger airlines, including 3 low-cost carriers (LCCs) and 1 foreign-flag airline, Mexicana de Aviación (Mexicana).[*] Southwest Airlines is the largest airline operating at the Airport in terms of numbers of enplaned passengers, accounting for 52.8% of total enplaned passengers at the Airport in FY 2010.

FUTURE BONDS FOR THE AIRPORT SYSTEM

As of the date of this Report, the County has no plans to issue additional Obligations during the forecast period other than the proposed 2010 Bonds, although the County may issue refunding bonds to realize savings on debt service, or refunding bonds backed by PFC revenues if the PFC collection level is increased above $4.50. For the purposes of this Report, it was assumed that no additional Obligations will be issued, and that the PFC level charged will remain at $4.50.

---

[*]Mexicana filed for bankruptcy protection in August 2010 and notified the County that it was suspending its operations at the Airport (Cabo San Lucas and Guadalajara) through the end of August 2010. Advance airline flight schedules, published in the Official Airline Guide as of August 8, 2010, indicate, but do not assure, a resumption of the airline's daily Guadalajara service in September 2010.

PURPOSE AND SCOPE OF THE REPORT

The purpose of this Report is to evaluate the ability of the County to satisfy the requirements of the Rate Covenant, taking into account the Outstanding Bonds and the proposed 2010 Bonds. The evaluation, in which the effects of both the TMP and Non-TMP Projects are considered, covers the forecast period through FY 2016.

In conducting our study, we analyzed:

- Future airline traffic demand at SMF and Mather Airport, giving consideration to the demographic and economic characteristics of the region served, historical trends in airline traffic, recent airline service developments and airfares, and other key factors that may affect future airline traffic.

- Estimated costs and schedule for implementing CIP projects, including the TMP and the Non-TMP Projects.

- Estimated sources and uses of funds and associated debt service for the Outstanding Bonds and the proposed 2010 Bonds.

- Historical relationships among revenues, expenses, and airline traffic for the Airport System.

- Historical and future PFC revenues.

- The historical financial results for the Airport System, estimated results for FY 2010, the preliminary budget for FY 2011, and forecast results for FY 2012 through FY 2016, including incremental expenses to operate and maintain new facilities.

- The County's policies and other contractual agreements relating to the use and occupancy of the Airport System, including the calculation of airline rentals, fees, and charges under the Rate Ordinance; the operation of concession leases; and the leasing of buildings and grounds.

We also assisted SCAS staff in identifying key factors upon which the future financial results of the Airport System may depend and in formulating 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.

Estimates of project costs, project financing, and debt service were provided by the sources noted in this Report. In addition, we have relied upon (a) the County and the TMP design team for construction schedules and the cost estimate for the TMP; (b) the

County for construction schedules and the cost estimate for the rest of the CIP; (c) Public Financial Management, Inc., SCAS' financial advisor, for Accrued Debt Service on Outstanding Bonds and the proposed 2010 Bonds; and (d) the County's outside counsel for interpretations of the Rate Ordinance and the Master Indenture.

FORECAST DEBT SERVICE COVERAGE

As shown in Exhibits G and H provided at the end of this Report and the following table, Revenues are forecast to be sufficient to pay Operating Expenses and to meet the other funding requirements of the Indenture, including the payment of Accrued Debt Service on Senior Obligations and Subordinate Obligations, thereby satisfying the requirements of the Rate Covenant in each year of the forecast period. The following table summarizes forecasts of Net Revenues, Accrued Debt Service on Senior Obligations and Subordinate Obligations, and debt service coverage, taking into consideration the estimated debt service on the proposed 2010 Bonds.

The calculation of Accrued Debt Service excludes principal and interest expected to be paid from Available PFC Revenues and Available Grant Revenues. Exhibit C presents historical and forecast PFC revenues and the application of PFC revenues.

DEBT SERVICE COVERAGE CALCULATION INCLUDING THE PROPOSED 2010 BONDS
(in thousands except coverage)

	Estimated	Forecast					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Rate Covenant per section 6.04 (b)(i)							
Revenues	$ 133,972	$ 135,131	$ 157,409	$ 175,548	$ 177,058	$ 188,309	$ 193,069
Less: Operating Expenses	(90,659)	(97,564)	(100,946)	(115,679)	(120,672)	(125,889)	(131,340)
Net Revenues	$ 43,313	$ 37,567	$ 56,463	$ 59,869	$ 56,386	$ 62,420	$ 61,729
Transfer (limited to 25%)	4,302	4,322	8,995	13,032	12,357	13,391	13,391
Net Revenues + Transfer	$ 47,615	$ 41,889	$ 65,458	$ 72,900	$ 68,743	$ 75,811	$ 75,119
Accrued Debt Service on Senior Obligations	$ 17,207	$ 17,287	$ 35,981	$ 52,127	$ 49,428	$ 53,565	$ 53,563
Debt service coverage (>1.25)	2.77	2.42	1.82	1.40	1.39	1.42	1.40
Debt service coverage w/o Transfer	2.52	2.17	1.57	1.15	1.14	1.17	1.15
Rate Covenant per Section 6.04 (b)(ii)							
Net Revenues	$ 43,313	$ 37,567	$ 56,463	$ 59,869	$ 56,386	$ 62,420	$ 61,729
Transfer (limited to 10%)	1,721	1,729	3,598	5,213	4,943	5,356	5,356
Net Revenues + Transfer	$ 45,034	$ 39,295	$ 60,061	$ 65,081	$ 61,328	$ 67,776	$ 67,085
Accrued Debt Service on Senior Obligations	$ 17,207	$ 17,287	$ 35,981	$ 52,127	$ 49,428	$ 53,565	$ 53,563
Debt Service on Subordinate Obligations	30,131	31,130	30,112	30,160	30,212	30,272	21,945
Less: available PFC Revenues	(20,449)	(22,006)	(21,941)	(21,940)	(21,941)	(21,943)	(21,945)
Less: available Grant Revenues	(9,682)	(9,124)	(8,171)	(8,220)	(8,271)	(8,329)	-
Accrued Debt Service of Senior & Subordinate Obligations	$ 17,207	$ 17,287	$ 35,981	$ 52,127	$ 49,428	$ 53,565	$ 53,563
Debt service coverage (>1.10)	2.62	2.27	1.67	1.25	1.24	1.27	1.25
Debt service coverage w/o Transfer	2.52	2.17	1.57	1.15	1.14	1.17	1.15

FORECAST PASSENGER AIRLINE PAYMENTS PER ENPLANED PASSENGER

As shown in Exhibit F-3 provided at the end of this Report, the passenger airline payments per enplaned passenger at SMF are forecast to increase from $8.66 in FY 2009 to approximately $18 beginning in FY 2013. These passenger airline payments at SMF include the costs of equipment sometimes owned and operated by the airlines, such as loading bridges and baggage systems.* The forecast passenger airline payments per enplaned passenger are at the high end of costs forecast at other comparable medium-hub airports where major expansion and improvement projects have recently been completed or are planned. In the final analysis, the "reasonableness" of airline rentals, fees, and charges is a judgment that will be made by the individual airlines in deciding what level of service to provide at the Airport in light of the demand in the Sacramento market.

UNDERLYING ASSUMPTIONS

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

---

*Airline payments (costs) per enplaned passenger (CPE), is a standard, although imperfect, benchmark measure of the landing fees and terminal rentals paid by airlines throughout the airport industry CPE ranges widely among individual airports, primarily reflecting the development cycle at each airport, the rate-making methodology in effect, who financed the facilities (the airport operator or the airline), and traffic trends. Although most public-use airport facilities have been financed by airport operators, the airlines have financed some exclusive use terminal facilities. To the extent that these costs are financed directly by the airlines (usually through tax-exempt special facility bonds issued by the airport sponsor on behalf of the airline), they are not reflected in the airport's CPE.

In our opinion, the underlying assumptions 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 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 the Report. We have no responsibility to update this Report to reflect events and circumstances occurring after the date of the Report.

* * * * *

We appreciate the opportunity to serve as the County's Airport Consultant on the proposed financing.

Respectfully submitted,

Jacobs Consultancy

Jacobs Consultancy

[THIS PAGE INTENTIONALLY LEFT BLANK]

Attachment

BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL FORECASTS

County of Sacramento, California

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONTENTS

	Page
Airline Traffic Analysis	A-19
Airports Serving the County of Sacramento	A-19
Airport System	A-19
Sacramento International Airport	A-19
Mather Airport	A-22
Executive Airport and Franklin Field	A-22
McClellan Airport	A-23
Air Service Area	A-23
Demographic and Economic Profile	A-25
Population	A-25
Income	A-27
Employment	A-29
Unemployment Rate	A-30
Employment by Industry Sector	A-31
Government	A-31
Major Employers	A-32
Tourism and Local Activities	A-33
Economic Outlook	A-34
U.S. Economy	A-34
Risks to the U.S. Economic Outlook	A-37
Regional Outlook	A-37
Airport Role	A-39
Airlines Serving the Airport	A-40
Role in Southwest's System	A-41
Historical Airline Traffic and Service	A-43
Enplaned Passengers	A-43
Airport Passenger Characteristics	A-44
Airline Service	A-45
Passenger Traffic by Airline	A-53
Domestic O&D Passenger and Airfare Trends	A-55
Competition with Bay Area Airports	A-61
Air Cargo	A-65
Key Factors Affecting Future Airline Traffic	A-68
Economic and Political Conditions	A-68
Financial Health of the Airline Industry	A-68
Airline Service and Routes	A-69
Airline Competition and Airfares	A-70
Airline Consolidation and Alliances	A-70
Availability and Price of Aviation Fuel	A-71

CONTENTS *(continued)*

Page

Historical Airline Traffic and Service *(continued)*
Aviation Safety and Security Concerns A-71
Capacity of the National Air Traffic Control System........ A-72
Capacity of Sacramento International Airport A-72
High-Speed Rail in California A-73
Enplaned Passenger and Landed Weight Forecasts A-73
Capacity Outlook A-76
Near-term Growth A-78
Longer-term Growth........ A-78
Aircraft Landed Weight A-79

Financial Analysis A-81

Framework for Airport System Financial Operations A-81
Master Indenture of Trust........ A-81
Rate Ordinance A-82
Historical Financial Statements........ A-85

Capital Improvement Program........ A-87
Terminal Modernization Program........ A-87
Non-TMP Projects in the CIP A-90

Cip Funding Plan A-91
Federal and State Grants A-91
PFC Revenues A-92
Capital Improvement Fund A-93
Airport System Revenue Bonds A-94

Debt Service Requirements........ A-96

Operating Expenses A-97

Airport System Revenues A-98
Airline Revenues A-98
Nonairline Revenues A-99
Application of Airport System Revenues........ A-104

Application of Available RevenueS........ A-106

Debt Service Coverage and Rate Covenant........ A-106

TABLES

		Page
1	Key Airport Facilities	A-20
2	Population By County	A-26
3	Average Annual Nonagricultural Employment Growth And Employment Share By Industry Sector	A-31
4	Government Employment Share Of Total Nonagricultural Employment	A-32
5	Major Private Sector Employers	A-33
6	U.S. Economic Projections	A-36
7	Socioeconomic Projections	A-39
8	Top Commercial Service Airports In California	A-40
9	Airlines Providing Scheduled Passenger Service	A-41
10	Top Airports in Southwest's System	A-42
11	International Enplaned Passenger Trends	A-45
12	Daily Scheduled Domestic Passenger Service	A-48
13	Daily Scheduled Domestic Departing Seats, By Destination	A-50
14	Annual Scheduled Departing Seats, by Sector and Airline	A-52
15	Airline Shares of Enplaned Passengers	A-54
16	Outbound Domestic O&D Passengers, by Passenger Trip Distance	A-58
17	Top 20 Domestic O&D City Markets	A-60
18	Daily Domestic Departing Seats by City Market and Airline Type, and Average Fares in Sacramento's Top 20 Domestic O&D Passenger Markets	A-64
19	Airline Shares Of Total Cargo Tonnage At Sacramento International Airport	A-66
20	Airline Shares of Total Cargo Tonnage at Mather Airport	A-67

TABLES *(continued)*

		Page
21	Historical and Forecast Enplaned Passenger Trends	A-74
22	Historical and Forecast Aircraft Departures and Landed Weight	A-80
23	Statement of Historical Revenues and Expenses	A-86
24	Airline Terminal Locations and Terminal Gates	A-90
25	Schedule of Expected Federal Letter of Intent Grants	A-92
26	PFC Approvals	A-93
27	Outstanding Senior Obligations	A-95
28	Outstanding Subordinate Obligations	A-96
29	Statistics for the Proposed 2010 Bonds	A-96
30	Nonairline Revenues, FY 2009	A-99
31	Terminal Building Concession Revenues, FY 2009	A-100
32	Public Parking Spaces	A-102
33	Current and Assumed Public Parking Rates	A-103

FIGURES

		Page
1	Terminal Area Layout—Sacramento International Airport	A-21
2	Air Service Area	A-24
3	Comparative Index of Population trends	A-27
4	Per capita Personal Income	A-28
5	Comparative Index of Total Nonagricultural Employment	A-29
6	civilian unemployment rate	A-30
7	Enplaned Passengers	A-44
8	Scheduled Departing Seats, by Airline Type	A-46
9	U.S. Airports Served by Daily Scheduled Round Trip Passenger Flights.	A-49
10	Daily Scheduled Domestic Departing Seats, By Destination Region	A-51
11	Enplaned Passengers on Southwest vs. All Other Airlines	A-55
12	Index of Outbound Domestic O&D Passengers	A-56
13	Domestic O&D Passengers and Average Fare Paid	A-57
14	Outbound Domestic O&D Passengers, by Region	A-59
15	Comparison of Average Domestic One-Way Airfares, by Distance Band	A-62
16	Total Air Cargo Tonnage	A-65
17	Enplaned Passenger forecast	A-75
18	Changes in Quarterly Scheduled Departing Seats and Enplaned Passengers	A-76
19	Changes in Monthly Scheduled Departing Seats and Enplaned Passengers	A-77
20	Terminal Modernization Program	A-88

EXHIBITS

		Page
A	Project Costs and Sources of Funding – Capital Improvement Program..	A-107
B	Sources and Uses of Funds – Terminal Modernization Program..............	A-108
C	Historical and Forecast PFC Revenues..	A-109
D	Debt Service Requirements	A-110
E	Operating Expenses..	A-111
F	Revenues...	A-112
F-1	Calculation of Terminal Building Rental Rate	A-113
F-2	Calculation of Landing Fee Rate	A-114
F-3	Passenger Airline Payments Per Enplaned Passenger................................	A-115
G	Application of Revenues	A-116
H	Debt Service Coverage and Rate Covenant	A-117

AIRLINE TRAFFIC ANALYSIS

AIRPORTS SERVING THE COUNTY OF SACRAMENTO

Airport System

The Airport System consists of SMF, Mather Airport, Executive Airport, and Franklin Field. SMF is the principal air carrier airport serving the County and the surrounding region, located about 12 miles northwest of downtown Sacramento. Mather Airport, a former U.S. Air Force Base, is located 12 miles east of downtown Sacramento and serves cargo airlines and general aviation. Executive Airport, located about 5 miles south of downtown Sacramento, is a general aviation airport with no scheduled airline service. Franklin Field, located about 15 miles south of downtown Sacramento, is a general aviation airport used primarily for training.

The airports in the Airport System are either owned or leased by the County; the Airport System is operated as a self-sufficient enterprise by a County department referred to as the Sacramento County Airport System and administered by the Director of Airports. The Director of Airports reports to the County Executive, who, in turn, reports to the County Board of Supervisors. The five elected members of the County Board of Supervisors oversee the operation of SCAS.

Sacramento International Airport

SMF is classified as a medium air traffic hub by the Federal Aviation Administration (FAA)[*], which ranked SMF 37th among U.S. airports in 2008 in terms of enplaned passengers. SMF also ranked 37th in the nation in terms of enplaned passengers in the 12 months ended June 30, 2009, according to U.S. Department of Transportation data. In FY 2010, 4.4 million passengers were enplaned on commercial flights at SMF. As of July 2010, SMF was served by 14 scheduled passenger airlines, including 3 low-cost carriers (LCCs) and 1 foreign-flag airline, Mexicana. The scheduled airlines together provided an average of 143 daily scheduled aircraft departures from SMF in the month of July 2010. SMF is also served by two all-cargo airlines.

SMF occupies approximately 6,000 acres of land and has two 8,600-foot-long parallel runways, 16R-34L and 16L-34R. Runway 16R is equipped with a Category III instrument landing system (CAT III ILS).

Table 1 provides a summary of the key facilities at SMF and Figure 1 shows the layout of the Airport terminals, parking facilities, and roadways.

---

[*] The FAA defines a medium hub as airport accounting for at least 0.25%, but less than 1.0%, of total annual passengers enplaned in the United States.

Table 1
KEY AIRPORT FACILITIES
Sacramento International Airport
(as of May 2010)

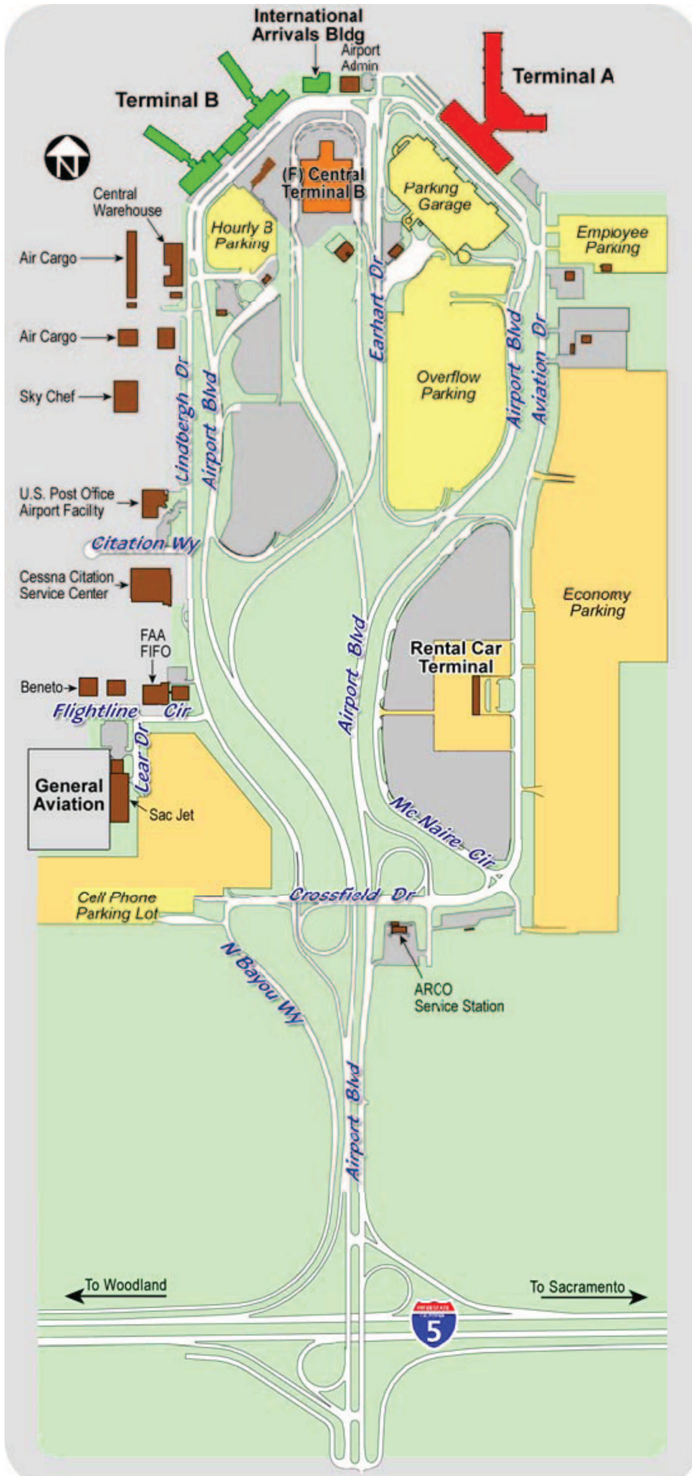
	Length	
Runways		
16R-34L (north/south) – CAT III ILS equipped	8,600 feet	
16L-34R (north/south)	8,600 feet	
	Contact gates *(a)*	Square feet
Terminals		
Terminal A	13	325,000
Interim International Arrivals Building	1	17,000
Terminal B	12	207,000
	26	549,000
	Spaces	
Public parking spaces		
Hourly Terminal A garage	882	
Hourly Terminal B surface lot	475	
Daily Terminal A garage	4,417	
Daily Terminal A overflow lot	2,815	
Economy parking	7,635	
Cell phone parking lot	1,600	
	17,824	

(a) A contact gate is equipped with a loading bridge.
Source: Sacramento County Airport System records.

The 13-gate Terminal A was placed into service in October 1998, doubling the number of Airport gates. Terminal B, which opened in 1967 cannot reasonably or economically be modernized to meet future needs. The Terminal Modernization Program is planned to replace the 12 gates at Terminal B and the 1 gate at the interim International Arrivals Building (IIAB) with 19 gates in Central Terminal B, and to modify Terminal A to provide 2 additional gates, for a total of 34 gates.

Terminal A serves Delta Air Lines, Hawaiian Airlines, Southwest Airlines, and US Airways. Terminal B serves Alaska Airlines, American Airlines, Continental Airlines, Horizon Air, JetBlue Airways, Mexicana (for check-in and ticketing activities), and United Airlines/United Express. Mexicana conducts aircraft operations (arrivals and departures) from the IIAB. All 26 contact gates can accommodate narrowbody B-737/A320 aircraft, 3 can accommodate narrowbody B-757 aircraft, and 2 can accommodate widebody aircraft.

Figure 1
TERMINAL AREA LAYOUT—SACRAMENTO INTERNATIONAL AIRPORT



Source: Sacramento County Airport System, June 2010.

The Terminal A garage opened in 2004, supplementing the Terminal B surface lots and an economy parking lot. A surface parking lot providing 1,600 parking spaces was completed in November 2008, and is currently being used as a cell phone parking lot, available at no charge to customers waiting to pick up arriving passengers.

Mather Airport

In 1988, the U.S. Department of Defense announced that it would close Mather Air Force Base. In March 1995, the County executed a 55-year lease with the U.S. Air Force, authorizing the use of 2,875 acres of the former Mather Air Force Base as a civilian airport. The County assigned this lease to SCAS in May 1995, and Mather Airport is now operated as part of the Airport System, serving cargo and general aviation users. Mather has two parallel runways (11,300-foot-long Runway 4R-22L and 6,040-foot-long Runway 4L-22R), an aircraft parking apron, and various cargo buildings and other structures.

Since 1995, there has been substantial development of cargo facilities at Mather Airport, which is currently served by UPS. In FY 2009, approximately 108 million pounds of air cargo were enplaned and deplaned at Mather Airport (compared with 152 million pounds at SMF). Mather Airport offers a longer runway and greater availability of office and warehouse space than SMF, while freeing up aircraft ramp space at SMF to accommodate the passenger airlines. SCAS does not intend to use Mather Airport for scheduled passenger airline service.

Mather Airport is a designated reliever airport for SMF under the FAA's National Plan of Integrated Airport Systems (NPIAS). In November 2008, the County prepared an emergency plan to move commercial operations from SMF to Mather should the Natomas area surrounding SMF flood. As part of the emergency plan, in the event of an emergency affecting operations at SMF, the County would seek a temporary operating certificate from the FAA that would allow Mather Airport to accommodate scheduled and nonscheduled passenger aircraft with more than 30 seats. Additional discussion regarding flood concern is provided in the later Report section entitled "Construction."

Executive Airport and Franklin Field

Executive Airport is also a designated reliever airport for SMF under the FAA's NPIAS and has tiedown and hangar facilities to accommodate 500 general aviation aircraft. Executive Airport occupies 540 acres of land. In FY 2009, 94,035 general aviation and military aircraft operations were accommodated at Executive Airport. The County leases this airport from the City of Sacramento for a term of 25 years. The 25-year lease has been renewed every year, and the earliest expiration date is beyond FY 2034. Franklin Field, used primarily for training, occupies 496 acres of land and has tiedown and hangar facilities to accommodate 12 based general aviation aircraft.

McClellan Airport

McClellan Airport, located about 10 miles northeast of downtown Sacramento, was closed as a military installation in July 2001. Effective August 2001, the County entered into a long-term lease with the USAF for the property and has entered into an agreement with McClellan Park LLC, a private development consortium, to develop and operate McClellan Airport as a general aviation airport accommodating aircraft sales and maintenance activities.

McClellan Airport is not operated as part of the Airport System, and operation and development of McClellan Airport are not financial obligations of SCAS. The County has stated that it does not intend to include McClellan Airport in the Airport System or permit the airport to be used for commercial airline service. Therefore, it was assumed for the purposes of this Report that the future reuse of McClellan Airport will have no effect on the forecast Net Revenues of the Airport System.

AIRPORT SERVICE AREA

Sacramento is the capital of California and the hub of government and commerce for the Sacramento River Valley region between the San Francisco Bay Area (the Bay Area) to the west and the Sierra Nevada mountain range to the east. SMF is approximately 12 miles northwest of downtown Sacramento, adjacent to Interstate 5, which is the major north/south artery that runs the entire length of California, Oregon, and Washington. SMF is just two freeway exits on Interstate 5 from Interstate 80, the main highway connecting the Bay Area with the Sacramento and Reno/Tahoe areas.

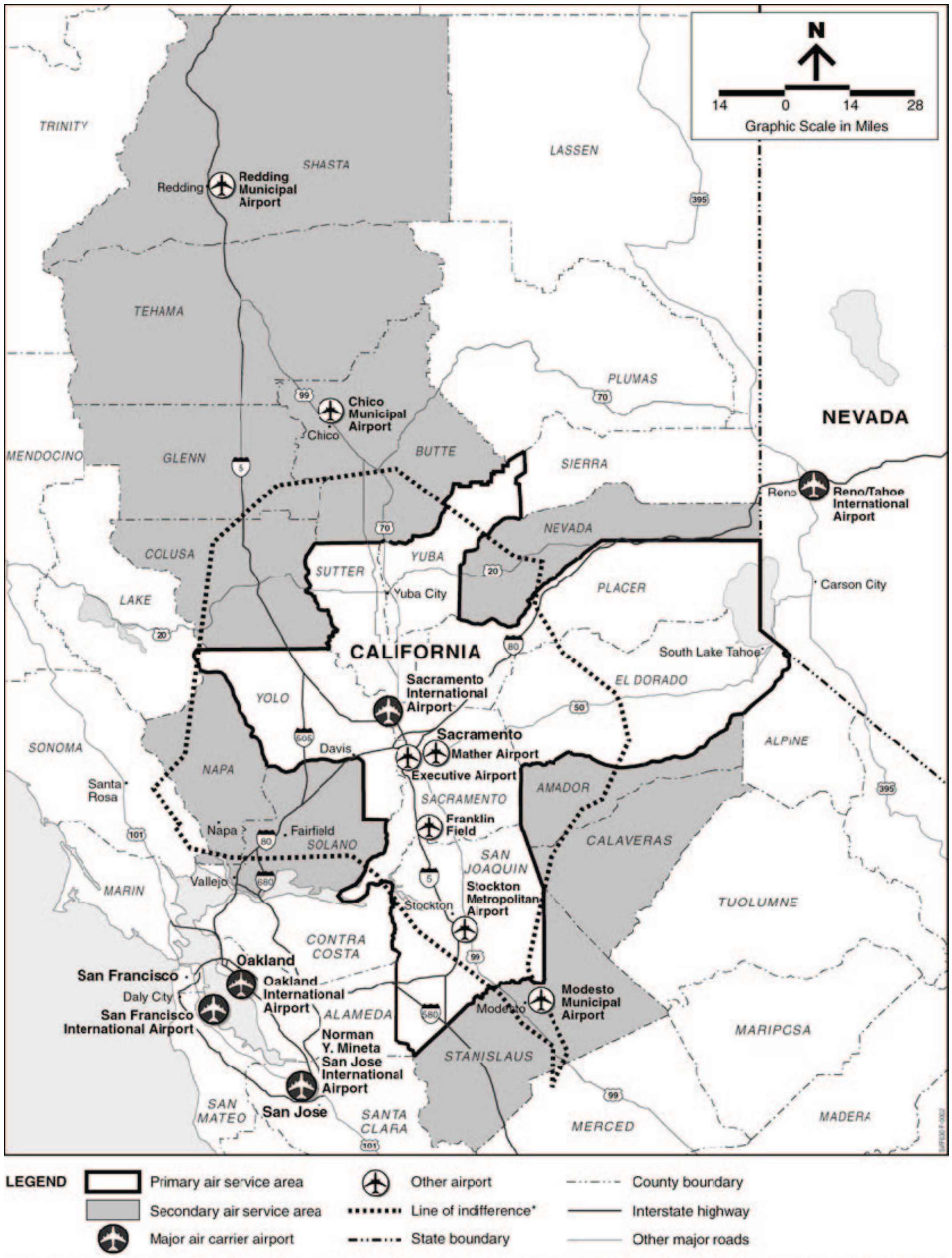
As shown on Figure 2, the primary area served by SMF (referred to as the Sacramento Area) consists of the following seven counties: El Dorado, Placer, Sacramento, San Joaquin, Sutter, Yolo, and Yuba.* For nearly all residents of and visitors to the Sacramento Area, SMF is closer, both in distance and drive time, than competing airports in the Bay Area and the Reno/Tahoe area, especially considering traffic congestion to Bay Area airports and mountain driving conditions to the Reno/Tahoe area.

San Joaquin County is included in the definition of the Sacramento Area for the purposes of this Report because its economy is closely linked with that of the other Sacramento Area counties. Most San Joaquin County residents and the majority of its businesses are located in the northern two-thirds of the county (the Stockton and Lodi areas).

---

*These seven counties represent three contiguous Metropolitan Statistical Areas (MSAs): the Sacramento-Arden-Arcade-Roseville MSA, consisting of El Dorado, Placer, Sacramento, and Yolo counties; the Stockton MSA, consisting of San Joaquin County; and the Yuba City MSA, consisting of Sutter and Yuba counties.

Figure 2
AIRPORT SERVICE AREA
Sacramento International Airport



* Line of indifference denotes the Census tracts within which potential customers (residents and visitors) are indifferent about using Sacramento International Airport or one of the three Bay Area airports (Oakland, San Francisco, or Norman Y. Mineta San Jose International Airports), *Defining the Sacramento Catchment Area*, GRA Inc., April 2007.

Using similar reasoning, Solano County is excluded from the definition of the Sacramento Area for the purposes of this Report. Although the Solano County boundary is less than 20 miles west of downtown Sacramento, the northern and eastern portions of the county are relatively sparsely populated; most Solano County residents live in the southern and western portions of the county (near the Vallejo, Benicia, and Fairfield areas), commute to Bay Area jobs, and have shorter drives to a Bay Area airport than to SMF.

SMF also attracts passengers from an 11-county outlying area (Amador, Butte, Calaveras, Colusa, Glenn, Napa, Nevada, Shasta, Solano, Stanislaus, and Tehama), referred to as the secondary service area. For residents in the northern portion of the secondary service area, including the cities of Redding and Chico, SMF is closer than Bay Area airports. For residents of other areas, such as Napa County, SMF is further than Bay Area airports, but it can be a more convenient option in terms of drive time.

The identification of counties in the Sacramento Area and the secondary service area is supported by Airport catchment area studies conducted for SCAS by Sabre Airline Solutions in 2005 and GRA, Inc., in 2007. The GRA report identifies a "line of indifference," which is the point where potential customers find drive times to SMF and to the closest alternative airport to be equal. However, in determining this line of indifference, the air service opportunities offered at the alternative airports were not considered.

Demographic and Economic Profile

The demand for airline service at SMF is determined largely by the Sacramento Area's demographic and economic profile. For example, the amount and type of commerce in the Sacramento Area determine the level of business travel to and from SMF, per capita personal income in the Sacramento Area affects the level of discretionary travel from SMF, and the draw of local attractions affects the level of discretionary travel to SMF. The following discussion of these socio-economic trends provides a foundation for the airline traffic analysis and forecasts presented later in the Report.

Population

According to the U.S. Department of Commerce, Bureau of the Census, the population of the Sacramento Area was nearly 3.0 million in 2009, concentrated primarily in Sacramento and San Joaquin counties. (See Table 2.) The 11-county secondary service area was home to an additional 1.7 million people.

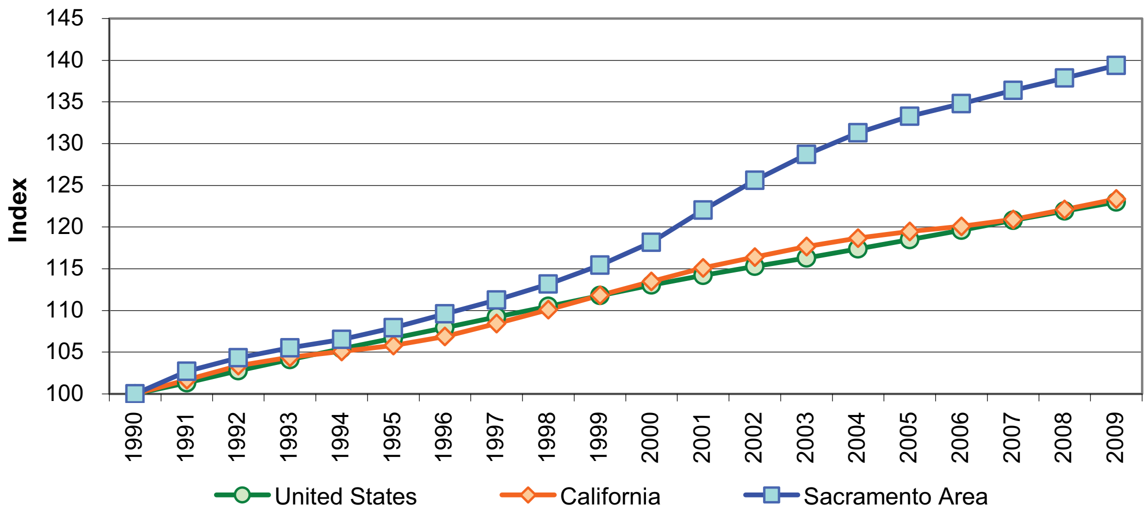
Table 2
POPULATION BY COUNTY
Sacramento Area and Secondary Service Area

County	2009 Population	Percent of Sacramento Area	Percent of total
Sacramento Area:			
Sacramento	1,400,949	47.2%	29.7%
San Joaquin	674,860	22.7	14.3
Placer	348,552	11.7	7.4
Yolo	199,407	6.7	4.2
El Dorado	178,447	6.0	3.8
Sutter	92,614	3.1	2.0
Yuba	72,925	2.5	1.5
Subtotal	2,967,754	100.0%	62.9%
Secondary Service Area			
Stanislaus	510,385		10.8%
Solano	407,234		8.6
Butte	220,577		4.7
Shasta	181,099		3.8
Napa	134,650		2.9
Nevada	97,751		2.1
Tehama	61,138		1.3
Calaveras	46,731		1.0
Amador	37,876		0.8
Glenn	28,299		0.6
Colusa	21,321		0.5
Subtotal	1,747,061		37.1%
Total	**4,714,815**		**100.0%**

Note: Percentages may not add to total shown because of rounding.
Source: U.S. Department of Commerce, Bureau of the Census website.

Between 1990 and 2009, the Sacramento Area's population increased at a higher rate than the population of both California and the nation, largely because of a population surge in the Sacramento Area between 2000 and 2005. (See Figure 3.) Between 2005 and 2009, however, population growth in the Sacramento Area slowed and was closer to State and national rates of growth.

Figure 3
COMPARATIVE INDEX OF POPULATION TRENDS
(calendar years; 1990=100)



Compound annual growth rate	1990-2000	2000-2005	2005-2009
United States	1.2%	0.9%	0.9%
California	1.3	1.0	0.8
Sacramento Area	1.7	2.4	1.1

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

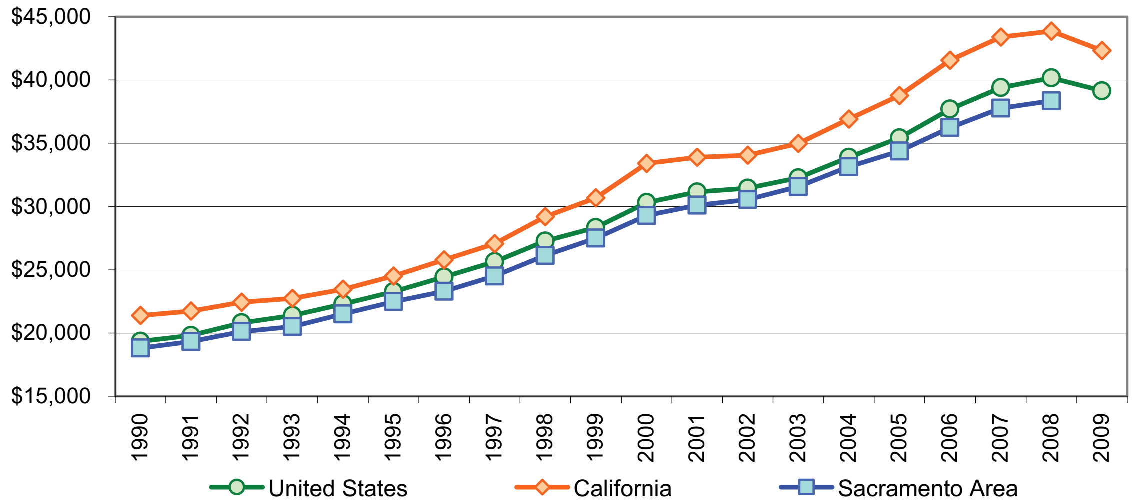
In 2008, a larger proportion of Sacramento Area residents had attained at least some post-secondary education (62%) than State (59%) or U.S. residents (57%), according to the U.S. Department of Commerce, Bureau of the Census. The Sacramento Area is home to several major institutions of higher learning, including the University of California, Davis, which is consistently recognized as one of the nation's top public universities, and California State University at Sacramento. The research and training conducted at these institutions contribute to an educated and skilled workforce.

Income

The Sacramento Area's per capita personal income in 2008 ($38,300) was lower than both the State average ($43,900) and the national average ($40,200). (See Figure 4.) The pattern of per capita income growth in the Sacramento Area has generally mirrored the pattern of nationwide growth, albeit at a slightly lower level, over the past two decades. The per capita personal income of the Sacramento-Arden-Arcade-Roseville MSA, which accounts for nearly three-quarters of the population of the Sacramento

Area, was $41,100 in 2008—higher than the national average. The more agriculturally oriented San Joaquin County had a lower per capita personal income ($31,500).

Figure 4
PER CAPITA PERSONAL INCOME
(calendar years)



Compound annual growth rate	1990-2000	2000-2008	2008-2009 *(a)*
United States	4.6%	3.6%	(2.6%)
California	4.6	3.5	(3.5)
Sacramento Area	4.5	3.4	n.a.

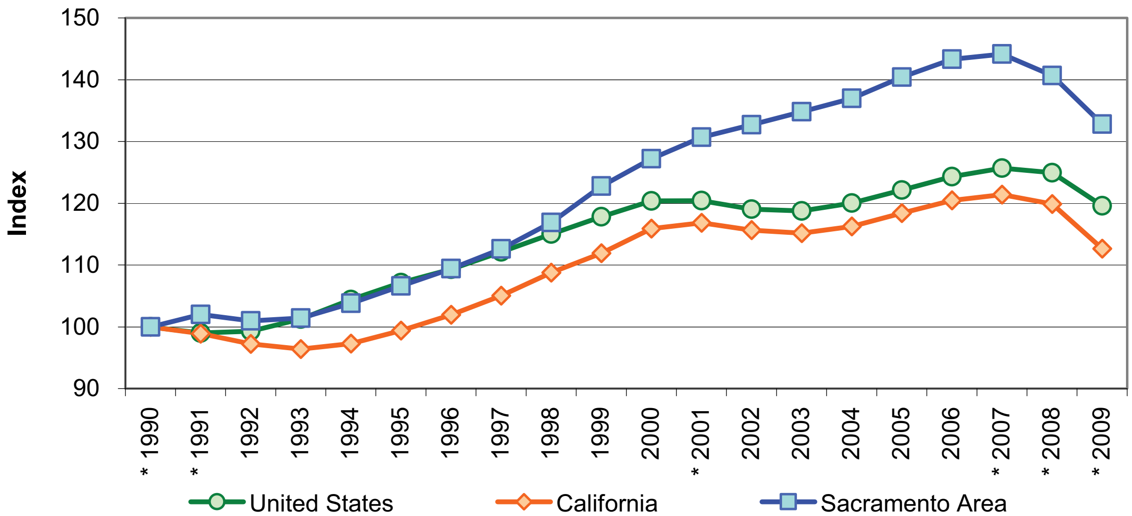
(a) 2009 data are not yet available for the Sacramento Area as of the date of this Report.

Source: U.S. Department of Commerce, Bureau of Economic Analysis website.

Employment

Figure 5 presents a comparison of growth in nonagricultural employment in the Sacramento Area from 1990 to 2009 with that of California and the nation. During the 1990s, employment in the Sacramento Area increased in line with that of the nation, and in excess of the California total. From 2000 to 2005, employment levels in the Sacramento Area increased at a higher rate than in the United States and California. However, the 2007-2009 economic recession correlated with a larger decline in Sacramento Area employment than experienced in either California or the nation.

Figure 5
COMPARATIVE INDEX OF TOTAL NONAGRICULTURAL EMPLOYMENT
(calendar years; 1990=100)



Compound annual growth rate	1990-2000	2000-2007	2007-2009
United States	1.9%	0.6%	(2.5%)
California	1.5	0.7	(3.7)
Sacramento Area	2.4	1.8	(4.0)

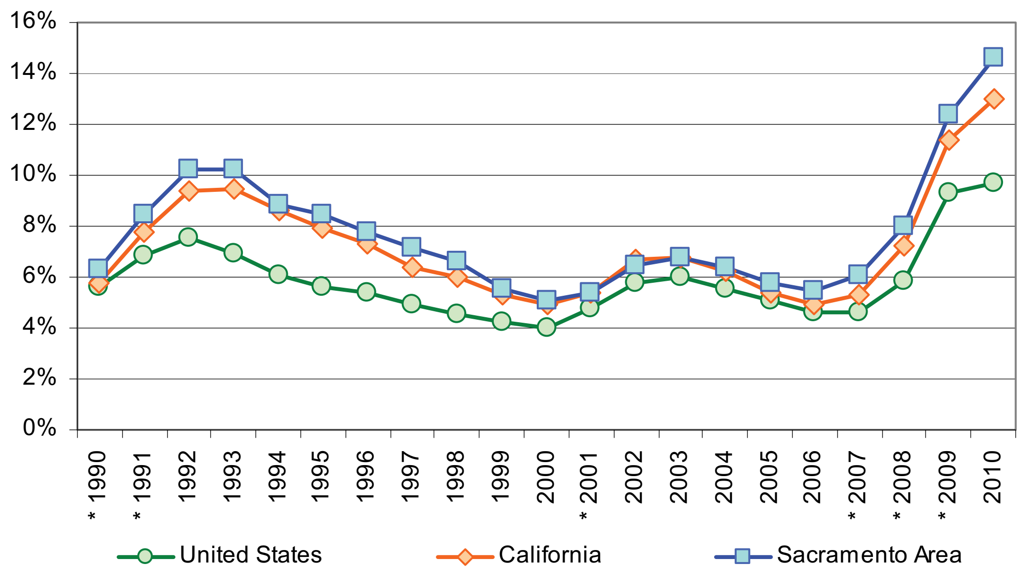
*Indicates national recession during all or part of year, according to the National Bureau of Economic Recession.

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

Unemployment Rate

The unemployment rate in the Sacramento Area generally tracks the statewide pattern, as Figure 6 illustrates, but is typically higher than the national rate. In the first 3 months of 2010, unemployment in the Sacramento Area averaged 14.6%, compared with the most recent low of 5.5% in 2006. In comparison, the unemployment rate in California as a whole was 13.0%, and in the nation was 9.7% in the same period.

Figure 6
CIVILIAN UNEMPLOYMENT RATE
(calendar years; 1990-2010)



Note: 2010 data are the average for January-March 2010.

* Indicates national recession during all or part of the year, according to the National Bureau of Economic Research.

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

Employment by Industry Sector

With regard to employment distribution, the major nonagricultural employment sectors are shown in Table 3. The Sacramento Area has a higher percentage of public sector (government) employment relative to California and the nation because of its status as the capital of the most populous state in the United States. In terms of private sector employment, the Sacramento Area roughly approximates the California and national economies, aside from a lower concentration in manufacturing employment.

Between 1990 and 2009, employment growth in the Sacramento Area was greater (or declined less) than in both California and the nation in every industry sector except one. Over this period, Sacramento Area employment growth was driven primarily by education and health services, professional and business services, and leisure and hospitality.

Table 3
AVERAGE ANNUAL NONAGRICULTURAL EMPLOYMENT GROWTH AND EMPLOYMENT SHARE BY INDUSTRY SECTOR
Sacramento Area, California, and United States

	Compound annual growth rate 1990-2009			2009 Percent of total		
Industry	Sacramento Area	California	United States	Sacramento Area	California	United States
Government	1.3%	1.0%	1.1%	27.2%	17.7%	17.2%
Trade, Transportation, Utilities	1.2	0.5	0.5	17.8	18.7	19.1
Education & Health Services	3.2	2.4	3.0	12.5	12.4	14.7
Professional/ Business Services	3.2	1.6	2.3	11.2	14.6	12.7
Leisure & Hospitality	2.2	1.6	1.8	9.6	10.6	10.0
Financial Activities	1.2	(0.2)	0.8	6.0	5.7	5.9
Manufacturing	(1.0)	(2.2)	(2.1)	5.2	9.1	9.1
Natural Resources, Mining, & Construction	(0.1)	(0.3)	0.6	5.1	4.6	5.1
Other Services	1.6	0.8	1.2	3.4	3.4	4.1
Information	0.8	0.7	0.2	2.0	3.2	2.1
TOTAL	1.5%	0.6%	0.9%	100.0%	100.0%	100.0%

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

Government

State, local, and federal government employment accounted for 27.2% of total non-agricultural employment in the Sacramento Area in 2009, compared with 25.6% in 1999. (See Table 4.) The largest number of government employees in the Sacramento Area work in local government, which represented approximately 14.6% of total employment in 2009. As would be expected of California's capital, State government is also a large employer in the Sacramento Area, with 11.0% of employment in 2009.

Table 4
GOVERNMENT EMPLOYMENT SHARE OF TOTAL NONAGRICULTURAL EMPLOYMENT
Sacramento Area

	1999	2004	2009
Federal Government	2.3%	1.6%	1.7%
State Government	10.5	9.8	11.0
Education	*2.3*	*2.4*	*2.5*
Other	*8.2*	*7.4*	*8.4*
Local Government	12.8	13.3	14.6
Total Government Share of Nonagricultural Employment	25.6%	24.8%	27.2%

Note: Columns may not add to totals shown because of rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics website.

The federal government accounted for 1.7% of total nonagricultural employment in the Sacramento Area in 2009, compared with 2.3% in 1999. The decrease in federal government employment between 1999 and 2004 was largely the result of a reduction in U.S. Department of Defense activities, as McClellan Air Force Base was closed in 2001.

Major Employers

Table 5 lists major private sector employers in the Sacramento—Arden-Arcade—Roseville MSA, which accounts for 72% of the population of the Sacramento Area. The MSA's top three private employers are in the health care field — Kaiser Permanente, Mercy/Catholic Healthcare West, and Sutter Health.

Many of the companies listed are involved in national and international operations that rely on airline travel.

Table 5
MAJOR PRIVATE SECTOR EMPLOYERS
Sacramento-Arden-Arcade-Roseville MSA

Company	Employment	Type of business
Kaiser Permanente	10,081	Health care
Mercy/ Catholic Healthcare West	8,279	Health care
Sutter Health Sacramento Sierra Region	7,314	Health care
Intel Corp.	6,000	Semiconductor manufacturer
Wells Fargo & Co.	3,690	Financial services
Raley's	3,401	Retail grocery
PRIDE Industries Inc.	2,841	Manufacturing and logistics services
Health Net of California Inc.	2,512	Health care
Cache Creek Casino Resort	2,460	Casino resort
Pacific Gas and Electric Co.	2,169	Natural gas and electric utility
Hewlett-Packard Co.	2,000-3,000	Computer hardware manufacturer
Vision Service Plan Inc., dba VSP Vision Care	1,832	Vision benefits and services
Blue Shield of California	1,705	Health care
EDS, an H-P Company	1,643	System integration, business process consulting
Aerojet	1,587	Aerospace and defense manufacturing
DST Output	1,300	Statement and billing output services
Eskaton	1,054	Retirement and assisted living, senior services
Marshall Medical Center	1,040	Health care
Franklin Templeton Investments	1,000	Financial services
The Sacramento Bee	800	Newspaper

Note: Includes companies with operations in El Dorado, Placer, Sacramento, and Yolo counties.
Source: *Sacramento Business Journal*, "2009 Book of Lists."

Tourism and Local Activities

Visitors are attracted to the Sacramento Area by the State Capitol and other historical attractions, as well as the natural amenities, recreational activities, sporting events, and cultural attractions in the area. According to California Travel & Tourism Commission statistics, direct travel spending in the Sacramento Area totaled $4.95 billion in 2008, the most recent year for which data are available.

Within the Sacramento Area, Sacramento, El Dorado, and Placer counties are part of the Gold Country Visitors Association. Tourism highlights in these counties include: the annual State Fair held at the 350-acre indoor-outdoor facilities of the California Exposition & State Fair (Cal Expo); historical sites, such as Sutter's Mill and Old Sacramento (a National Historic Landmark District and State Historic Park); and outdoor recreational areas, such as the Sacramento River/Delta and the American River Parkway.

Sacramento is also the location of the 384,000-square-foot Sacramento Convention Center and the ARCO Arena, home of the National Basketball Association's Sacramento Kings. Other area sports entertainment includes the Sacramento River

Cats, which is a Triple A minor league baseball team affiliated with the Oakland Athletics.

San Joaquin, Sutter, and Yuba counties are part of the Central Valley Visitors Association, which highlights the orchards, wineries, and farms in the area. Many visitors are drawn to Yolo County, the location of the University of California, Davis, as well as several high-quality wineries.

Sacramento also serves as a gateway to cultural and recreational attractions that are within a day-trip driving distance, such as the Napa Valley and Amador County vineyards and the Sierra/Yosemite/Lake Tahoe regions.

ECONOMIC OUTLOOK

Economic activity in the Sacramento Area is directly linked to the production of goods and services in the rest of the United States. Airline travel and the movement of air cargo through the SCAS airports depend on the economic linkages between the U.S., California, and Sacramento Area economies.

U.S. Economy

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

- A financial system crisis in the United States, triggered by a decrease in real estate prices and the value of real estate backed investment securities and other financial assets during summer 2007. Sub-prime mortgage-related problems with some large investment and commercial banks followed during the first half of 2008, as well as the collapse of Lehman Brothers Holdings Inc. 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 in the United States 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 had declined 8.5% by November 2009.

- U.S. economic performance declined, measured by decreases in GDP during four consecutive quarters beginning with the third quarter of 2008 and extending 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.

During the fourth quarter of 2008, the U.S. Congress passed the Emergency Economic Stabilization Act of 2008, which provided for a government bailout of troubled banks, and approved $17.4 billion in loan guarantees for the U.S. automobile industry.

Although the National Bureau of Economic Research* has not officially announced the end of the recession, there is general agreement among economists 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 at historically high levels (9.9% in April 2010) and dampen the prospects for an economic recovery.

At its April 2010 meeting, the Federal Reserve Board's Federal Open Market Committee (FOMC) stated 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 seen as 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.

- Continued expansion of economic activity would be supported by accommodative monetary policy and improvements in the condition of financial markets and institutions.

Table 6 presents a comparison of U.S. economic projections from the Congressional Budget Office (CBO), the *Blue Chip* Consensus, and the FOMC. Consistent with the CBO projections, both the *Blue Chip* Consensus and the FOMC projections reflect the effects of fiscal stimulus and Federal Reserve Board's measures to support credit markets. The long-term growth rates for each of the three projections (through 2020) show GDP growth ranging from 2.0% to 3.0%, significantly lower than projections of economic growth worldwide, especially in emerging economies, such as India and China.

Table 6
U.S. ECONOMIC PROJECTIONS
2010-2020

	Average annual percent increase (decrease) *(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
3-Month Treasury Bill rate				
CBO	5.5% *(c)*	0.2%	0.7%	4.8% *(d)*
Blue Chip Consensus		0.5	1.8	*(b)*
10-Year Treasury Note rate				
CBO	7.2% *(c)*	3.6%	3.9%	5.6% *(d)*
Blue Chip Consensus		4.0	4.6	*(b)*

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 for 1980 through 2009.
(b) The January 2010 *Blue Chip* Consensus extends only through 2011.
(c) Represents the average from 1980 through 2009 (estimated).
(d) 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, published May 19, 2010.

Risks to the U.S. Economic Outlook

While many economists have expressed the view that the near-term national economic outlook is improving and the mid- to long-term outlook is favorable, there are risks that these results may not be achieved. Key risks include:

- In the near term, the principal risk is that the federal government's policy response to the current financial crisis and recession in the United States may not be effective in providing the foundation for a recovery.
- Inflation risks still persist because of the sizable amount of liquidity that the Federal Reserve Bank 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 factors described above, especially after the expiration of the housing credit and cash-for-clunkers programs.
- 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 may 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.

Regional Outlook

The economic outlook for the Sacramento Area is closely related to the outlook for California and the nation.

The Sacramento Area's economy has been affected by the recession to a greater extent than the United States and California overall. Between 2007 and 2009, employment in the Sacramento Area declined more than statewide or national employment, returning to the 2002 level. The unemployment rate in the Sacramento Area exceeds State and national rates. The high rate of population growth in the Sacramento Area in the first half of the past decade has slowed. The median home price in the Sacramento Area declined almost 50% between the first quarter of 2006 and the first quarter of 2010, resulting in extensive foreclosures. Another result, according to the National Association of Home Builders, is that nearly 73% of houses sold in the Sacramento

Area in the first quarter of 2010 were affordable for a family of median income (up from less than 10% in 2006).*

The Center for Strategic Economic Research (CSER), an economic research firm affiliated with the Sacramento Area Commerce and Trade Organization (SACTO), a regional economic development organization, states in its first quarter 2010 *Quarterly Economic Report* that the Sacramento Area's job losses are beginning to abate. In its first quarter 2010 *Sacramento Region Business Forecast*, CSER anticipates a return to positive employment growth in the fourth quarter of 2010. CSER envisions economic recovery in the Sacramento Area being led by the private sector, with the government sector experiencing further job losses as California continues to face budget difficulties.

The *Caltrans Economic Forecast*, a county-level economic forecast prepared by the California Economic Forecast (an economic consulting firm engaged in research and consulting support for business and public sector clients) for the California Department of Transportation, was most recently updated in March 2010. This forecast cautions that an economic rebound in the Sacramento Area will likely lag recovery in the coastal areas of northern and southern California by 6 months to a year. Sacramento County, in turn, is expected to lag employment growth in other counties in the Sacramento Valley.

Socioeconomic projections for the Sacramento Area and California are provided in Table 7. Projections of the same variables for the United States are presented for comparison.

Following a period of recovery in 2010 and 2011, growth in population and employment in both the Sacramento Area and in California is projected to resume. Between 2011 and 2016, population and employment growth in the Sacramento Area is projected to outpace statewide growth, which, in turn, is projected to outpace national growth. Average per capita personal income is projected to increase at virtually identical rates in the Sacramento Area and California, at rates somewhat below the national average.

The long-term economic outlook for the Sacramento Area remains favorable based on its competitive advantages: location of the State capital, affordable housing, a well-educated work force, and attractive natural amenities. SACTO continues to cite the attractiveness of the Sacramento Area to the emerging clean energy technology (CET) industry (e.g., solar energy, wind energy, electric vehicles, and biofuels). The organization reports that nearly half of all "business location projects" for the Sacramento Area over the past year were involved with the CET industry.**

---

*National Association of Home Builders-Wells Fargo *Housing Opportunity Index*.
**Sacramento Area Commerce and Trade Organization, Center for Strategic Economic Research, Quarterly Economic Report, Q1 2010.

Table 7
SOCIOECONOMIC PROJECTIONS

	Compound annual growth rate			
	Historical	Projected		
	1990-2009	2009-2010	2010-2011	2011-2016
Population				
Sacramento Area	1.8%	0.9%	1.1%	1.4%
California	1.1	1.0	1.0	1.2
United States	1.1	1.1	1.0	1.0
Non-agricultural employment				
Sacramento Area	1.5%	0.1%	1.6%	2.1%
California	0.6	(0.5)	1.4	1.7
United States	0.9	n.a.	n.a.	1.0 *(b)*
Per capita personal income				
Sacramento Area	4.0% *(a)*	2.8%	3.4%	3.9%
California	3.7	1.7	4.1	4.0
United States	3.8	n.a.	n.a.	4.7 *(b)*

n.a.=not available.

(a) The percentage shown is for 1990-2008, the most recent data available.
(b) The percentage shown is for 2008-2018.

Sources: Historical—U.S. Department of Commerce, Bureau of the Census website; U.S. Department of Labor, Bureau of Labor Statistics website; U.S. Department of Commerce, Bureau of Economic Analysis website.
Projections—Sacramento Area and California: California Department of Transportation, *Long-Term Socio-Economic Forecasts by County*, March 2010, prepared by the California Economic Forecast. United States: U.S. Department of Commerce, Bureau of the Census website, *2008 National Population Projections,* August 2008; U.S. Department of Commerce, Bureau of Economic Analysis website, *Employment Outlook: 2008-2018*, December 2009.

Risks specific to the Sacramento Area include the potential for the region's economy to lag the national and State economies in recovering from the recession to an even greater extent than projected, and the potential for continued State budget difficulties which could have a further negative effect on local employment levels and travel budgets.

AIRPORT ROLE

SMF primarily serves origin and destination (O&D) passengers (i.e., passengers beginning or ending their airline trips at the Airport); 4.4 million passengers were enplaned at the Airport in FY 2010, of which an estimated 96% were O&D passengers. In terms of total enplaned passengers, SMF ranked 37th among U.S. airports and, as shown in Table 8, 5th among California airports and 3rd among northern California airports in the 12 months ended June 30, 2009.

Compared with other major U.S. airports, SMF experienced very strong growth in numbers of enplaned passengers during the 1990s, the period during which traffic was stimulated by the expansion of service by Southwest Airlines. While strong growth in numbers of passengers continued in the first half of the current decade, the period during which population increased in the Sacramento Area, the rate of growth in the second half of the decade more closely approximated the industry average.

Table 8
TOP COMMERCIAL SERVICE AIRPORTS IN CALIFORNIA
(for the 12 months ended June 30, 2009; passengers in thousands)

		Total enplaned passengers		Domestic enplaned passengers		Domestic O&D passengers	
Rank	Airport	Psgrs.	% of total	Psgrs.	% of total	Psgrs.	% of total
1	Los Angeles	27,346	33.8%	19,941	28.9%	14,428	25.2%
2	San Francisco	18,006	22.3	14,035	20.3	10,077	17.6
3	San Diego	8,488	10.5	8,395	12.2	7,521	13.1
4	Oakland	4,839	6.0	4,784	6.9	4,481	7.8
5	**Sacramento**	**4,602**	**5.7**	**4,537**	**6.6**	**4,210**	**7.4**
6	San Jose	4,346	5.4	4,283	6.2	4,001	7.0
7	Orange County	4,245	5.2	4,244	6.1	4,055	7.1
8	Ontario	2,562	3.2	2,528	3.7	2,456	4.3
9	Burbank	2,407	3.0	2,407	3.5	2,370	4.1
10	Long Beach	1,431	1.8	1,431	2.1	1,360	2.4
	All other California airports	2,613	3.2	2,513	3.6	2,253	3.9
	Total---all California airports	**80,884**	**100.0%**	**69,098**	**100.0%**	**57,212**	**100.0%**

Note: Columns may not add to totals shown because of rounding.
Sources: U.S. DOT, Schedule T100 and *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Airlines Serving the Airport

Southwest Airlines enplaned over half of all passengers enplaned at the Airport in FY 2010. The other six of the seven largest U.S. passenger airlines—United Airlines, Alaska Airlines, Delta Air Lines, US Airways, American Airlines, Continental Airlines, and, in several cases, their regional affiliates—also served the Airport. In addition to Southwest, Frontier Airlines and JetBlue Airways also provided LCC service. One foreign-flag airline, Mexicana, provided scheduled international service at the Airport in FY 2010.

As of July 2010, the 14 passenger airlines listed in Table 9 provided scheduled service at SMF, offering an average of 143 daily nonstop flights to 34 airports in 28 markets (26 in the United States and 2 in Mexico).

Table 9
AIRLINES PROVIDING SCHEDULED PASSENGER SERVICE
Sacramento International Airport
(third week of July 2010)

Network & regional airlines	Low-cost carriers
Alaska	Frontier *(a)*
American	JetBlue
Continental	Southwest
Delta	
Hawaiian	**Foreign-flag airlines**
Horizon (Alaska)	Mexicana
Mesa (US Airways Express) *(b)*	
SkyWest (Delta Connection, United Express)	
United	
US Airways	

(a) Frontier operates as a brand of Republic Airways Holdings.
(b) Mesa has operated under Chapter 11 bankruptcy protection since January 2010.
Source: *Official Airline Guide.*

Role in Southwest's System

Table 10 shows the top 15 airports served by Southwest Airlines in terms of passengers enplaned by Southwest in calendar year 2009. Among these airports, SMF ranked 13th. Southwest initiated service at SMF in June 1991 and, by July 2010, provided 70 daily nonstop flights from SMF to five destinations in California, as well as to Seattle, Portland, Las Vegas, Phoenix, Denver, and Chicago (Midway).

Table 10
TOP AIRPORTS IN SOUTHWEST'S SYSTEM
(calendar year 2009)

Rank	Airport	Enplaned passengers O&D	Connecting	Total
1	Las Vegas	5,580,070	1,989,515	7,569,585
2	Chicago-Midway	4,410,820	2,581,549	6,992,369
3	Phoenix	3,957,020	1,515,297	5,472,317
4	Baltimore	3,755,930	1,632,527	5,388,457
5	Orlando	3,275,580	436,699	3,712,279
6	Houston-Hobby	2,569,200	1,011,500	3,580,700
7	Dallas-Love Field	2,480,190	1,050,142	3,530,332
8	Denver	2,579,190	937,222	3,516,412
9	Oakland	3,136,900	287,446	3,424,346
10	Los Angeles	3,069,610	233,163	3,302,773
11	San Diego	2,966,220	194,334	3,160,554
12	Tampa	2,211,780	381,101	2,592,881
13	**Sacramento**	**2,241,120**	**128,158**	**2,369,278**
14	Nashville	1,775,870	562,077	2,337,947
15	St. Louis	1,641,260	433,164	2,074,424
	All Other	40,606,160	1,743,576	42,349,736
	Total	**86,256,920**	**15,117,470**	**101,374,390**

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

Southwest reported first quarter 2010 net income of $11 million. In its first quarter earnings press release, the airline's Chief Executive Officer Gary Kelly commented:

> We are extremely pleased to report a profitable start to the year, especially in this challenging economic environment exacerbated by persistently high energy costs. As the quarter progressed, we began to see modest improvement in demand for business travel, as measured by the increase in full-fare traffic. Overall demand … remained strong, resulting in a record first quarter performance for load factor, passenger yield, and passenger revenues. Furthermore, first quarter 2010 operating unit revenues, and the corresponding 19.3% year-over-year increase, represent all-time quarterly records. To achieve this revenue performance in, seasonally, the weakest quarter, is notable. To do so in a recovering economic environment is truly remarkable. … [W]e expect another significant year-over-year unit revenue gain in second quarter 2010.
>
> Our network optimization and revenue management efforts continue to contribute significantly to this industry-leading revenue performance.

In FY 2009, Southwest Airlines accounted for 57.6% of departing seats, 54.5% of O&D passengers, and 52.6% of total enplaned passengers at SMF. Southwest's announced capacity reductions at SMF (3.3% and 6.0% in the second and third quarters of 2010, respectively) are greater than its systemwide capacity changes in those quarters (a 0.9% reduction and a 1.2% increase, respectively). Southwest's capacity reductions at SMF are less in percentage terms, however, than its reductions at several other California airports, including Mineta San Jose International, LA/Ontario International, and Bob Hope airports.

Southwest's passenger mix at SMF is largely short-haul. About 71% of Southwest's domestic O&D passengers at SMF made trips shorter than 600 miles in FY 2009. Short-haul travelers are the most likely to resort to other modes of transportation in the face of rising airfares.

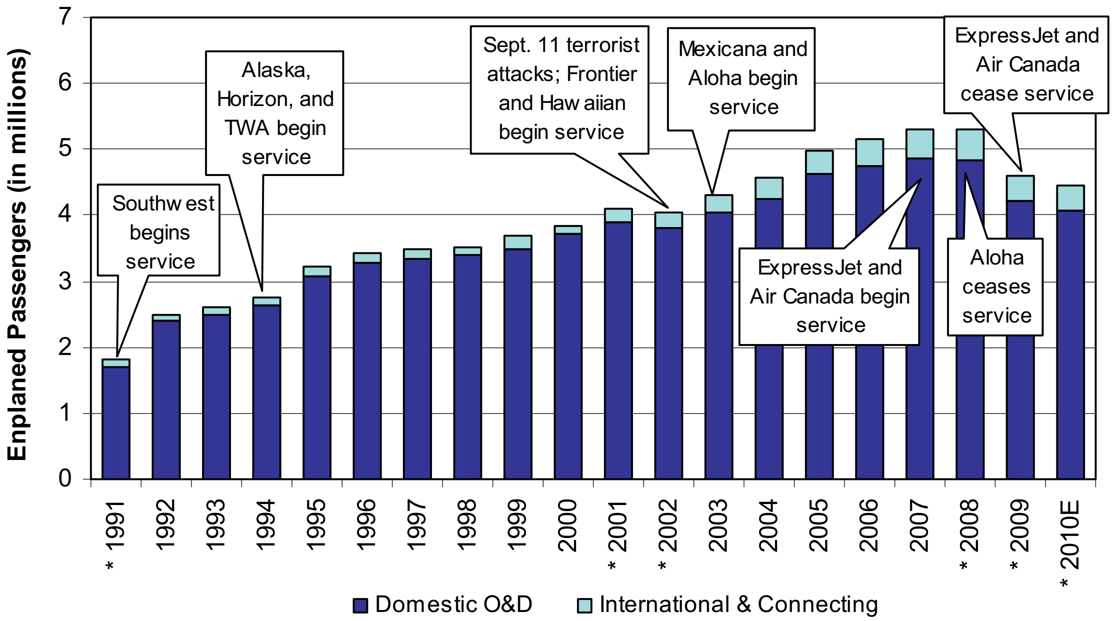
HISTORICAL AIRLINE TRAFFIC AND SERVICE

Enplaned Passengers

Figure 7 presents a chart of the numbers of passengers enplaned at SMF from FY 1991 through FY 2010. The number of enplaned passengers increased nearly 39% in FY 1992, the first full year of Southwest service at SMF. Between FY 1992 and FY 2008, the number of passengers enplaned at SMF increased an average of 4.8% per year. Between FY 2008 and FY 2010, however, as travel demand weakened due largely to the economic recession, the number of enplaned passengers at SMF declined 16.0%. The net result was a return to the FY 2004 passenger level.

As shown on Figure 7, about 91% of passengers at the Airport in FY 2010 were domestic O&D passengers. The remaining passengers consisted primarily of O&D passengers traveling to international destinations and connecting passengers.

Figure 7
ENPLANED PASSENGERS
Sacramento International Airport
(for Fiscal Years ended June 30)



Note: E=Estimated. Total enplaned passengers shown for FY 2010 represent actual passengers reported to the airport; however, the split between Domestic O&D and International & Connecting was estimated, as full FY 2010 data was not yet available.

* Indicates national recession during all or part of year, according to the National Bureau of Economic Research.

Sources: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1; Sacramento County Airport System.

Airport Passenger Characteristics

According to a passenger survey conducted by SCAS in July 2007, business travelers accounted for 38% of all passengers using SMF. The remaining 62% of passengers were traveling for personal reasons. Residents of the Sacramento Area and other areas in northern California accounted for 54% of passengers at SMF; the remaining 46% of passengers surveyed consisted of visitors from southern California (12%), elsewhere in the United States (32%), and other countries (2%).

International O&D passengers enplaned at SMF consist of: (1) passengers boarding international flights at SMF and (2) passengers bound for international destinations boarding domestic flights at SMF (who are, therefore, counted as domestic passengers) who exit the country via other U.S. gateway airports. While international O&D passengers accounted for less than 5% of total enplaned passengers at SMF over the period of FY 2003 to FY 2009, the number of international O&D passengers increased an average of 12.9% per year between FY 2003 and FY 2008 before declining in FY 2009. (See Table 11.)

Table 11
INTERNATIONAL ENPLANED PASSENGER TRENDS
Sacramento International Airport
(for Fiscal Years ended June 30)

Year	On international flights *(a)*	On domestic flights *(b)*	**Total international enplaned passengers**
2003	24,394	114,540	138,934
2004	23,037	137,370	160,407
2005	45,617	159,960	205,577
2006	61,206	180,940	242,146
2007	60,909	189,730	250,639
2008	84,328	170,500	254,828
2009	64,497	156,440	220,937
2010	58,417	n.a.	n.a.
Compound annual growth rate			
2003-2008	28.2%	8.3%	12.9%
2008-2009	(23.5)	(8.2)	(13.3)
2009-2010	(9.4)	n.a.	n.a.

(a) Includes international O&D passengers on scheduled flights, along with small numbers of passengers on charter flights, non-revenue passengers, domestic-to-international and international-to-international connections.
(b) Passengers who boarded domestic flights to other U.S. gateway airport where they connected with flights to their international destinations. The most recent data available for these passengers is available only through March 2010.

Sources: Sacramento County Airport System; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

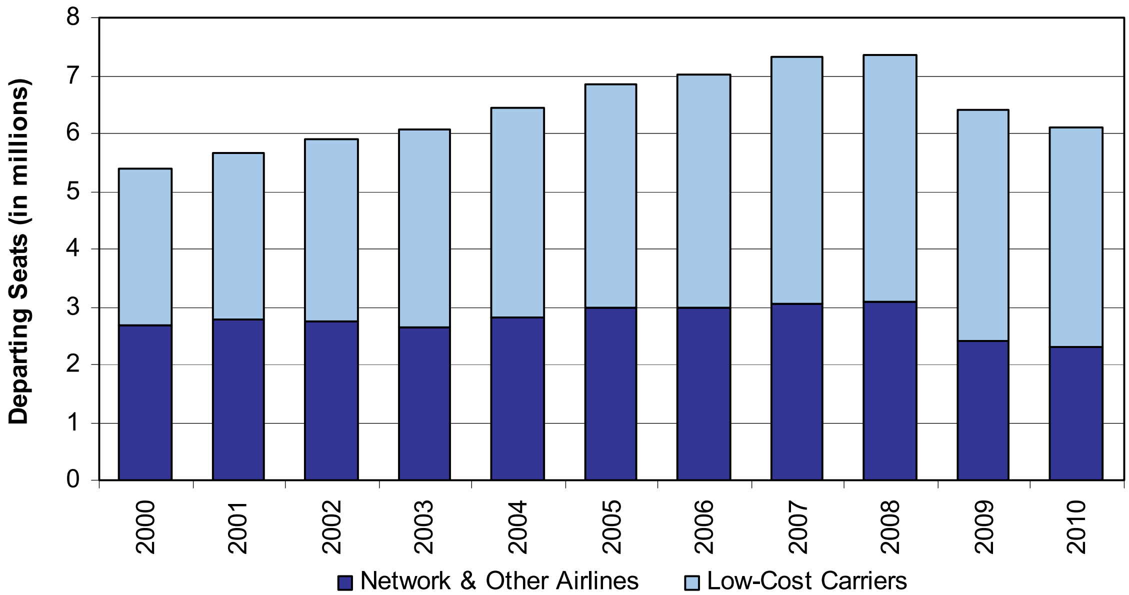
Monthly numbers of passengers at SMF typically reach a seasonal peak in June, when they are approximately 35% higher than the numbers enplaned at the Airport in January and February.

Airline Service

Airline seat capacity at SMF increased 36% between FY 2000 and FY 2008, from 5.4 million scheduled departing seats in FY 2000 to 7.3 million in FY 2008 (see Figure 8). As airlines retrenched during the recent economic recession, however, airline seat capacity declined 13% at SMF in FY 2009 and, based on published flight schedules, declined a further 5% in FY 2010.

SMF has a relatively high proportion of departing seats provided by LCCs, compared with most U.S. airports, although a high proportion of LCC seats is not unusual at airports served by Southwest Airlines. In FY 2010, 62% of scheduled departing seats at SMF were on LCCs, up from 50% in FY 2000 and roughly double the national average of about 30%.

Figure 8
SCHEDULED DEPARTING SEATS, BY AIRLINE TYPE
Sacramento International Airport
(for Fiscal Years ended June 30)



Source: *Official Airline Guide.*

Domestic airline service levels at SMF have changed markedly since FY 2000. Table 12 presents a comparison of scheduled airline service metrics at SMF in July 2010 with those in July 2000 and 2009.

Airline service at SMF increased between July 2000 and July 2009 in terms of the numbers of daily flights and seats and cities served nonstop. Between July 2009 and July 2010, there was little net change in daily flights or seats, but the number of cities served nonstop increased.

While it represents the smallest category at SMF in terms of capacity, service on long-haul routes accounted for the greatest relative increases in terms of the numbers of daily departing flights and seats and the number of cities served nonstop of all stage length categories between July 2000 and July 2010.

The average number of seats per departing flight at SMF increased from 118 in July 2000 to 125 in July 2010, reflecting changes in the mix of aircraft types serving the Airport, as well as increases in average seating capacity by aircraft type.

Figure 9 shows the cities served by scheduled daily nonstop or one-stop same-plane flights at SMF in July 2010.

Table 12
DAILY SCHEDULED DOMESTIC PASSENGER SERVICE
Sacramento International Airport
(third week of July for years noted)

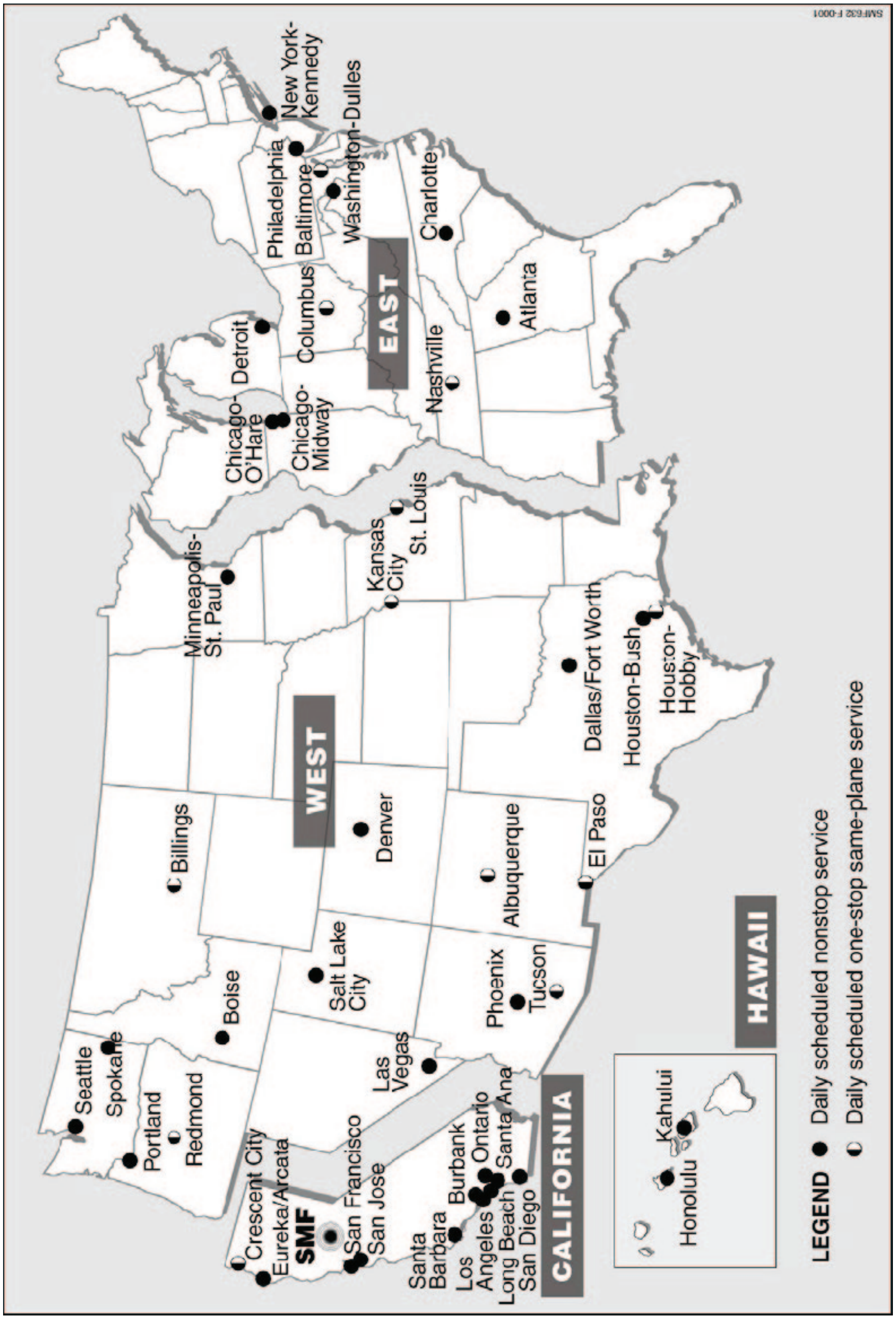
	2000	2009	2010	Change 2000-2009	Change 2009-2010
NUMBER OF CITIES SERVED NONSTOP	**18**	**23**	**26**	**5**	**3**
By aircraft type *(a)*					
Total jet	16	20	22	4	2
Large jet	*16*	*18*	*20*	*2*	*2*
Regional jet	*8*	*6*	*7*	*(2)*	*1*
Turboprop	2	3	4	1	1
By stage length					
Short-haul (<600 miles)	7	10	10	3	-
Medium-short haul (600-1200 miles)	3	3	4	-	1
Medium-long haul (1200-1800 miles)	6	4	4	(2)	-
Long-haul (>1800 miles)	2	6	8	4	2
AVERAGE DAILY DEPARTING FLIGHTS	**134**	**141**	**141**	**7**	**-**
By aircraft type					
Total jet	117	130	129	13	(1)
Large jet	*117*	*114*	*112*	*(3)*	*(2)*
Regional jet	*-*	*16*	*17*	*16*	*1*
Turboprop	18	11	12	(7)	1
By stage length					
Short-haul (<600 miles)	89	91	86	3	(5)
Medium-short haul (600-1200 miles)	26	30	32	4	3
Medium-long haul (1200-1800 miles)	17	13	13	(4)	-
Long-haul (>1800 miles)	3	7	9	4	2
AVERAGE DAILY SCHEDULED SEATS	**15,790**	**17,489**	**17,560**	**1,700**	**71**
By aircraft type					
Total jet	15,258	17,067	17,045	1,809	(22)
Large jet	*15,258*	*16,104*	*15,993*	*846*	*(111)*
Regional jet	*-*	*963*	*1,052*	*963*	*89*
Turboprop	531	422	515	(109)	93
By stage length					
Short-haul (<600 miles)	9,528	10,289	9,657	761	(632)
Medium-short haul (600-1200 miles)	3,444	4,063	4,397	620	333
Medium-long haul (1200-1800 miles)	2,332	1,983	2,011	(349)	29
Long-haul (>1800 miles)	486	1,154	1,495	668	341
AVERAGE SEATS PER FLIGHT	**118**	**124**	**125**	**6**	**1**

Notes: Figures may not add to totals shown because of rounding. Change was calculated using unrounded numbers.

(a) City markets may be served by more than one aircraft type.

Source: *Official Airline Guide.*

Figure 9
U.S. AIRPORTS SERVED BY DAILY SCHEDULED ROUND TRIP PASSENGER FLIGHTS
(third week of July, 2010)



Source: Official Airline Guides, Inc.

Approximately 36% of all scheduled domestic seats departing from SMF were bound for the Los Angeles area or for San Diego in July 2010. (See Table 13.) These two markets, along with Denver, Phoenix, Seattle, Portland, and Las Vegas, collectively accounted for nearly 75% of all scheduled domestic departing seats at SMF in July 2010.

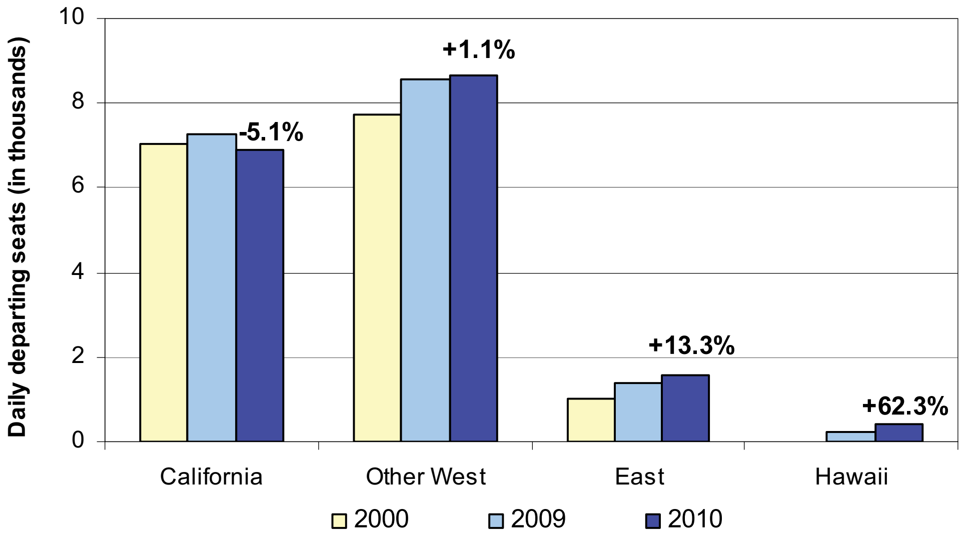
Table 13
DAILY SCHEDULED DOMESTIC DEPARTING SEATS, BY DESTINATION
Sacramento International Airport
(third week of July for years noted)

City market *(a)*	Average daily departing seats			Change in seats		Percent change in seats	
Airport	2000	2009	2010	2000-2009	2009-2010	2000-2009	2009-2010
Los Angeles	5,103	5,131	4,810	28	(322)	0.6%	(6.3%)
Los Angeles	*1,881*	*1,355*	*1,372*	*(526)*	*17*	*(28.0)*	*1.2*
Ontario	*1,401*	*1,350*	*1,122*	*(50)*	*(228)*	*(3.6)*	*(16.9)*
Burbank	*1,247*	*1,233*	*1,116*	*(14)*	*(117)*	*(1.1)*	*(9.5)*
Orange County	*574*	*900*	*900*	*326*	-	*56.8*	-
Long Beach	-	*293*	*300*	*293*	*7*	*n.a.*	*2.4*
Denver	884	1,379	1,573	495	194	56.0	14.1
San Diego	1,418	1,570	1,551	152	(20)	10.7	(1.2)
Phoenix	1,303	1,437	1,444	133	7	10.2	0.5
Seattle	1,256	1,248	1,316	(9)	69	(0.7)	5.5
Portland	980	1,082	1,113	102	30	10.4	2.8
Las Vegas	884	1,344	1,076	460	(268)	52.0	(19.9)
Dallas/ Fort Worth *(b)*	560	560	560	-	-	-	-
Salt Lake City	611	529	515	(82)	(14)	(13.5)	(2.6)
Chicago *(c)*	534	499	502	(35)	3	(6.5)	0.5
Houston *(d)*	237	479	491	243	12	102.7	2.5
Minneapolis/ St. Paul	444	444	458	-	14	-	3.2
Atlanta	366	314	343	(52)	29	(14.2)	9.2
San Francisco *(e)*	480	297	337	(183)	40	(38.2)	13.5
Honolulu	-	252	252	252	-	n.a.	-
Kahului	-	-	157	-	157	n.a.	n.a.
Detroit	-	-	154	-	154	n.a.	n.a.
New York *(f)*	-	150	150	150	-	n.a.	-
Charlotte	-	150	150	150	-	n.a.	-
Philadelphia	-	150	150	150	-	n.a.	-
Washington D.C. *(g)*	120	138	139	18	1	15.0	0.8
Santa Barbara	-	140	120	140	(20)	n.a.	(14.3)
Boise	-	74	63	74	(11)	n.a.	(14.3)
Spokane	-	-	63	-	63	n.a.	n.a.
Eureka/ Arcata	51	51	51	-	-	-	-
Palm Springs	-	70	20	70	(50)	n.a.	(71.4)
St. Louis	420	-	-	(420)	-	(100.0)	n.a.
Kansas City	137	-	-	(137)	-	(100.0)	n.a.
Total---all markets	**15,790**	**17,489**	**17,560**	**1,700**	**71**	**10.8%**	**0.4%**

n.a. = not applicable.
(a) Cities served nonstop by flights from Sacramento.
(b) Market includes Dallas/Fort Worth Airport and Love Field.
(c) Market includes O'Hare and Midway airports.
(d) Market includes Hobby and Bush airports.
(e) Market includes San Francisco, San Jose, and Oakland airports.
(f) Market includes Kennedy, LaGuardia, and Newark airports.
(g) Market includes Dulles, Reagan, and Baltimore airports.
Source: *Official Airline Guide.*

As shown on Figure 10, by July 2010, the number of departing seats at SMF to western U.S. destinations outside of California, eastern U.S. destinations, and Hawaii had increased relative to July 2000 levels. The number of departing seats to destinations within California, by contrast, exhibited little net change between July 2000 and July 2010.

Figure 10
DAILY SCHEDULED DOMESTIC DEPARTING SEATS, BY DESTINATION REGION
Sacramento International Airport
(third week of July for years noted)



Notes: For definitions of Other West and East, see Figure 9.
Percentages shown represent the percent change from July 2009 to July 2010.

Source: *Official Airline Guide.*

Mexicana was the first airline to initiate international service at SMF, beginning in July 2002. As of the third week of July 2010, international service at SMF consisted of one daily flight to Guadalajara, Mexico and one less-than-daily flight to Los Cabos, Mexico. Mexicana filed for bankruptcy protection in August 2010 and notified the County that it was suspending its operations at the Airport (Cabo San Lucas and Guadalajara) through the end of August 2010. Advance airline flight schedules, published in the Official Airline Guide as of August 8, 2010, indicate, but do not assure, a resumption of the airline’s daily Guadalajara service in September 2010.

Nearly all airlines serving SMF provided fewer seats at the Airport in FY 2009 than in FY 2008, and nearly all are estimated to have provided fewer seats in FY 2010 than in FY 2009. Reductions in overall seat capacity at SMF are indicated by flight schedules filed by the airlines with *Official Airline Guide*. As shown in Table 14, it is estimated that seat capacity at SMF decreased 4.7%, year-over-year in FY 2010, following a 12.8% decrease in FY 2009. The majority of the FY 2010 decrease was attributable to a 5.7% reduction in Southwest's departing seats at the Airport.

Table 14
ANNUAL SCHEDULED DEPARTING SEATS, BY SECTOR AND AIRLINE
Sacramento International Airport
(for Fiscal Years ended June 30; seats in thousands; in descending order by FY 2010 seats)

Sector	Fiscal years			Change from previous year		Percent change from previous year	
Airline	2008	2009	2010	2009	2010	2009	2010
Total---all airlines	**7,344.6**	**6,403.7**	**6,103.0**	**(940.9)**	**(300.7)**	**(12.8%)**	**(4.7%)**
Domestic	**7,216.0**	**6,309.2**	**6,024.1**	**(906.8)**	**(285.1)**	**(12.6%)**	**(4.5%)**
Southwest	3,919.6	3,689.2	3,479.2	(230.4)	(210.0)	(5.9)	(5.7)
United	678.9	585.7	573.4	(93.2)	(12.3)	(13.7)	(2.1)
Alaska	554.7	477.7	475.5	(76.9)	(2.2)	(13.9)	(0.5)
Delta *(a)*	511.4	409.3	392.7	(102.1)	(16.6)	(20.0)	(4.1)
US Airways	394.5	384.7	314.2	(9.9)	(70.4)	(2.5)	(18.3)
American	229.3	164.5	203.7	(64.8)	39.2	(28.3)	23.8
Continental	172.5	175.9	178.4	3.4	2.5	2.0	1.4
Frontier	164.0	163.2	169.4	(0.8)	6.2	(0.5)	3.8
JetBlue	164.4	129.3	145.7	(35.1)	16.4	(21.4)	12.7
Hawaiian	99.0	92.0	92.0	(7.1)	-	(7.1)	-
ExpressJet *(b)*	248.3	37.7	-	(210.6)	(37.7)	(84.8)	(100.0)
Sun Country	0.6	0.2	-	(0.5)	(0.2)	(75.0)	(100.0)
Aloha *(b)*	78.9	-	-	(78.9)	-	(100.0)	n.a.
International	**128.6**	**94.4**	**78.9**	**(34.2)**	**(15.5)**	**(26.6%)**	**(16.4%)**
Mexicana	93.0	85.4	78.9	(7.6)	(6.5)	(8.1)	(7.6)
Air Canada *(b)*	27.3	9.0	-	(18.3)	(9.0)	(67.0)	(100.0)
Frontier	8.3	-	-	(8.3)	-	(100.0)	n.a.
By fiscal quarter:							
July-September	1,938.3	1,767.1	1,586.1	(171.2)	(181.0)	(8.8%)	(10.2%)
October-December	1,856.2	1,593.6	1,516.0	(262.6)	(77.5)	(14.1)	(4.9)
January-March	1,759.6	1,487.9	1,448.5	(271.7)	(39.4)	(15.4)	(2.6)
April-June	1,790.4	1,555.1	1,552.4	(235.3)	(2.7)	(13.1)	(0.2)

Notes: Departing seats on regional affiliates have been included with their respective code-sharing partners. Figures may not add to totals shown because of rounding. Percent changes were calculated using unrounded numbers. Advance flight schedule filings are subject to change.

(a) Northwest is included here with Delta for all years shown, although the merger with Delta occurred in October 2008.

(b) Aloha and Air Canada ceased service at the Airport in April 2008 and October 2008, respectively. ExpressJet ceased branded service in September 2008.

Source: *Official Airline Guide.*

Southwest's capacity reductions at SMF were primarily the result of modest reductions in the number of daily flights operated to destinations that are served by several daily flights, rather than cessation of service to destinations altogether. Southwest ceased service to just one destination, Kansas City, which was served from SMF with a single daily flight. This "schedule optimization", as the airline refers to it, is being undertaken by Southwest across its system, including at the other California airports it serves, in an effort to improve load factors and profitability.

Passenger Traffic by Airline

Table 15 presents the airline shares of enplaned passengers at SMF in FY 2000, FY 2008, FY 2009, and FY 2010. Southwest accounted for 52.8% of total enplaned passengers at SMF in FY 2010, followed by United with 10.7%.

Southwest has accounted for about half the number of passengers enplaned at SMF each year since FY 2000, as can be seen on Figure 11. Southwest's share increased from 49.5% in FY 2000 to 52.8% in FY 2010.

Between FY 2000 and FY 2010, the number of enplaned passengers at SMF increased 16%. Southwest accounted for almost three-quarters of this increase. A substantial part of the remainder was attributable to the initiation of service at SMF by Continental Airlines, Frontier Airlines, JetBlue Airways, and Hawaiian Airlines.

Table 15
AIRLINE SHARES OF ENPLANED PASSENGERS
Sacramento International Airport
(for Fiscal Years ended June 30; in descending order by FY 2010)

Published airline	2000	2008	2009	2010
Total	**3,837,471**	**5,294,737**	**4,603,182**	**4,445,991**
Southwest	1,900,170	2,651,286	2,420,332	2,346,035
United	778,318	542,211	488,660	476,323
Delta *(a)*	355,010	440,183	370,337	348,065
Alaska	271,825	382,212	311,856	312,452
US Airways *(b)*	262,510	299,682	299,101	237,200
American *(c)*	257,024	199,259	146,226	179,242
Continental	10,086	155,893	159,908	159,880
Frontier	-	137,112	133,600	140,765
JetBlue	-	119,511	97,921	104,612
Hawaiian	-	90,051	81,699	83,000
Mexicana	-	59,690	58,509	58,417
ExpressJet *(d)*	-	150,216	29,045	-
Air Canada *(d)*	-	18,578	5,988	-
Aloha *(d)*	-	48,853	-	-
Other	2,528	-	-	-
Airline share of total				
Southwest	49.5%	50.1%	52.6%	52.8%
United	20.3	10.2	10.6	10.7
Delta *(a)*	9.3	8.3	8.0	7.8
Alaska	7.1	7.2	6.8	7.0
US Airways *(b)*	6.8	5.7	6.5	5.3
American *(c)*	6.7	3.8	3.2	4.0
Continental	0.3	2.9	3.5	3.6
Frontier	-	2.6	2.9	3.2
JetBlue	-	2.3	2.1	2.4
Hawaiian	-	1.7	1.8	1.9
Mexicana	-	1.1	1.3	1.3
ExpressJet *(d)*	-	2.8	0.6	-
Air Canada *(d)*	-	0.4	0.1	-
Aloha *(d)*	-	0.9	-	-
Other	0.1	-	-	-

Note: Passengers reported by regional affiliates have been grouped with their respective code-sharing partners.

(a) Northwest is included here with Delta for all years shown, although the merger with Delta occurred in October 2008.
(b) America West is included with US Airways for all years shown, although the merger with US Airways occurred in October 2005.
(c) TWA is included with American Airlines for all years shown, although American did not begin reporting TWA passengers with its own until December 2001.
(d) Aloha and Air Canada ceased service at the Airport in April 2008 and October 2008, respectively. ExpressJet ceased branded service in September 2008.

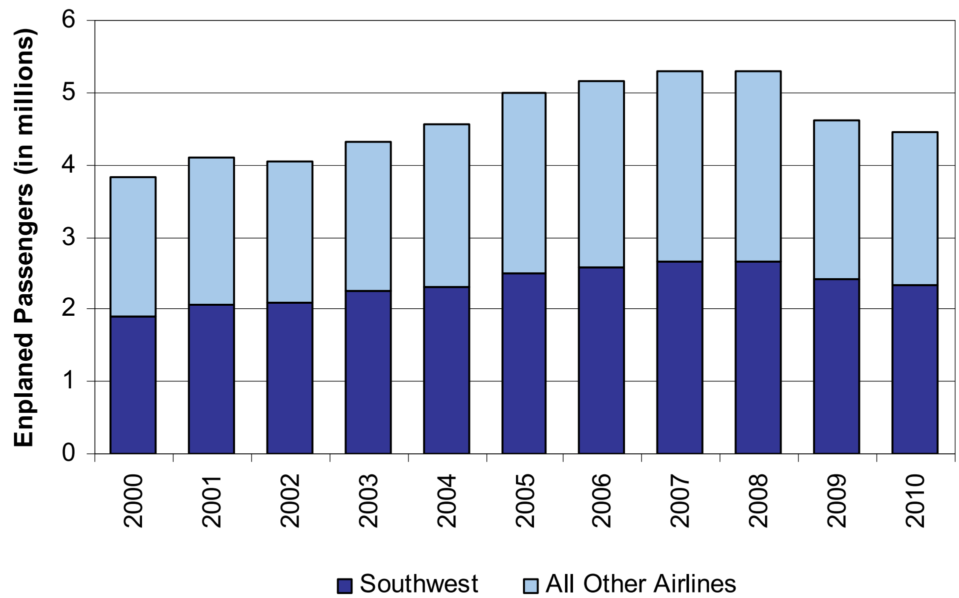
Source: Sacramento County Airport System.

Figure 11

ENPLANED PASSENGERS ON SOUTHWEST VS. ALL OTHER AIRLINES

Sacramento International Airport

(for Fiscal Years ended June 30)

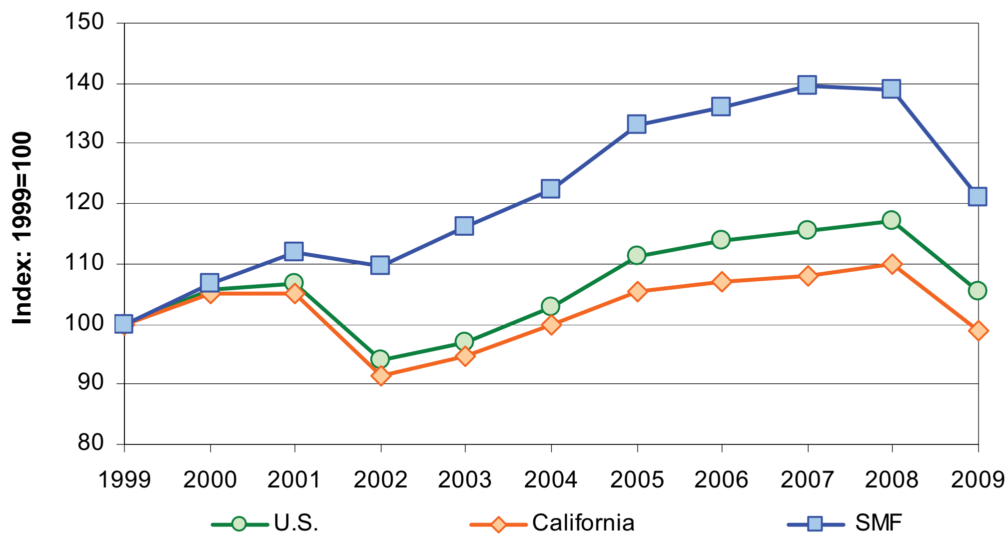


Source: Sacramento County Airport System.

Domestic O&D Passenger and Airfare Trends

Over 90% of enplaned passengers at SMF are domestic O&D passengers. In FY 2002, following the 2001 economic recession and the September 2001 terrorist attacks, the trend in domestic O&D passengers at SMF diverged markedly from national and statewide trends. (See Figure 12.) The number of domestic O&D passengers declined 13.1% in California and 11.7% across the nation in the 12 months ended June 30, 2002, but declined only 2.1% at SMF. From FY 2002 to FY 2008, domestic O&D traffic at SMF increased at a higher rate (averaging 4.0% per year) than in both the nation (averaging 3.7% per year) and California (averaging 3.2% per year). However, in FY 2009, domestic O&D traffic declined to a greater extent at SMF (-13.0%) than in either California (-10.3%) or nationwide (-9.9%).

Figure 12
INDEX OF OUTBOUND DOMESTIC O&D PASSENGERS
Sacramento International Airport, All California Airports, and All U.S. Airports
(for the 12 months ended June 30)

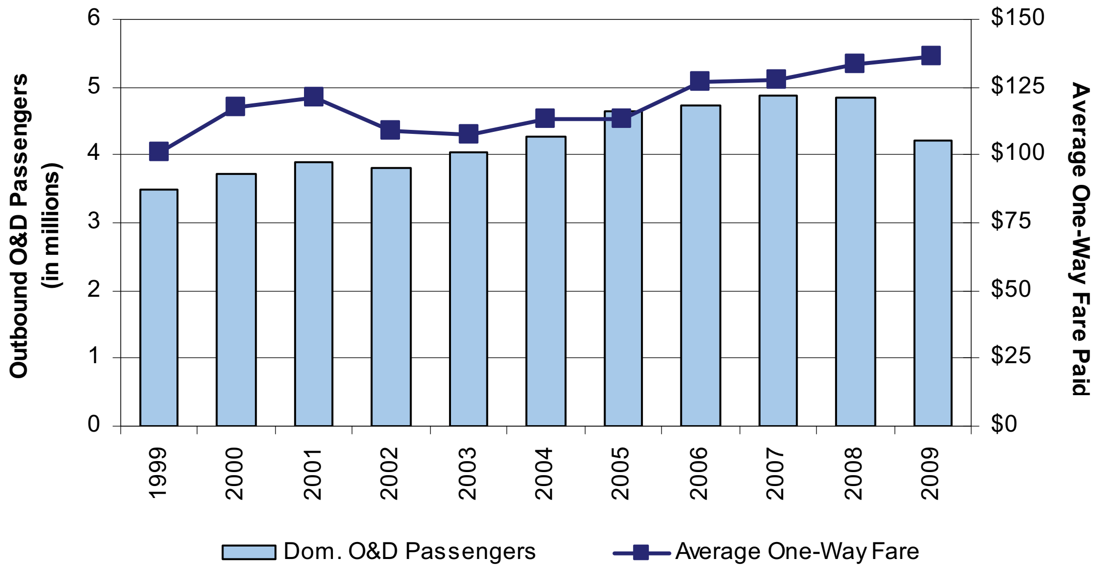


Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Domestic O&D passengers and average domestic airfares at SMF from FY 1999 to FY 2009 are presented on Figure 13. The average nominal domestic one-way airfare at SMF increased approximately $35 (35%) over this period. However, after correcting for inflation, the average fare increase was minimal in real terms.* The number of domestic O&D passengers increased 21% between FY 1999 and FY 2009 (despite a 13% year-over-year drop in FY 2009) reflecting increases in numbers of flights, destinations, and airlines serving SMF, and a population that grew faster than the national average.

*The reported average airfare data reflected in Figure 13 are exclusive of ancillary charges (fees for checked baggage and preferred seating, for example) which have become widespread in the airline industry over the past 2 years. Hence, average airfares as reported to U.S. DOT by the airlines increasingly understate (by as much as 10% or more) the traveler's true cost of airline travel.

Figure 13
DOMESTIC O&D PASSENGERS AND AVERAGE FARE PAID
Sacramento International Airport
(for Fiscal Years ended June 30)



Note: Average one-way fares shown are net of all taxes, fees, and PFCs. Because average fares do not include ancillary charges, such as bag check fees, they increasingly understate the true cost of air travel.

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

The net increase in the number of domestic O&D passengers at SMF between FY 1999 and FY 2009 resulted primarily from relatively strong growth in longer-haul passenger traffic (1,200+ miles). (See Table 16.) Short-haul traffic (<600 miles) exhibited no net growth over the 10-year period.

Of the domestic O&D passengers using SMF, area residents have historically outnumbered visitors. The relative proportion of residents and visitors was virtually unchanged over the past 10 years.

Patterns of domestic O&D traffic growth at SMF have varied by region of destination, as shown on Figure 14. The number of passengers bound for California cities exhibited no net growth over the past 10 years, while the number of passengers destined for cities in the rest of the western United States increased 2.3% per year. Growth in the number of domestic O&D passengers to the eastern United States increased an average of 4.3% per year. The number of O&D passengers traveling to Hawaii, the region accounting for the smallest share of those shown, increased from a negligible level to an estimated 2.5% of all domestic O&D traffic at SMF over the 10-year period, following the introduction of service at the Airport by Hawaiian Airlines (FY 2002) and Aloha Airlines (FY 2003). Aloha subsequently ceased service in

April 2008. More recently, Alaska initiated service to both Hawaii and Spokane in March 2010, while Delta initiated service to its Detroit hub in April 2010.

Table 16

OUTBOUND DOMESTIC O&D PASSENGERS, BY PASSENGER TRIP DISTANCE

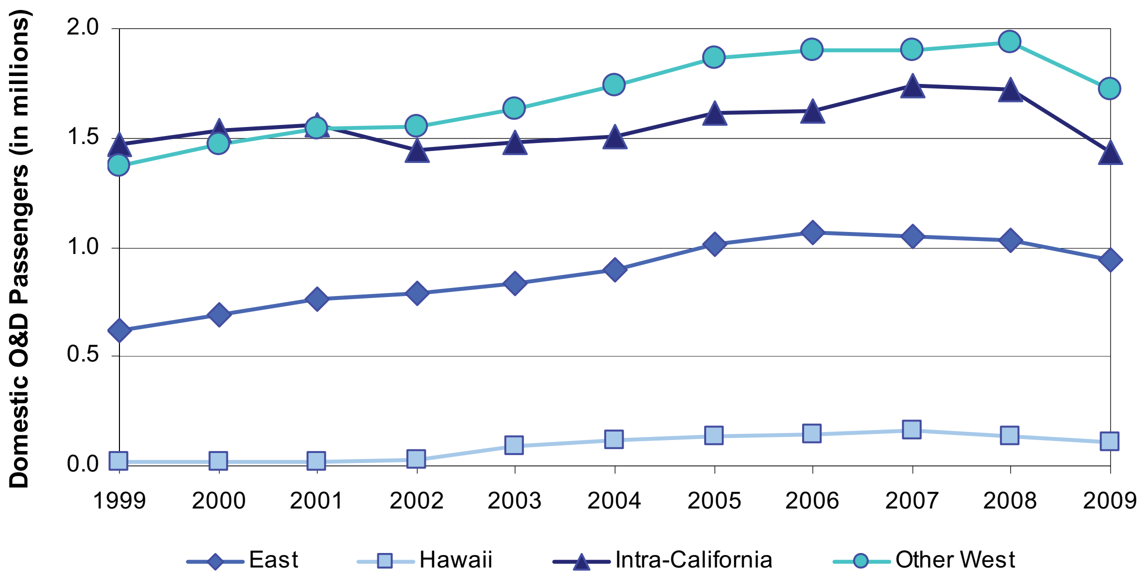
Sacramento International Airport

(for Fiscal Years ended June 30)

	Domestic O&D passengers		% of total		CAGR
	1999	2009	1999	2009	1999-2009
Total	**3,481,630**	**4,209,920**	**100.0%**	**100.0%**	**1.9%**
By passenger trip distance:					
Short haul (<600 mi)	1,957,540	1,959,690	56.2	46.5	0.0
Medium-short haul (600-1,199 mi)	544,120	694,460	15.6	16.5	2.5
Medium-long haul (1,200-1,799 mi)	385,120	598,850	11.1	14.2	4.5
Long haul (1,800+ mi)	594,850	956,920	17.1	22.7	4.9
By type of passenger:					
Resident	1,972,343	2,376,136	56.7	56.4	1.9
Visitor	1,509,287	1,833,784	43.4	43.6	2.0

Note: CAGR=Compound annual growth rate.
Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Figure 14
OUTBOUND DOMESTIC O&D PASSENGERS, BY REGION
Sacramento International Airport
(for Fiscal Years ended June 30)



Note: East refers to airports east of the Mississippi River. West refers to airports west of the Mississippi River other than those in California and Hawaii. Excludes passengers bound for Puerto Rico, the U.S. Virgin Islands, and islands of the U.S. Pacific Trust.

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

O&D passenger trends since FY 1999 in SMF's top 20 domestic O&D markets are shown in Table 17. The Los Angeles market, which accounted for 25.0% of all domestic O&D passengers at SMF in FY 2009, is triple the size of the second-ranked San Diego market (8.1% of total).

Each of SMF's top six domestic O&D markets is served by Southwest Airlines and is less than 650 miles from Sacramento. These markets accounted for 51.9% of all domestic O&D passengers at SMF in FY 2009, down from 61.3% in FY 1999, indicating a diversification of traffic at SMF and reduced reliance on high-volume, shorter-haul destination markets.

Table 17
TOP 20 DOMESTIC O&D CITY MARKETS
Sacramento International Airport
(for Fiscal Years ended June 30)

				Outbound Domestic O&D passengers (in thousands)					Compound annual growth rate		
				Fiscal Years			6 Months ended Dec.				6 Months ended December
Rank *(a)*	City market / *Airport*	Nonstop mileage	Airlines offering nonstop service *(b)*	1999	2008	2009	2008	2009	1999-2008	2008-2009	2009-2010
1	Los Angeles	382	B6,UA,WN	1,098	1,264	1,051	536	489	1.6%	(16.9%)	(8.8%)
	Ontario		*WN*	*311*	*333*	*271*	*137*	*118*	*0.7*	*(18.5)*	*(13.4)*
	Burbank		*WN*	*289*	*289*	*246*	*125*	*111*	*(0.0)*	*(14.7)*	*(11.1)*
	Los Angeles		*UA,WN*	*405*	*312*	*241*	*122*	*112*	*(2.9)*	*(22.7)*	*(8.5)*
	Orange County		*WN*	*92*	*261*	*228*	*118*	*116*	*12.3*	*(12.7)*	*(1.9)*
	Long Beach		*B6*	*0*	*70*	*65*	*33*	*31*	*119.2*	*(7.6)*	*(6.3)*
2	San Diego	480	WN	336	406	342	178	174	2.1	(15.7)	(1.9)
3	Las Vegas	397	WN	179	247	218	111	105	3.6	(11.7)	(5.8)
4	Seattle	605	AS,WN	196	240	211	117	102	2.3	(12.0)	(12.2)
5	Portland	479	AS,WN	186	241	194	107	100	3.0	(19.5)	(6.2)
6	Phoenix	647	US,WN	141	184	167	82	76	3.0	(9.3)	(7.7)
7	Denver	910	F9,UA,WN	64	118	142	77	74	7.0	20.4	(2.9)
8	Chicago *(c)*	1,786	UA,WN	59	108	98	55	52	7.1	(9.2)	(5.9)
9	Wash. DC/ Baltimore *(d)*	2,378	UA	80	104	98	48	47	3.0	(6.3)	(3.2)
10	Dallas/ Ft. Worth *(e)*	1,437	AA	46	93	80	42	42	8.1	(13.3)	(0.1)
11	New York *(f)*	2,512	B6	41	96	79	46	45	9.8	(18.1)	(2.7)
12	Salt Lake City	532	DL	82	76	70	39	33	(0.9)	(7.6)	(16.6)
13	Minneapolis/ St. Paul	1,518	DL	24	54	56	29	29	9.4	3.5	(0.4)
14	Houston *(g)*	1,617	CO	30	62	55	27	29	8.4	(11.5)	7.2
15	Orlando	2,407	-	38	59	52	25	25	4.8	(12.2)	2.0
16	Honolulu	2,462	HA	9	62	46	23	26	23.3	(25.4)	13.4
17	Philadelphia	2,458	US	19	46	45	24	22	10.4	(1.5)	(9.4)
18	Spokane	649	AS	34	60	43	25	17	6.5	(28.8)	(30.2)
19	Atlanta	2,092	DL	46	52	42	24	21	1.4	(18.2)	(13.1)
20	Kansas City	1,442	-	31	42	39	21	21	3.4	(6.4)	(0.5)
	Total---top 20 markets			**2,739**	**3,613**	**3,128**	**1,635**	**1,529**	**3.1%**	**(13.4%)**	**(6.5%)**
	All other markets			743	1,225	1,082	573	548	5.7	(11.7)	(4.4)
	Total---all markets			**3,482**	**4,838**	**4,210**	**2,208**	**2,077**	**3.7%**	**(13.0%)**	**(6.0%)**

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

(a) Top 20 city markets ranked on FY 2009.
(b) As of the third week of July 2010. Airline legend: AA=American, AS=Alaska, B6=JetBlue, CO=Continental, DL=Delta, F9=Frontier, HA=Hawaiian, UA=United, US=US Airways, WN=Southwest.
(c) Market includes O'Hare and Midway airports.
(d) Market includes Dulles, Reagan, and Baltimore airports.
(e) Market includes Dallas/Fort Worth Airport and Love Field.
(f) Market includes Kennedy, LaGuardia, and Newark airports.
(g) Market includes Hobby and Bush airports.

Sources: U.S. DOT, Air *Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1; *Official Airline Guide*.

Of SMF's top 10 domestic O&D markets, six are served nonstop by more than one airline; two markets (Los Angeles and Denver) are served by three airlines.

Competition with Bay Area Airports

The availability of airline service at SMF and other airports gives customers a choice, which is the basis for regional competition among airports. Customers generally evaluate their airport options in terms of airline service (primarily schedule timings, flight frequency, en route stops and connections, total travel time, schedule reliability, and aircraft type), airfares (including frequent flier benefits), and the cost and convenience of ground access and parking at the respective airports.

According to a May 2005 catchment area analysis conducted by Sabre Airline Solutions, SMF captured 78.2% of Sacramento Area airline passengers and 71.2% of the larger 17-county secondary air travel market (practically coterminous with the primary and secondary service areas delineated on Figure 2). The remaining passengers originating in or destined for the Sacramento Area were considered "leakage" to other airports. Sabre identified the following four airports as being the primary beneficiaries of Sacramento Area passenger leakage, in descending order: OAK, SFO, and, to a much lesser extent, Norman Y. Mineta San Jose International Airport (SJC) and Reno-Tahoe International Airport (RNO).

As previously mentioned, OAK is 90 road-miles from downtown Sacramento. The other three competing airports, SFO, SJC, and RNO, are 100, 115, and 135 road-miles from Sacramento, respectively, and drive times to these airports typically exceed 1 hour and 45 minutes.

Certain factors work against the Airport's ability to retain all passengers originating in or destined for its catchment area. Foremost among these factors is the continued availability of competitive service and fares at relatively nearby airports. These competing services are most attractive for those passengers originating in, or bound for, locations on the periphery of the Sacramento catchment area that are closest to the competing airports. Additionally, the draw of the mature gateway at SFO is strong for those traveling internationally.

On the other hand, certain other factors work in the Airport's interest to limit leakage. Prominent among these factors is the increasing roadway congestion between Sacramento and the Bay Area. This congestion adds to the time and cost of commuting to a competing airport, making the service from the Airport more attractive by comparison. Furthermore, population growth along the I-80 corridor places more potential travelers closer to the Airport.

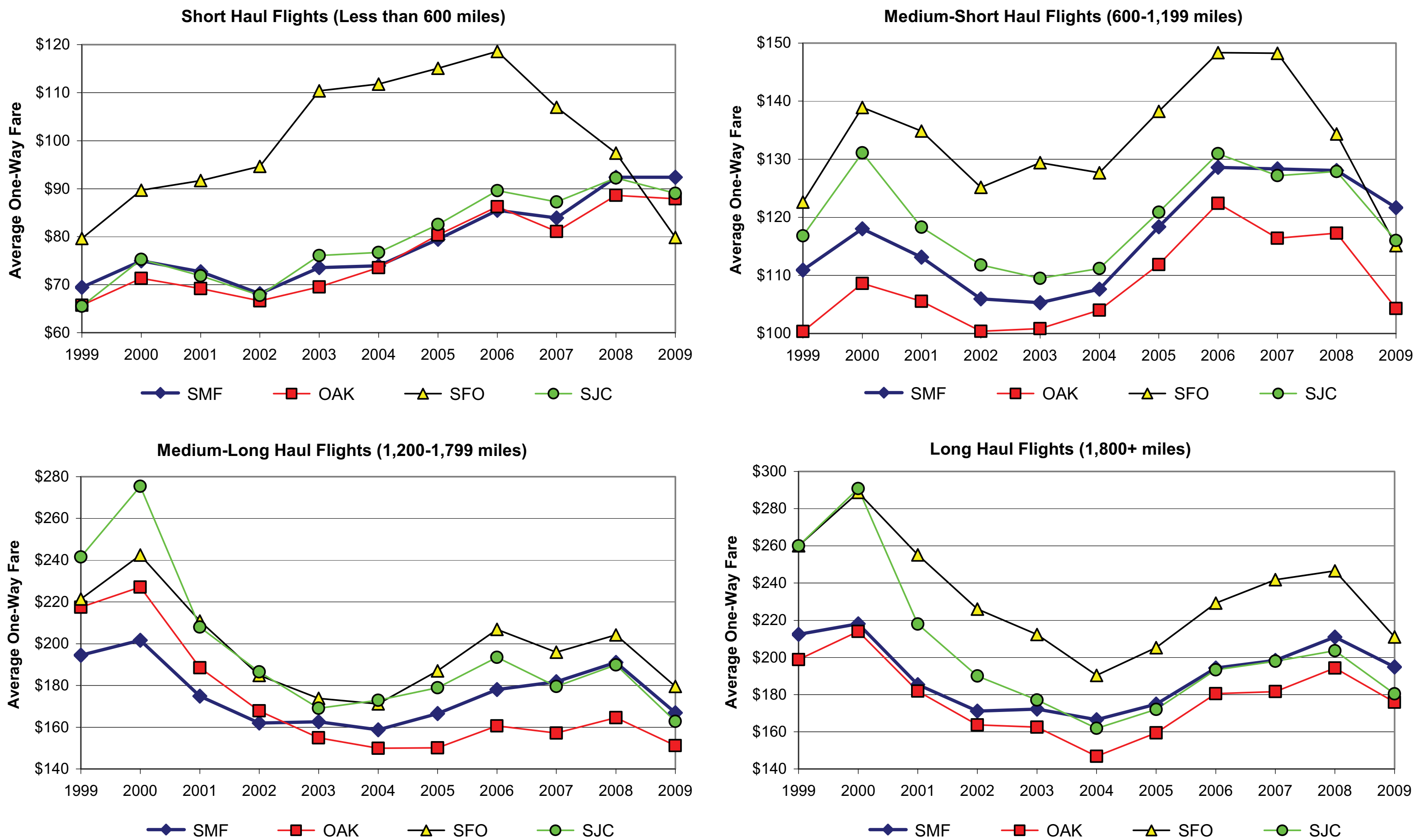
A comparison of average domestic one-way airfares paid at SMF with those paid at the three Bay Area airports from 2000 through 2009 is illustrated on Figure 15.

Figure 15

COMPARISON OF AVERAGE DOMESTIC ONE-WAY AIRFARES, BY DISTANCE BAND

Sacramento International Airport and the Bay Area Airports

(calendar years)



Notes: Average fares are net of all taxes, fees, and PFCs. Because average fares do not include ancillary charges, such as bag check fees, they increasingly understate the true cost of air travel.

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

Since 1999, airfares paid at SMF, OAK, and SJC for trips shorter than 600 miles, i.e., short-haul, have been substantially similar. The effect of recent LCC service upon average fares at SFO in the short-haul and medium-short haul distance categories is clearly visible on Figure 15. Although SFO had the highest fares, on average, in both categories in 2006, it had the lowest (short-haul) and second-lowest (medium-short haul) average fares by 2009.

This shift has left SMF in the position of having the highest airfares, on average, among the four airports for trips of less than 1,200 miles. For trips of more than 1,200 miles, SMF has the second-highest fares, on average, behind SFO. In all distance categories except short-haul flights, passenger fares paid at OAK were the lowest, on average, among the four airports.

A comparison of service and airfares paid in 2009 at SMF and OAK is provided in Table 18. In the highest-volume domestic markets served from SMF and OAK, the airlines tended to offer a similar number of departing seats and the average fares paid were roughly comparable.

In four of SMF's top five domestic O&D markets, the average fares paid at the two airports were competitive, with fares at SMF lower in one market (Portland) and within approximately $10 of the average fare paid at OAK in the three other markets (Los Angeles, San Diego, and Las Vegas). Each of the four markets is served by LCCs, both from SMF and OAK.

In all domestic O&D markets beyond the 11 largest, no LCC service was provided from SMF. By contrast, at OAK, LCCs provided the majority of service in those markets.

Table 18
DAILY DOMESTIC DEPARTING SEATS BY CITY MARKET AND AIRLINE TYPE, AND AVERAGE FARES IN SACRAMENTO'S TOP 20 DOMESTIC O&D PASSENGER MARKETS
Sacramento International and Oakland International Airports
(seats for the third week of July 2010; fares for the 12 months ended June 2009)

		Daily scheduled domestic departing seats								
		Sacramento			Oakland			Average domestic one-way fare		
Rank	City market / *Airport*	Low-cost carriers	All other airlines	Total	Low-cost carriers	All other airlines	Total	SMF	OAK	Difference
1	Los Angeles	4,580	230	4,810	6,585	-	6,585	$89.11	$87.21	$1.90
	Ontario	*1,122*	-	*1,122*	*1,142*	-	*1,142*	*87.75*	*85.44*	*2.31*
	Los Angeles	*1,142*	*230*	*1,372*	*2,025*	-	*2,025*	*87.74*	*89.70*	*(1.96)*
	Burbank	*1,116*	-	*1,116*	*1,781*	-	*1,781*	*91.72*	*86.05*	*5.67*
	Orange County	*900*	-	*900*	*1,037*	-	*1,037*	*93.84*	*96.80*	*(2.96)*
	Long Beach	*300*	-	*300*	*600*	-	*600*	*73.56*	*66.75*	*6.80*
2	San Diego	1,551	-	1,551	1,679	-	1,679	91.74	85.60	6.14
3	Las Vegas	1,076	-	1,076	1,213	-	1,213	103.96	93.43	10.53
4	Seattle	548	768	1,316	898	673	1,571	109.32	88.94	20.38
5	Portland	783	330	1,113	783	270	1,053	90.21	104.84	(14.63)
6	Phoenix	783	661	1,444	763	510	1,274	126.74	118.03	8.71
7	Denver	906	667	1,573	489	277	766	113.68	120.53	(6.85)
8	Chicago	137	365	502	411	-	411	182.28	153.36	28.92
	O'Hare	-	*365*	*365*	-	-	-	*206.80*	*165.70*	*41.10*
	Midway	*137*	-	*137*	*411*	-	*411*	*153.24*	*151.67*	*1.57*
9	Wash. DC/ Baltimore	-	139	139	150	-	150	217.18	170.40	46.79
	Baltimore	-	-	-	-	-	-	*173.87*	*159.96*	*13.91*
	Dulles	-	*139*	*139*	*150*	-	*150*	*264.34*	*171.41*	*92.93*
	Reagan	-	-	-	-	-	-	*218.64*	*214.59*	*4.05*
10	Dallas/ Ft. Worth	-	560	560	-	-	-	198.46	165.14	33.31
	Dallas/ Ft. Worth	-	*560*	*560*	-	-	-	*206.69*	*176.94*	*29.76*
	Love Field	-	-	-	-	-	-	*149.31*	*150.89*	*(1.58)*
11	New York	150	-	150	300	-	300	197.81	180.04	*17.77*
	Kennedy	*150*	-	*150*	*300*	-	*300*	*194.32*	*178.22*	16.10
	LaGuardia	-	-	-	-	-	-	*176.88*	*192.27*	*(15.39)*
	Newark	-	-	-	-	-	-	*233.16*	*214.80*	*18.36*
12	Salt Lake City	-	515	515	496	394	890	127.02	98.99	28.03
13	Minneapolis/ St. Paul	-	458	458	-	-	-	174.75	166.95	7.80
14	Houston	-	491	491	254	-	254	195.22	163.72	31.51
	Bush	-	*491*	*491*	-	-	-	*205.08*	*197.95*	*7.13*
	Hobby	-	-	-	*254*	-	*254*	*168.53*	*155.84*	*12.69*
15	Orlando	-	-	-	-	-	-	157.69	165.31	(7.61)
16	Honolulu	-	252	252	-	252	252	256.09	234.68	21.41
17	Philadelphia	-	150	150	-	-	-	176.36	171.86	4.50
18	Spokane	-	63	63	254	-	254	114.61	111.04	3.57
19	Atlanta	-	343	343	-	183	183	250.86	200.84	50.02
20	Kansas City	-	-	-	137	-	137	144.31	146.42	(2.11)
	Total---top 20 markets	10,514	5,993	16,507	14,414	2,559	16,973	$119.78	$107.48	$12.30
	All other markets	-	1,053	1,053	1,559	409	1,968	184.04	163.67	20.37
	Total---all markets	10,514	7,046	17,560	15,973	2,968	18,942	$136.29	$117.57	$18.72

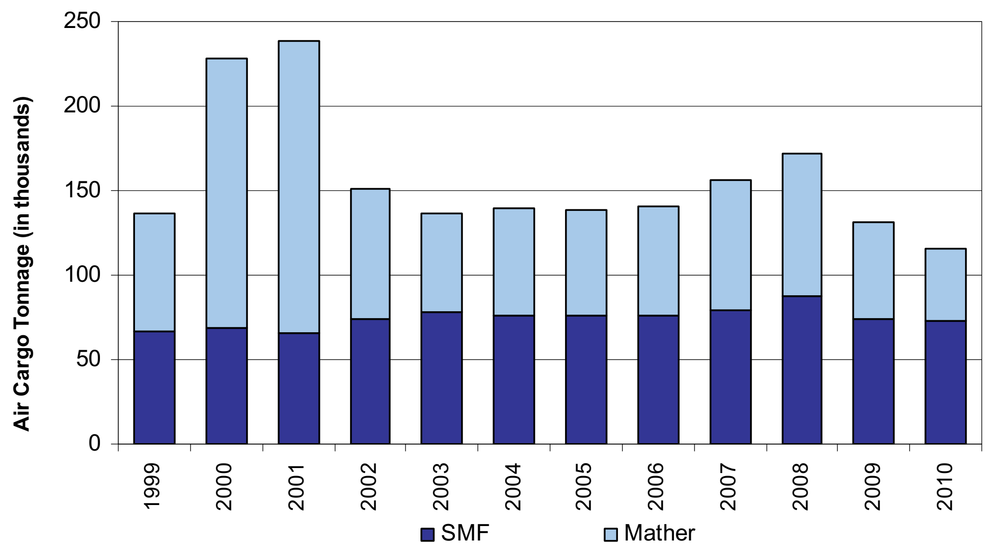
Notes: Sacramento's top 20 domestic O&D markets ranked for the 12 months ended June 30, 2009.
Average one-way fares shown are net of taxes, fees, and PFCs.
Columns and rows may not add to totals shown because of rounding.

Sources: *Official Airline Guide*; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Air Cargo

Figure 16 shows historical trends in air cargo tonnage handled at SMF and at Mather Airport. The development of Mather as a cargo airport contributed to regional growth in air cargo tonnage in the late 1990s. In FY 2000 and FY 2001, Kitty Hawk Aircargo had a contract with the U.S. Postal Service (USPS) to carry U.S. mail, accounting for most of the cargo increase at Mather in those years. At the end of FY 2001, the USPS awarded a new U.S. mail contract to FedEx, leading to the cessation of Kitty Hawk's operations at Mather and contributing to a decline in cargo tonnage at Mather in FY 2002. Six years later, total cargo tonnage at the two airports was 13.8% higher than in FY 2002. Between FY 2008 and FY 2010, however, cargo tonnage decreased 16% at SMF and 49% at Mather due to declines in activity by FedEx and ABX Air/DHL, respectively.

Figure 16
TOTAL AIR CARGO TONNAGE
Sacramento International and Mather Airports
(for Fiscal Years ended June 30)



Notes: Sum of enplaned and deplaned freight and mail.
Source: Sacramento County Airport System.

Table 19 shows the airline shares of total cargo tonnage at SMF in FY 2000, FY 2008, FY 2009, and FY 2010. FedEx accounted for 88.2% of all cargo tonnage at SMF in FY 2010; the all-cargo airlines together accounted for 91.2% of the Airport total, up from 67.5% 10 years earlier. The passenger airlines accounted for the remaining 8.8% of cargo tonnage at SMF in FY 2010. The 0.5% year-over-year decline in cargo tonnage in the FY 2010 was due entirely to a 16.7% decline recorded by the passenger airlines.

Table 19

AIRLINE SHARES OF TOTAL CARGO TONNAGE AT SACRAMENTO INTERNATIONAL AIRPORT

(for Fiscal Years ended June 30)

Airline type Airline	2000	2008	2009	2010
Total---all airlines	**68,536**	**87,412**	**73,438**	**73,089**
All-cargo	**46,277**	**80,185**	**65,736**	**66,674**
FedEx	39,442	76,906	62,925	64,465
West Air Industries	3,023	2,921	2,376	2,209
UPS	281	256	387	-
ABX Air/ DHL *(a)*	3,530	102	48	-
All other	1	-	-	-
Passenger	**22,259**	**7,227**	**7,702**	**6,416**
Southwest	6,486	2,347	2,410	2,172
Hawaiian	-	1,526	1,794	1,454
US Airways *(b)*	1,699	1,066	1,332	1,009
Continental	96	406	457	485
Delta *(c)*	5,078	382	403	350
Alaska	427	320	304	317
All other	8,474	1,181	1,003	629
Airline share of total				
All-cargo	**67.5%**	**91.7%**	**89.5%**	**91.2%**
FedEx	57.5	88.0	85.7	88.2
West Air Industries	4.4	3.3	3.2	3.0
UPS	0.4	0.3	0.5	-
ABX Air/ DHL *(a)*	5.1	0.1	0.1	-
All other	0.0	-	-	-
Passenger	**32.5%**	**8.3%**	**10.5%**	**8.8%**
Southwest	9.5	2.7	3.3	3.0
Hawaiian	-	1.7	2.4	2.0
US Airways *(b)*	2.5	1.2	1.8	1.4
Continental	0.1	0.5	0.6	0.7
Delta *(c)*	7.4	0.4	0.5	0.5
Alaska	0.6	0.4	0.4	0.4
All other	12.4	1.4	1.4	0.9

Notes: Sum of enplaned and deplaned freight and mail.
Columns may not add to totals shown because of rounding.
(a) In August 2003, DHL acquired Airborne Express and spun off its ABX Air affiliate, which had operated as Airborne Express. Thereafter, the majority of ABX Air's flights were operated under commercial agreement with DHL. Data prior to August 2003 represent cargo tonnage handled primarily by DHL.
(b) 4Includes America West for all years shown.
(c) 4Includes TWA for all years shown.
Source: Sacramento County Airport System.

Table 20 shows the airline shares of total cargo tonnage at Mather Airport in FY 2000, FY 2008, FY 2009, and FY 2010. In FY 2010, UPS accounted for 97.3% of Mather's cargo tonnage, while the remaining cargo was handled by ABX Air under commercial agreement with DHL. The 25.0% year-over-year decline in cargo tonnage in FY 2010 was due almost entirely to ABX Air/DHL's cessation of service at Mather in December 2009. (In November 2008, DHL had announced its intention to discontinue all domestic air and ground service within the United States in order to focus on its international service.)

Table 20
AIRLINE SHARES OF TOTAL CARGO TONNAGE AT MATHER AIRPORT
(for Fiscal Years ended June 30)

Airline	2000	2008	2009	2010
Total---all airlines	**159,701**	**84,773**	**57,349**	**43,031**
UPS	37,436	46,948	42,520	41,850
ABX Air/ DHL *(a)*	8,036	37,825	14,830	1,181
Kitty Hawk *(b)*	80,577	-	-	-
Burlington Air Express *(c)*	19,869	-	-	-
Emery/ Menlo *(d)*	13,782	-	-	-
Airline share of total				
UPS	23.4%	55.4%	74.1%	97.3%
ABX Air/ DHL *(a)*	5.0	44.6	25.9	2.7
Kitty Hawk *(b)*	50.5			
Burlington Air Express *(c)*	12.4	-	-	-
Emery/ Menlo *(d)*	8.6	-	-	-

Notes: Sum of enplaned and deplaned freight and mail.
Columns may not add to totals shown (or 100%) because of rounding.

(a) In August 2003, DHL acquired Airborne and spun off its ABX Air affiliate, which had operated as Airborne Express. Thereafter, the majority of ABX Air's flights were operated under commercial agreement with DHL. Data prior to August 2003 represent cargo tonnage handled by Airborne.
(b) Kitty Hawk ceased operations at Mather Airport in FY 2002.
(c) Burlington Air Express ceased operations at Mather Airport in FY 2001.
(d) Emery Worldwide ceased operations in December 2001. Menlo Worldwide Forwarding, its successor company, was acquired by UPS in December 2004.

Source: Sacramento County Airport System.

Key Factors Affecting Future Airline Traffic

In addition to the economy and demographics of the Sacramento Area and intra-airport competition, as discussed earlier, key factors that will affect future airline traffic at SMF include:

- Economic and political conditions
- Financial health of the airline industry
- Airline service and routes
- Airline competition and airfares
- Airline consolidation and alliances
- Availability and price of aviation fuel
- Aviation safety and security concerns
- Capacity of the national air traffic control system
- Capacity of Sacramento International Airport
- High-speed rail in California

Economic and Political Conditions

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. Recession in the U.S. economy in 2001 and stagnant economic conditions in 2002 contributed to reduced passenger numbers during those years. The recession that began in late 2007, combined with reduced discretionary income, contributed to reduced airline travel demand in 2008 and 2009.

With the globalization of business and the increased importance of international trade and tourism, growth in the U.S. economy has become more closely tied to worldwide economic, political, and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships, and hostilities are important influences on passenger traffic at major U.S. airports. Sustained future increases both in domestic and international passenger traffic will depend on stable and peaceful international conditions and global economic growth.

Financial Health of the Airline Industry

The number of passengers using the Airport will depend partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines to make the necessary investments to continue providing service.

The 1990-1991 recession, coupled with increased operating costs and security concerns during the Gulf War, generated then-record financial losses in the airline industry. Those losses put particular pressures on financially weak or highly indebted airlines, forcing many to seek bankruptcy protection, sell productive assets, lay off workers, reduce service, or discontinue operations.

Between 1995 and 2000, the airline industry was profitable, but as a result of the 2001 economic recession, the disruption of the airline industry that followed the September 2001 terrorist attacks, increased fuel and other operating costs, and price competition, the industry again experienced huge financial losses. In 2001 through 2005, the major U.S. passenger airlines collectively recorded net losses of approximately $40 billion.

To mitigate those losses, all of the major network airlines restructured their route networks and flight schedules and reached agreement with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the possibility of such. US Airways twice filed for bankruptcy protection, in August 2002 and September 2004, before emerging in September 2005 following its merger with America West Airlines. In 2004, US Airways drastically reduced service at its Pittsburgh hub. In December 2002, United Airlines filed for bankruptcy protection (emerging in February 2006). In 2003, American avoided filing for bankruptcy protection only after obtaining labor cost concessions from its employees and drastically reducing service at its St. Louis hub. In 2005, Delta eliminated its Dallas/Fort Worth hub and substantially reduced service at its Cincinnati hub. In September 2005, Delta filed for bankruptcy protection (emerging in April 2007). Also in September 2005, Northwest filed for bankruptcy protection (emerging in May 2007). Among smaller airlines, between 2003 and 2005, Hawaiian Airlines, ATA Airlines, Aloha Airlines, and Independence Air filed for bankruptcy protection. (Of these airlines, only Hawaiian was still operating as of July 2010.)

In 2006 and 2007, the U.S. passenger airline industry as a whole was profitable, but in 2008, as oil and aviation fuel prices increased to unprecedented levels, the industry experienced a profitability crisis. The industry responded by grounding older, less fuel-efficient aircraft, adopting fuel-saving operating practices, hedging fuel requirements, reducing scheduled seat capacity, eliminating unprofitable routes, laying off employees, reducing employee compensation, reducing other non-fuel expenses, increasing airfares, and imposing other fees and charges. The U.S. passenger airlines collectively reduced domestic capacity (as measured by available seat-miles) by approximately 4% in 2008 and an additional 8% in 2009.

Losses by the U.S. airlines depleted limited cash reserves and led to an additional round of bankruptcies in 2008. In March and April 2008, Aloha, ATA, and Skybus airlines declared bankruptcy and ceased operations. In April 2008, Frontier Airlines filed for Chapter 11 bankruptcy protection but continued to operate; the airline emerged from bankruptcy in October 2009 following its acquisition by Republic Airways Holdings.

Airline Service and Routes

The Airport serves as a gateway to the Sacramento Area. The number of origin and destination passengers depends on the propensity of its residents to travel by air and the intrinsic attractiveness of the Sacramento Area as a business and leisure destination. Although passenger demand at an airport depends primarily on the population and economy of the region served, airline service and the numbers of passengers enplaned also depend on the route networks of the airlines serving that airport. Most full-fare mainline airlines have emphasized the development of hub-and-spoke route networks as a means of increasing their service frequencies, passenger numbers, and profitability. SMF, an airport almost exclusively serving origin-destination passengers, does not serve as a hub for any airline and, consequently, is not dependent on connecting passengers.

Airline Competition and Airfares

Airline fares have an important effect on passenger demand, particularly for relatively short trips, for which the automobile and other travel modes are potential alternatives, and for price-sensitive "discretionary" travel. The price elasticity of demand for airline travel increases in weak economic conditions when the disposable income of potential airline travelers is reduced. Airfares are influenced by airline capacity and yield management; passenger demand; airline market presence; labor, fuel, and other airline operating costs; airline debt burden; taxes, fees, and other charges assessed by governmental and airport agencies; and competitive factors. Future passenger numbers, both nationwide and at the Airport, will depend partly on the level of airfares.

Overcapacity in the industry, the ability of consumers to compare airfares and book flights easily via the Internet, and other competitive factors combined to reduce airfares between 2000 and 2005. During that period, the average domestic yield for U.S. airlines was reduced from 14.9 cents to 12.7 cents per passenger-mile. Despite a period of elevated yields in the subsequent few years, travel demand weakened considerably in 2009, particularly for first- and business-class travel, in the face of the severe economic downturn. The average domestic yield for U.S. airlines in 2009 was 13.2 cents (a figure which excludes many of the ancillary fees, e.g., for checked baggage, that have become widespread in the industry since 2008).

Airline Consolidation and Alliances

In response to competitive pressures, the U.S. airline industry has consolidated. In April 2001, American completed an acquisition of failing Trans World Airlines. In August 2001, merger plans for United and US Airways were proposed, but rejected by the U.S. Department of Transportation because of concerns about reduced airline competition. In September 2005, US Airways and America West merged. In October 2008, Delta and Northwest merged. In April 2010, Republic Airways Holdings announced that Midwest and Frontier Airlines would merge under the Frontier brand.

In May 2010, United and Continental announced their intent to merge. It remains to be seen whether the necessary regulatory and other approvals for the merger will be granted.

Further airline consolidation remains possible and could change airline service patterns, particularly at the connecting hub airports of the merging airlines.

Alliances, joint ventures, and other marketing arrangements provide airlines with many of the advantages of mergers, and all of the large U.S. network airlines are members of such alliances with foreign-flag airlines. Alliances typically involve marketing, code-sharing, and scheduling arrangements to facilitate the transfer of passengers between the airlines. Joint ventures involve even closer cooperation and the sharing of costs and revenues on certain routes.

Availability and Price of Aviation Fuel

The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainty. Beginning in 2003, fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in Nigeria and other oil-producing countries; the rapidly growing economies of China, India, and other developing countries; and other factors influencing the demand for and supply of oil. By mid-2008, average fuel prices were three times higher than they were in mid-2004 and represented the largest item of airline operating expense, accounting for between 30% and 40% of expenses for most airlines. Increased prices have been an important contributor to recent airline industry losses. In the second half of 2008, fuel prices fell sharply as aviation demand declined worldwide, although prices rose somewhat through 2009 and early 2010, partly as a result of a weakened U.S. dollar.

Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term. However, there is widespread agreement that fuel prices are likely to remain high relative to historical levels and to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies.

Aviation fuel prices will continue to affect future airline service, airfares, and passenger numbers. Airline operating economics will also be affected as regulatory costs are imposed on air travel and the airline industry as part of efforts to reduce aircraft emissions contributing to global climate change.

Aviation Safety and Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures lead to both the avoidance of travel and the switching from air to surface modes of transportation for short trips.

Safety concerns in the aftermath of the terrorist attacks in September 2001 were largely responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (TSA), more effective dissemination of information about threats, more intensive screening of passengers and baggage, and deployment of new screening technologies.

Public health concerns have also affected air travel demand from time to time. In 2003, concerns about the spread of severe acute respiratory syndrome (SARS) led public health agencies to issue advisories against nonessential travel to certain regions of the world. In 2009, concerns about the spread of influenza caused by the H1N1 virus reduced international travel to and from certain areas, particularly Mexico and Asia.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks or threats, hijackings, aircraft crashes, public health concerns, and international hostilities. Provided that precautions by government agencies, airlines, and airport operators serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Airport will depend primarily on economic, not safety or security, factors.

Capacity of the National Air Traffic Control System

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing its Next Generation Air Transport System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures. After 2001, and again in 2008 and 2009, air traffic delays decreased as a result of reduced numbers of aircraft operations, but, as air travel demand increases in the future, flight delays and restrictions will recur.

Capacity of Sacramento International Airport

In addition to any future constraints that may be imposed by the national air traffic control system, long-term future growth in airline traffic at SMF will depend on the capacity at SMF itself. According to SCAS, SMF has ample airfield capacity and the Terminal Modernization Program is designed to address terminal requirements through at least 2020.

As mentioned previously, the County, as part of its emergency flood response plan, would seek a temporary operating certificate from the FAA for Mather Airport. The certificate would allow scheduled and non-scheduled airline service at Mather Airport only during the period of a flood emergency until operations can resume at SMF, consistent with the covenant "against competitive facilities" in Section 6.12 of the Indenture.

High-Speed Rail in California

In November 2008, California voters passed a referendum authorizing the State to issue roughly $10 billion in bonds to fund the first phase of a high-speed electric train system. The California High-Speed Rail Authority plans a rail network stretching from Sacramento and San Francisco, through the Central Valley, to Los Angeles and San Diego. Such rail service is not expected to be operational before the end of the forecast period considered in this Report.

Enplaned Passenger and Landed Weight Forecasts

Forecasts of airline traffic at SMF through FY 2016 were developed taking into account analyses of the economic basis for airline traffic, trends in historical traffic, and key factors likely to affect future traffic, all as discussed in earlier sections.

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

The enplaned passenger forecast is presented in Table 21. The number of enplaned passengers is forecast to increase 0.7% in FY 2011 and to recover gradually thereafter to 5.0 million passengers in FY 2016.

Figure 17 displays the enplaned passenger forecast and the most recent FAA Terminal Area Forecast (TAF), issued in December 2009. The number of enplaned passengers forecast for FY 2016 by the FAA (5.24 million) exceeds our forecast by 240,000 enplaned passengers, due entirely to the higher long-term rate of passenger growth forecast by FAA (3.5% per year between FY 2012 and FY 2016, compared with 2.4% for this forecast).

Table 21
HISTORICAL AND FORECAST ENPLANED PASSENGER TRENDS
Sacramento International Airport
(for Fiscal Years ended June 30)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast is dependent upon the occurrence of future events, which cannot be assured. Therefore, the actual results may vary from the forecast, and the variance could be material.

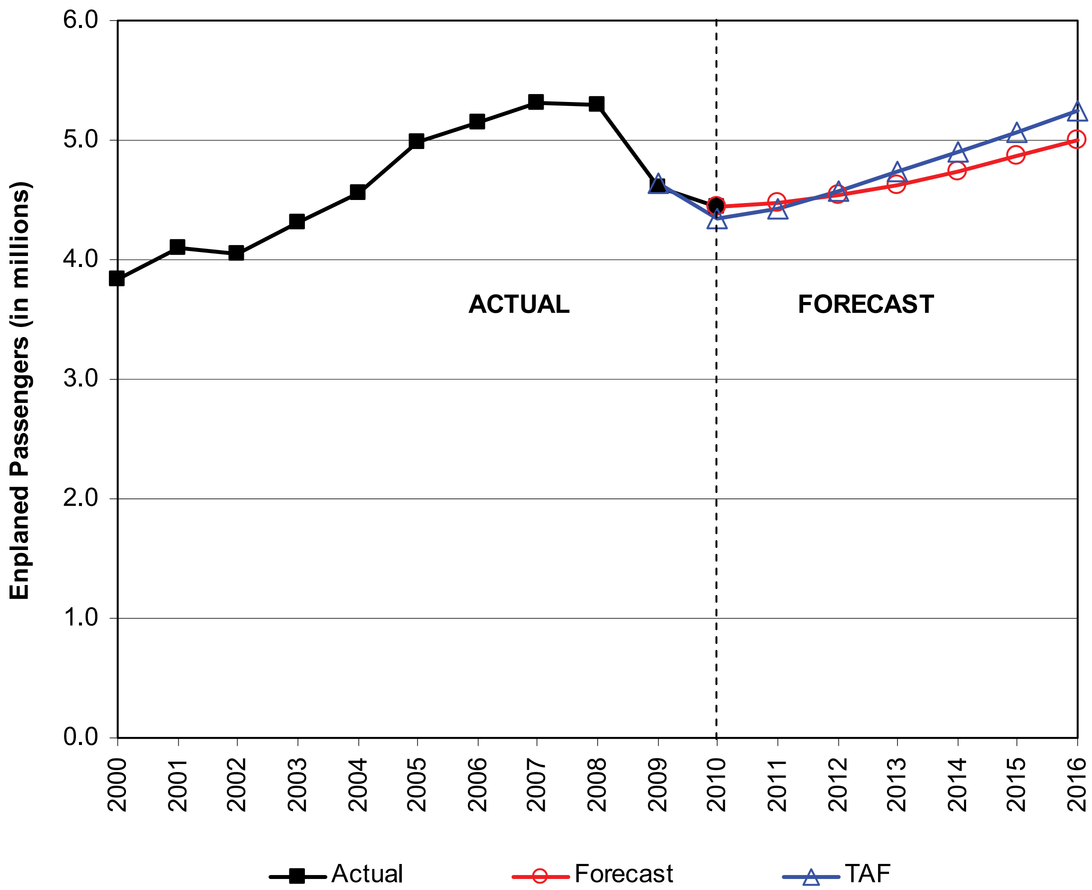
Fiscal year	Domestic O&D	Domestic connecting	Total domestic	International	Total enplaned passengers	Percent change
2000	3,728,646	108,825	3,837,471	0	3,837,471	
2001	3,981,304	111,745	4,093,049	0	4,093,049	6.7%
2002	3,932,030	110,555	4,042,585	0	4,042,585	(1.2)
2003	4,155,689	134,190	4,289,879	24,394	4,314,273	6.7
2004	4,402,225	138,345	4,540,570	23,037	4,563,607	5.8
2005	4,796,469	144,085	4,940,554	45,617	4,986,171	9.3
2006	4,915,558	173,465	5,089,023	61,206	5,150,229	3.3
2007	5,063,135	183,245	5,246,380	60,909	5,307,289	3.0
2008	5,023,234	187,175	5,210,409	84,328	5,294,737	(0.2)
2009A	4,365,765	172,920	4,538,685	64,497	4,603,182	(13.1)
2010E/ A	4,214,674 E	172,900 E	4,387,574 E	58,417 E	4,445,991 A	(3.4)
2011F	4,247,700	174,600	4,422,300	54,000	4,476,300	0.7
2012	4,306,800	177,200	4,484,000	55,000	4,539,000	1.4
2013	4,393,300	180,700	4,574,000	56,000	4,630,000	2.0
2014	4,501,700	184,300	4,686,000	59,000	4,745,000	2.5
2015	4,619,000	188,000	4,807,000	62,000	4,869,000	2.6
2016	4,743,200	191,800	4,935,000	65,000	5,000,000	2.7
Compound annual growth rate						
Historical:						
2000-2004	4.2%	6.2%	4.3%	n.a.	4.4%	
2004-2009	(0.2)	4.6	(0.0)	22.9%	0.2	
2000-2009	1.8	5.3	1.9	n.a.	2.0	
Estimated:						
2009-2010	(3.5%) E	(0.0%) E	(3.3%) E	(9.4%) E	(3.4%) A	
Forecast:						
2010-2016	2.0	1.7	2.0	1.8	2.0	
2009-2016	1.2	1.5	1.2	0.1	1.2	

Note: A=Actual; E=Estimated; F=Forecast; n.a.=not applicable.

Sources: Historical—Sacramento County Airport System; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1. Forecast—Jacobs Consultancy.

Figure 17
ENPLANED PASSENGER FORECAST
Sacramento International Airport
(for Fiscal Years ended June 30)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast is dependent upon the occurrence of future events, which cannot be assured. Therefore, the actual results may vary from the forecast, and



the variance could be material.

Sources: Actual—Sacramento County Airport System; TAF—FAA Terminal Area Forecast, December 2009; Forecast—Jacobs Consultancy.

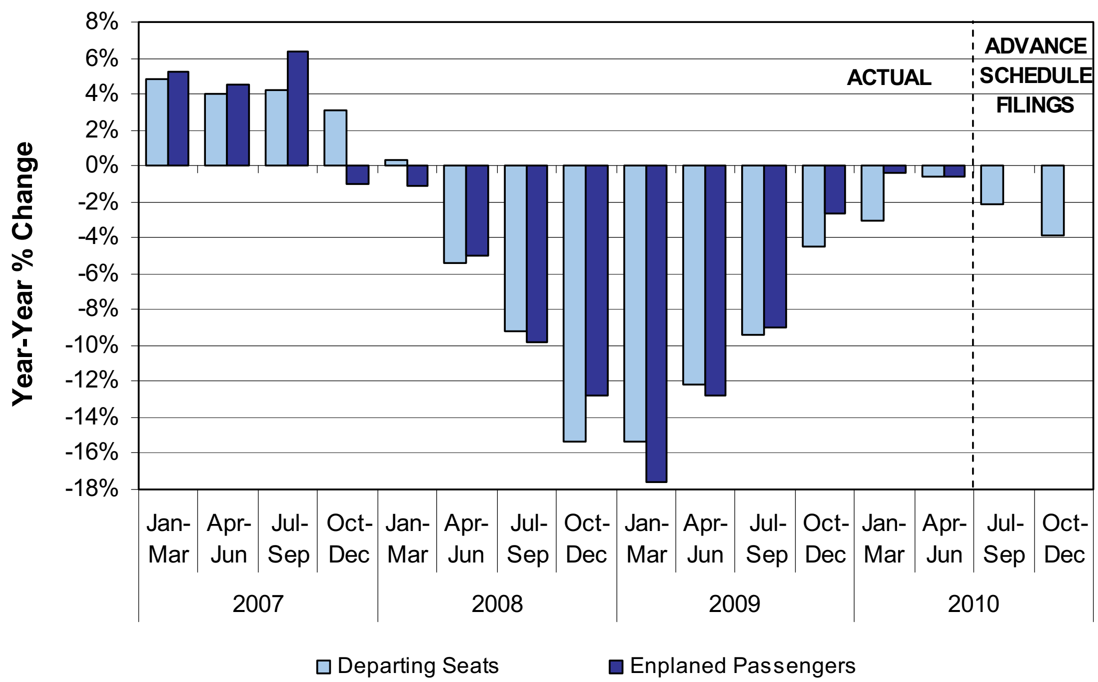
Capacity Outlook

Since 2007, changes in the number of departing seats offered at SMF have generally correlated with changes in the number of enplaned passengers, as shown on Figure 18. The differences between the two metrics are accounted for by changes in passenger load factors. Figure 18 also illustrates the declines in the numbers of departing seats currently planned by the airlines at SMF through the fourth quarter of 2010, according to advance published flight schedules (which are subject to change).

Figure 18

CHANGES IN QUARTERLY SCHEDULED DEPARTING SEATS AND ENPLANED PASSENGERS

Sacramento International Airport

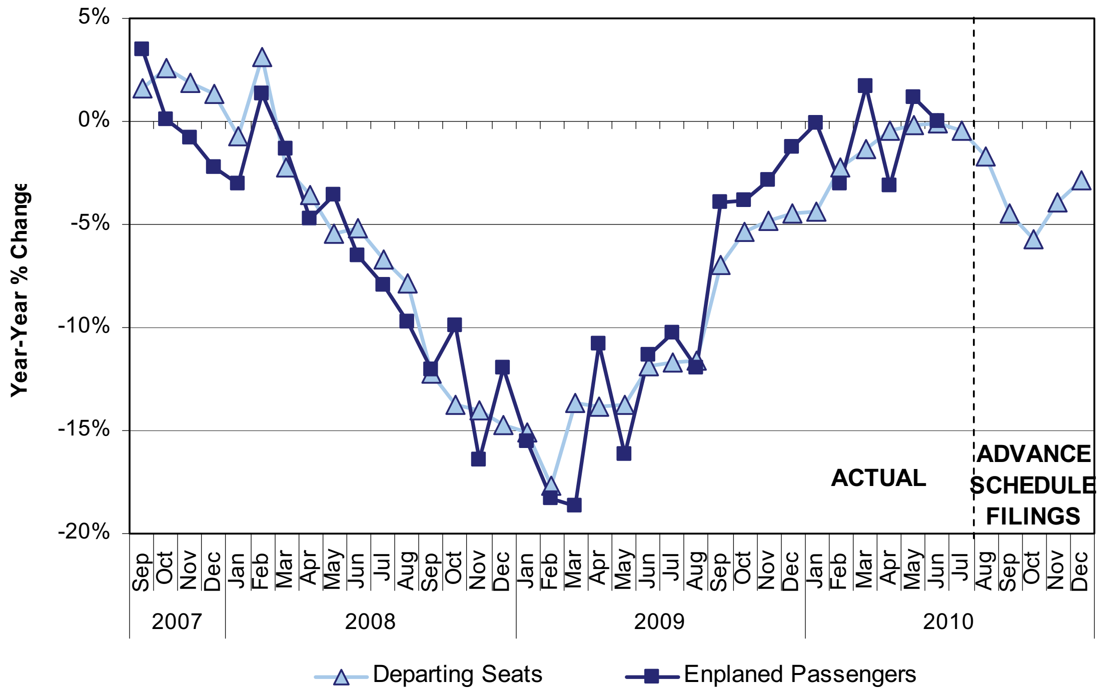


Note: Advance published schedules are subject to change.

Sources: Sacramento County Airport System; U.S. DOT, Schedule T100; *Official Airline Guide*.

The same phenomenon, by month, is illustrated on Figure 19 for September 2007 through December 2010. In late 2007, as the economic recession began, demand (passengers) began to decline at SMF more quickly than airlines were able to reduce capacity (seats). Throughout 2008 and the first half of 2009, airlines closely matched capacity reductions to reduced levels of demand. By the last quarter of 2009, the magnitude of passenger declines began to abate more quickly than capacity reductions, resulting in load factor increases at SMF.

Figure 19
CHANGES IN MONTHLY SCHEDULED DEPARTING SEATS AND ENPLANED PASSENGERS
Sacramento International Airport



Notes: Advance published schedules are subject to change.
Sources: Sacramento County Airport System; *Official Airline Guide.*

Airline schedule filings indicate that the number of departing seats at SMF in the spring of 2010 were largely unchanged from the spring of 2009, but that, starting in July, there will be a resumption of capacity reductions during the summer and into the autumn. These capacity reductions are largely attributable to Southwest.

Near-term Growth

In the 2 years following FY 2010, passenger traffic is expected to return to positive growth and accelerate. Specifically, near-term traffic growth at SMF was predicated on the following assumptions:

1. Given that airline travel tends to lag the economy, and given that the economy of the Sacramento Area has been disproportionally affected by the recent economic recession, the modest economic recovery and expansion that many economists forecast to occur during 2010 will lead to a gradual strengthening of air travel demand at SMF in early 2011 (i.e., the latter half of FY 2011).

2. The number of departing seats at SMF will decrease 1.2% in the first half of FY 2011 compared with the same period of FY 2010. Modest positive growth in the number of departing seats will return in the second half of FY 2011 and will continue in FY 2012.

3. If a United/Continental merger does come to fruition, its impact at SMF is not likely to be material, given the airlines' lack of route overlap at the Airport.

On the basis of these assumptions, the number of enplaned passengers is forecast to increase 0.7% in FY 2011 and 1.4% (to 4.54 million passengers) in FY 2012.

Longer-term Growth

Much of the demand for air travel is discretionary, so the cost and convenience of airline service offerings are critical factors affecting an individual's air travel decision. Airlines can afford to offer service at SMF to the extent that revenues (airfares and ancillary fees) are adequate to cover costs by some margin, and that the margin is at least as good as or better than the costs of using the aircraft in other city-pair markets. While airfares and fees are largely a function of the competitive market situation, the airlines' cost to offer flights is largely a function of the prevailing market price for labor and fuel.

Beyond FY 2012, airline traffic was forecast to increase on the basis of the following assumptions:

1. The U.S. economy will experience sustained growth in gross domestic product averaging between 2.0% and 2.5% per year, somewhat below historical average rates of national economic growth.

2. The economy of the Sacramento Area will improve at a rate slightly higher than that of the United States as a whole.

3. The airlines currently serving SMF, and those that may introduce service in the future, will be financially viable and will provide the seat capacity required to accommodate additional demand at the Airport.

4. While airfares paid at SMF are expected to increase over time, competition among the airlines serving SMF will ensure the continued availability of competitive airfares.

5. Aviation safety and security at U.S. airports will be maintained by enhanced passenger and baggage screening procedures and other precautions without imposing unreasonable inconveniences that would result in a reduced number of airline travelers using SMF.

6. There will be no major disruption of airline service or traveler behavior at U.S. airports as a result of international political instabilities, hostilities, or terrorist acts or threats.

7. No significant competitive airline service will be provided at airports serving the Sacramento Area or the secondary service area, such as those in Stockton, Modesto, Chico, and Redding, although traffic leakage to OAK and SFO will continue.

On the basis of these assumptions, annual enplaned passenger growth rates are forecast to continue increasing gradually throughout the forecast period—from 2.0% in FY 2013 to 2.7% in FY 2016—resulting in 5.0 million enplaned passengers at the Airport in FY 2016.

Aircraft Landed Weight

In FY 2010, a total of 6.32 billion pounds of aircraft landed weight was reported by the airlines operating at SMF and Mather Airport. The passenger airlines accounted for 90% (5.71 billion pounds) of the total; the all-cargo airlines accounted for the remainder (see Table 22).

Passenger airline landed weight declined 4.4% in FY 2010. Passenger airline landed weight is forecast to increase 0.2% in FY 2011, increase 0.8% in FY 2012, and then continue to increase an average of 1.9% per year through FY 2016, slightly below forecast passenger growth rates due to increasing load factors.

All-cargo airline landed weight decreased by 22.2% in FY 2010, due almost entirely to the cessation of service at Mather by ABX Air/DHL, as described earlier. All-cargo airline landed weight is forecast to increase an average of 2.4% per year in the years FY 2011 through FY 2016.

Total aircraft landed weight is forecast to be 6.93 billion pounds in FY 2016, 9.6% higher than the 6.32 billion pounds recorded in FY 2010.

Table 22

HISTORICAL AND FORECAST AIRCRAFT DEPARTURES AND LANDED WEIGHT

Sacramento International and Mather Airports

(for Fiscal Years ended June 30)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast is dependent upon the occurrence of future events, which cannot be assured. Therefore, the actual results may vary from the forecast, and the variance could be material.

	Aircraft departures			Landed weight (in millions of pounds)		
Fiscal year	Passenger airlines	All-cargo airlines *(a)*	Total---all airlines	Passenger airlines	All-cargo airlines *(a)*	Total---all airlines
2003	50,624	9,828	60,452	5,639	754	6,394
2004	51,447	9,716	61,163	5,916	765	6,681
2005	53,094	9,107	62,201	6,275	771	7,047
2006	55,176	8,354	63,530	6,453	729	7,182
2007	58,087	8,825	66,912	6,774	950	7,724
2008	62,599	8,985	71,584	6,779	1,029	7,809
2009	51,500	6,290	57,790	5,975	786	6,761
2010A	49,200	5,330	54,530	5,709	611	6,321
2011F	49,600	5,450	55,050	5,720	619	6,340
2012	50,100	5,600	55,700	5,769	637	6,405
2013	50,900	5,750	56,650	5,851	654	6,505
2014	52,000	5,900	57,900	5,968	671	6,639
2015	53,200	6,050	59,250	6,096	688	6,783
2016	54,400	6,200	60,600	6,223	705	6,928
Compound annual growth rate						
Historical:						
2003-2009	0.3%	(7.2%)	(0.7%)	1.0%	0.7%	0.9%
2009-2010	(4.5)	(15.3)	(5.6)	(4.4)	(22.2)	(6.5)
Forecast:						
2010-2016	1.7%	2.6%	1.8%	1.4%	2.4%	1.5%
2009-2016	0.8	(0.2)	0.7	0.6	(1.5)	0.3

Notes: Excludes all GA activity ("training"); A=Actual; F=Forecast. Rows may not add to totals shown because of rounding.

(a) Includes all-cargo airline activity at Mather Airport.

Sources: Historical—Sacramento County Airport System; Forecast—Jacobs Consultancy.

FINANCIAL ANALYSIS

FRAMEWORK FOR AIRPORT SYSTEM FINANCIAL OPERATIONS

The County accounts for the financial operations of SCAS as a self-sufficient enterprise according to generally accepted accounting principles (GAAP) and the requirements of the Indenture, as discussed below.

Master Indenture of Trust

Under the Indenture, the County may issue Bonds pursuant to a Supplemental Indenture, and may issue Obligations other than Bonds pursuant to an Issuing Instrument. Obligations issued under the Indenture are secured by and payable from the Trust Estate as Senior Obligations, Subordinate Obligations, or Junior Subordinate Obligations. The primary component of the Trust Estate is the Net Revenues of the Airport System. The Indenture defines Net Revenues, for any period of time, as Revenues for such period less Operating Expenses for such period. The faith and credit of the County are not pledged to the payment of Bonds or any other Obligations issued under the Indenture.

As of the date of this Report, the County has not issued Obligations other than Bonds for the benefit of the Airport System. The Outstanding Senior Obligations consist of various issues of Senior Bonds, and the Outstanding Subordinate Obligations consist of various issues of Subordinate Bonds. No Junior Subordinate Obligations are currently Outstanding. Outstanding Bonds are discussed in the later section of the Report entitled "Airport System Revenue Bonds."

The Indenture defines Revenues as all income, receipts, earnings, and revenues received by or accrued to SCAS from the ownership or operation of the Airport System determined in accordance with GAAP, except as otherwise determined by the Indenture. Except to the extent deposited in the Revenue Fund, Revenues exclude, among other amounts specified in the Indenture: (1) PFC revenues, (2) CFC revenues, (3) Grant Funds, and (4) Released Revenues. SCAS does not impose a CFC as of the date of this Report.

Any amounts from the Capital Improvement Fund deposited to the Revenue Fund are deemed to be Revenues under the Indenture. The amount of these deposits is not subject to any limit.

The County, upon satisfying certain conditions under the Indenture, can cause a category of income, receipts, and other revenues then included in the definition of Revenues to be excluded from the definition of Revenues (Released Revenues). As of the date of this Report, there were no Released Revenues and, for the purposes of this Report, it was assumed that no current sources of Revenues would be excluded from Revenues during the forecast period.

The Indenture defines Operating Expenses as the reasonable and necessary costs and expenses of operating, maintaining, and administering the Airport System, determined in accordance with GAAP, excluding, among other amounts specified in the Indenture, the amortization and depreciation of Airport System facilities and assets.

In the Rate Covenant, as described in the Report letter, the County agrees to prescribe and collect rates, tolls, fees, rentals, and charges in connection with the ownership and operation of the Airport System and for the services rendered in connection therewith, so that in each Fiscal Year, Net Revenues will meet certain minimum requirements.

Rate Ordinance

The County Board of Supervisors has adopted a Rate Ordinance that became effective July 1, 2008, under which landing fee rates are calculated annually according to a cost center residual methodology; terminal rental rates are annually calculated according to a commercial compensatory methodology; and Revenues, after deposits required pursuant to Sections 5.04(b) through (k) of the Indenture (discussed in the later section entitled "Application of Airport System Revenue"), are retained by the County. The County has no obligation to share remaining Revenues with the airlines, and the airlines are under no obligation to pay landing fees or terminal rentals so as to ensure that Net Revenues are sufficient to meet the Rate Covenant.

The U.S. Department of Transportation's *Policy Regarding the Establishment of Airport Rates and Charges* (the Policy) establishes guidelines that airport operators must follow in determining which costs may be included in the airline rate base if a rate methodology is unilaterally adopted by an airport operator, which is the case at the Airport System. The County believes that the airline rate-setting methodology in the Rate Ordinance is reasonable and consistent with the Policy. As of the date of this Report, airlines have not challenged the reasonableness of rates implemented under the Rate Ordinance.

In May 2010, the airlines expressed an interest in negotiating an airline use and lease agreement with the County, and the County has agreed to enter into negotiations with the airlines. The County expects a future airline agreement, if any, to be subordinate to the Indenture including the County's obligations under the Rate Covenant. There are no timeframes to these discussions. For the purposes of this Report, it was assumed that the Rate Ordinance will continue in effect at least through the forecast period and that the airlines operating at the Airport System will continue paying rentals, fees, and charges implemented under the Ordinance.

The County established cost centers to account for revenues and expenses to be used in calculating landing fees, terminal building rentals, aircraft parking position fees, loading bridge fees, and other fees under the Rate Ordinance. The County accounts for all operating revenues, and for direct operating expenses, on the basis of these cost centers. In addition, the County incurs certain indirect expenses, which are allocated to the cost centers based on the relative estimated use by cost center. The County uses a time tracking system for personnel expenses and direct labor to effect this allocation. The Rate Ordinance established the following direct Airport System cost centers to be used in the calculation of airline rentals and fees:

- ***Airfield Area***—The airfield at SMF, including runways, taxiways, approach and runway protection zones, safety areas, infield areas, landing and navigational aids, service roads, fencing, buffer areas, and land areas at SMF required by or related to aircraft operations (landings, takeoffs, and taxiing).

- ***Terminal Building***—The passenger terminal buildings, associated concourses and associated curbside entrance areas, together with the future automated people mover (APM) at SMF.

- ***Apron Area***—Areas at SMF dedicated to the parking, servicing, and ground handling of aircraft using the passenger terminal buildings, including remote overnight parking.

- ***Cargo Apron Area***—Areas at SMF dedicated to the parking of cargo aircraft.

- ***Loading Bridges***—Loading bridges serving aircraft at the terminal buildings.

- ***Parking***—The public parking garage and associated access ramps, surface lots (hourly, daily, and economy), and other automobile parking areas; employee parking lots; and the taxicab service area at SMF.

- ***Rental Car***—Rental car service facilities, ready/return areas, and storage facilities at SMF, including the rental car shuttle bus operations.

- ***Other Buildings and Areas***—All facilities that are not included in the other direct cost centers at SMF, including air cargo buildings, areas occupied by the FAA, the fuel storage facility, the future remote central receiving facility, and general aviation hangars, buildings, and aprons.

- ***Reliever Airports***—Mather Airport and Executive Airport, both of which have been designated as reliever airports for SMF under the NPIAS.

- ***Franklin Field***—The general aviation airport owned by the County.

The County allocates certain indirect maintenance and operating expenses to the cost centers—including County administration, aircraft rescue and fire fighting, facilities maintenance, County Sheriff/law enforcement, security, emergency services, public roadways, and airport operations—on the basis of direct labor costs and other use metrics.

Under the Rate Ordinance, the County calculates landing fee rates according to a cost center residual methodology to recover all Airfield Area costs and Reliever Airports deficits net of Airfield Area revenues generated from users other than the scheduled passenger and cargo airlines. The Airport System Landing Fee Requirement consists of the following items allocable to the Airfield Area:

1. Direct and indirect Operating Expenses.

2. Capital Outlays.

3. 1.25 times the Annual Accrued Debt Service on Senior Bonds or such other amount as may be required by a Bond Indenture.

4. 1.10 times the Annual Accrued Debt Service on Subordinate Bonds or such other amount as may be required by a Bond Indenture.

5. Annual Accrued Debt Service on Junior Subordinate Bonds or such other amount as may be required by a Bond Indenture.

6. Amortization of Capital Improvements financed by the County from its own resources and operating expenses that the County has chosen to amortize.

7. Amount of required deposit to the Operating Reserve Account.

8. Amount of required deposit to the Reserve and Contingency Fund.

9. Amount of any assessment, judgment, or charge to become payable by the County relating directly to the Airport System or its operation.

10. Amount of required deposit to replenish the Senior Debt Service Reserve Requirement, Subordinate Debt Service Reserve Requirement, and Junior Subordinate Debt Service Reserve Requirement.

11. The Reliever Airports Operating Deficit, after taking into account allocable revenues other than scheduled airline landing fees paid at Mather Airport, Operating Expenses, Capital Outlays, Accrued Annual Debt Service, and Operating Reserve Requirements.

The Airport System Landing Fee Requirement is then credited with Airfield Area revenues other than scheduled passenger and cargo airline landing fee revenues at SMF and Mather Airport to yield the Net Airfield Requirement. The Net Airfield Requirement is then divided by the budgeted landed weight of the scheduled passenger and cargo airlines serving SMF and Mather to determine the landing fee rate.

Airline space rental rates in Terminals A and B are established under a commercial compensatory methodology in which the rental rate is calculated to recover the average cost of each square foot of Rentable Space in the Terminal Building cost center. (Rentable Space is the total amount of space, in square feet, available for rent in the Terminal Building to airlines, concessionaires, and other tenants.) The Terminal Building Requirement is calculated by summing the same costs allocable to the Terminal Building as those identified for the Airport System Landing Fee Requirement (other than the Reliever Airports Operating Deficit). From this amount, the rentals from unenclosed airline space and operating grants from the federal government are deducted to yield the Net Terminal Building Requirement. An average rental rate is then calculated by dividing the Net Terminal Building Requirement by total Rentable Space, without a credit for nonairline operations in the terminal.

The County allows the airlines to use designated areas in the Terminal Building on an exclusive, preferential, common, or joint use basis, subject to change with 30-days notice. Rentals for exclusive and preferential use space are assessed on the basis of the amount of space assigned. Rentals for Joint Use Space in the Terminal Building are prorated among all airlines using the space based on each airline's number of enplaned passengers. A common use gate fee per turn is assessed the airlines using SCAS gates and facilities.

Aircraft Parking Position Fees and Loading Bridge Fees are calculated according to a compensatory methodology in which the allocable costs are divided by the total number of parking positions and loading bridges, respectively, to yield the rate per position and per bridge per year.

The County intends to modify the Rate Ordinance to establish a single sub-cost center in the Terminal Building cost center to fully recover the maintenance and operating expenses related to the baggage handling systems in Terminal A and Central Terminal B. The County entered into a contract with VanDerLande Industries to maintain and operate both systems at an annual cost of $1.2 million, effective on the completion date of the TMP. The expenses for the baggage handling system and the credit of baggage system cost recovery are allocated to the Terminal Building cost center.

Historical Financial Statements

Table 23 presents a summary and reconciliation of the historical operating results of the Airport System between GAAP and the Indenture, as obtained from the financial statements for FY 2009, which was prepared on a GAAP basis.

Table 23

STATEMENT OF HISTORICAL REVENUES AND EXPENSES

Sacramento County Airport System

Fiscal Year Ending June 30, 2009

(numbers in thousands)

	2009
Financial Statements	
Operating revenues	$ 118,990
Operating expenses	(84,891)
Depreciation	(25,750)
Operating income	$ 8,349
Nonoperating income	
Interest income	$ 6,156
PFC revenues	21,490
Intergovernmental revenue	979
Amortization of bond issuance cost	(563)
Other revenues (net)	222
Interest expense	(18,204)
Total nonoperating revenues (expenses)	$ 10,080
Income before capital contributions and transfers	$ 18,429
Capital contributions	6,935
Change in net assets	$ 25,364
Net Revenues under Indenture	
Revenues	$ 134,036
Operating Expenses	(84,891)
Net Revenues	$ 49,146
Reconciliation	
Changes in net assets	$ 25,364
Adding back	
Depreciation	25,750
Interest expenses	18,204
Nonoperating revenues	499
Settlement for prior year	10,449
Subtracting	
PFC Revenues	(21,490)
Interest income excluded from rates and charges	(2,695)
Capital grant contributions	(6,935)
Net Revenues	$ 49,146

Source: Sacramento County Airport System.

CAPITAL IMPROVEMENT PROGRAM

Exhibit A presents the project costs and funding for the major components of the CIP, which is summarized by TMP and Non-TMP projects. The CIP represents, to the County's best knowledge and belief at this time, all of the significant Airport System capital improvements expected to be undertaken through FY 2015. Cost estimates were provided by the County and its consultants and include allowances for design, construction management, contingencies, and escalation. For FY 2016, which is not covered in the CIP period, the County believes that an additional allowance of $10 million is sufficient to cover the projected capital expenditures from the Capital Improvement Fund.

Exhibit A also shows expected sources of funding for the CIP. The County intends to fund the costs of the CIP through a combination of internally generated cash, PFC revenues, AIP grants, State grants, TSA funding, other funding sources, and proceeds from the sale of the Series 2008 Bonds, the Series 2009 Bonds, and the proposed 2010 Bonds.

The County reassesses its capital needs at least annually and will modify the CIP as necessary to accommodate traffic activity, security needs, and other needs, which could result in additions to or subtractions from the CIP or changes in the timing of certain projects.

Terminal Modernization Program

The original Terminal Modernization Program (before it was revised in 2009) had been under consideration by SCAS since it was recommended in the 2004 Airport Master Plan, in which it was determined that Terminal A would remain a viable facility, but that Terminal B could not reasonably or cost effectively be modified to meet future demand. The FAA issued a Finding of No Significant Impact for the TMP in April 2008. The TMP is included on the Airport Layout Plan that was approved by the FAA on May 9, 2008.

In 2009, the County, in response to economic and industry conditions, deleted the proposed in-terminal hotel project at SMF and deferred the parking garage project until after FY 2016 to create the TMP, which is depicted on Figure 20. As shown on the figure, the landside portion of Central Terminal B is to replace the existing Terminal B, which was originally constructed in the mid-1960s, and the IIAB. The landside portion of the Central Terminal B is to be connected to the 19-gate airside concourse via an APM. Central Terminal B is to be served by a dual-level roadway system. The TMP also includes construction of a centralized receiving warehouse, landscaping, and demolition of existing facilities. The figure depicts the deferred parking garage using dashed lines.

Figure 20
TERMINAL MODERNIZATION PROGRAM
Sacramento International Airport

Source: Corgan Associates, Inc. (TMP Design Consultant for SCAS).

The TMP includes the following key elements:

- New crossfield taxiway for east-west aircraft movement.
- New apron paving with dual taxilane access to Concourse B.
- Landside portion of Central Terminal B with approximately 413,000 square feet of space developed on three above-ground levels with a basement, including the facility's central utility plant.
- Airside concourse of Central Terminal B on two levels with 19 narrowbody aircraft gates and approximately 327,000 enclosed square feet of space.
- APM shuttle linking the landside and airside facilities of Central Terminal B.

- Airline baggage makeup space located in the terminal basement with an inline explosives detection system (EDS) baggage screening and tug/tunnel operation to the aircraft.

- Two-level roadway system providing access to the east and west sides of Central Terminal B.

- Remote surface parking lot with 1,600 parking spaces (completed).

- Remote central receiving facility (completed).

- Modifications to Terminal A to accommodate additional airline tenants and two additional aircraft gates.

Table 24 shows the current and expected assignments of airlines by terminal and number of gates. The County anticipates that certain airlines will relocate from Terminal A to Central Terminal B after the TMP is completed, as shown in the table. The TMP is planned to replace the 13 gates at Terminal B and the IIAB with 19 contact gates in Central Terminal B, and to modify Terminal A to provide 2 additional gates, for a total of 34 gates in the initial phase. All 26 existing contact gates can accommodate B-737/A320 narrowbody aircraft, 3 can accommodate B-757 aircraft, and 2 can accommodate widebody aircraft. Central Terminal B is planned to accommodate up to five widebody aircraft at one time.

Upon completion of the TMP, the design team estimates that SMF will have sufficient facilities to support a design capacity of 12 million annual passengers (enplaning and deplaning) and a stress capacity of 14 million to 16 million annual passengers.

In June 2008, the County awarded design-build contracts for the landside portion of Central Terminal B and for the airside concourse. Both design-build contracts are subject to a Guaranteed Maximum Price (GMP) provision.

As of May 2010, the landside portion of Central Terminal B was approximately 51% complete, with substantially all contract amounts authorized by SCAS. The airside concourse of Central Terminal B is approximately 57% complete, with more than 90% of contract amount authorized. SCAS determined that fully funding the contingency for the TMP is no longer necessary. Therefore, the contingency allowance was reduced to $10 million and the cost estimates for the TMP were revised to $1,037 million in June 2010.

Table 24
AIRLINE TERMINAL LOCATIONS AND TERMINAL GATES
Sacramento International Airport

	Current assignments (June 2010)	Expected assignments following completion of the TMP (2012)
Airlines		
Terminal A	Delta	Alaska/Horizon
	Hawaiian	Continental
	Southwest	Delta
	US Airways	United/United Express
		US Airways
Terminal B/ Central Terminal B	Alaska/Horizon	American
	American	Frontier
	Continental	Hawaiian
	JetBlue	JetBlue
	Mexicana (departures)	Mexicana
	United/United Express	Southwest
Gates		
Terminal A	13	15
Terminal B	12	19
IIAB	1	--
Total	26	34

Source: Sacramento County Airport System.

Non-TMP Projects in the CIP

In addition to the TMP, the CIP includes approximately $197 million in other projects for the Airport System. SCAS intends to undertake the Non-TMP Projects as warranted by demand and to the extent that SCAS believes the projects are financially viable. The County expects to finance Non-TMP Projects primarily with AIP grants and internally generated funds. Approximately $34.8 million of project costs related to the hydrant fueling system is expected to be funded by the airlines or by proceeds from the sale of special facility bonds backed by an airline surcharge. The County will not proceed with the project unless it is at least revenue-neutral to the County. For the purposes of this Report, it was assumed that the project costs will be funded by a third party, with no impact on Revenues, Operating Expenses, or debt service.

The County does not expect to fund any of the Non-TMP Projects with the proceeds of Bonds or other Obligations. Many of the projects eligible for federal grants will only be undertaken if such grant funds are received.

The costs and potential revenues related to all projects in the CIP are reflected in the accompanying financial forecasts.

CIP FUNDING PLAN

As discussed above, Exhibit A presents the expected sources of project funding for the CIP.

Federal and State Grants

The County is eligible to receive AIP grants for up to 80.59% of the costs of eligible projects at the Airport. Certain of these grants are to be received as entitlement grants, the annual amount of which is calculated on the basis of the number of enplaned passengers and the amount of landed weight of all-cargo aircraft at the Airport and Mather Airport. Large and medium-hub airports at which a PFC of $4.00 or $4.50 is collected (such as SMF) forego 75% of their AIP entitlement funds. Other discretionary grants are awarded on the basis of the FAA's determination of the priorities for projects at Airport System airports and at other airports nationwide. The FAA issues Letters of Intent (LOIs) for grants based on the FAA's assessment of national priorities. An LOI represents the FAA's intention to obligate funds from future federal budget appropriations.

On March 6, 2009, the FAA approved SCAS' LOI application to fund $59.9 million of the eligible costs of the TMP, as presented in Table 25. Additional AIP discretionary grants and State grants for certain Non-TMP Projects in the CIP were also assumed in the financing plan, primarily for projects at Mather Airport. In FY 2009, SCAS received approximately $9.0 million in LOI grants from the FAA. For the purpose of this Report, it was assumed that future LOI receipts will equal the amounts shown in Table 25.

In addition, the County estimated the FAA-grant-eligible costs of the Non-TMP Projects at $125.1 million. Many of the projects eligible for federal grants will only be undertaken if such grant funds are received.

FAA authorization and funding of the Airport and Airway Trust Fund (the primary source of AIP funding) are scheduled to expire on October 1, 2010. After this date, AIP funding will terminate unless reauthorized or extended by the U.S. Congress. For purposes of this Report, it was assumed that Congress will pass a reauthorization bill or extend the current authorization so that no lapse in AIP funding authority will occur during the forecast period.

The County has received an Other Transaction Agreement from the TSA to help fund certain security-related costs in the TMP. For purposes of this Report, it was assumed that the TSA will provide a $7.1 million grant for such costs. No State grant is planned for the CIP.

Table 25
SCHEDULE OF EXPECTED FEDERAL LETTER OF INTENT GRANTS

Federal Fiscal Year	Entitlement	Discretionary	Total
2009 *(a)*	$ 2,103,116	$ 6,000,000	$ 8,103,116
2010	2,182,000	7,500,000	9,682,000
2011	2,124,000	7,000,000	9,124,000
2012	2,171,000	6,000,000	8,171,000
2013	2,220,000	6,000,000	8,220,000
2014	2,271,000	6,000,000	8,271,000
2015	2,328,884	6,000,000	8,328,884
Total	$15,400,000	$44,500,000	$59,900,000

Note: The Federal Fiscal Year (FFY) ends September 30.
(a) $8,971,604 was received by SCAS in FY 2009.
Source: Sacramento County Airport System.

PFC Revenues

A PFC is a charge imposed on enplaned passengers by airport sponsors to generate revenues for eligible airport projects that increase capacity, enhance airline competition, enhance safety or security, or mitigate noise impacts. PFCs were established by Title 49 U.S.C. §40117, which authorized airport sponsors to impose PFCs in the amount of $1.00, $2,00, or $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 that airport sponsors could impose to $4.50 per eligible enplaning passenger. In return for the right to impose a PFC of up to $3.00 per eligible enplaning passenger, the sponsors of large and medium hub airports forego up to 50% of their AIP entitlement funds. The sponsors of large and medium-hub airports (such as SMF) that impose a PFC of $4.00 or $4.50 forego 75% of their AIP entitlement funds.

The County imposes a PFC of $4.50 per eligible enplaning passenger, and as shown in Table 26, under approvals received from the FAA, is authorized to use up to $891.3 million of PFC revenues for approved projects. The FAA approved PFC Application #8 authorizing the County to impose a PFC and use $603.5 million of PFC revenues on a pay-as-you-go and leveraged basis in connection with the TMP. As of March 31, 2010, the County had received $278.5 million of PFC revenues, including interest earnings. The PFC collection authority for approved PFC applications expires in 2028.

Table 26
PFC APPROVALS
Sacramento County Airport System

	Approved PFC amounts (in millions)			
	Pay-as-you-go amount	PFC and Subordinate Bonds: Bond proceeds	PFC and Subordinate Bonds: Financing costs *(a)*	Total
Application #1	$ 27.6	$ --	$ --	$ 27.6
Application #2	6.0	--	--	6.0
Application #3	--	--	--	--
Application #4	--	37.7	41.3	79.0
Application #5	--	22.8	25.5	48.3
Application #6	--	43.6	72.1	115.7
Application #7	11.1	--	--	11.1
Application #8	110.0	200.0	293.5	603.5
Total	$154.7	$304.1	$432.4	$891.3

Note: Columns may not add to totals shown because of rounding.
(a) Includes bond interest, capitalized interest, debt service reserve fund deposits, and other costs of issuance.
Source: Sacramento County Airport System.

Exhibit C presents the forecast of PFC collections based on assumptions of a $4.50 PFC, an airline collection fee of $0.11, and a 93% ratio of PFC-eligible passengers to total enplaned passengers after FY 2011. Exhibit C also presents the planned uses of PFC revenues during the forecast period. The planned uses are forecast to exceed annual collections every year during the forecast period; however, the annual collections in combination with the existing balance in FY 2010 are forecast to be sufficient to cover annual shortfalls, resulting in a positive PFC fund ending balance in each Fiscal Year of the forecast period.

In the event that PFC fund balance is insufficient to provide Available PFC Revenues, the County intends to include the shortfall in the calculation of airline rates and charges, as provided in the Ordinance, and to pay the shortfall from Revenues instead of Available PFC Revenues.

If legislation is enacted to increase the authorized PFC level, the County intends to submit an application to increase the PFC it is authorized to impose and the amount of PFC revenue it is authorized to collect and use. If the PFC level were to be increased from $4.50 to $6.00, it is estimated that an additional $7 million of PFC revenues per year would be available.

Capital Improvement Fund

Amounts accumulated in the Capital Improvement Fund may be used for any lawful purpose, including payments for Airport System capital improvements. It was assumed that amounts in the Capital Improvement Fund would be used to pay

$82.5 million of project costs for the TMP and $37.1 million of project costs for the Non-TMP Projects in the CIP.

Airport System Revenue Bonds

Exhibit B presents the estimated sources and uses of Bond funds for the TMP, including Outstanding Bonds and the proposed 2010 Bonds. The estimated sources and uses of Bond funds were provided by Public Finance Management, Inc. on the basis of certain data and information provided by the County regarding the cost and timing of the TMP project elements. It was assumed in the financing plan that Bond funds would not be used for Non-TMP Projects in the CIP.

The County may issue Refunding Bonds in the future to realize savings on debt service. For the purposes of this Report, no such issuance was assumed.

In addition to the proceeds from the sale of the proposed 2010 Bonds, estimated sources of Bond funds include (1) investment earnings on available amounts in the construction funds during construction, and (2) investment earnings on moneys in the Capitalized Interest Fund during the capitalized interest period.

The estimated uses of Bond funds are to: (1) pay project costs, including deposits to construction funds and reimbursement of interim borrowings, (2) satisfy the Senior and Subordinate Debt Service Reserve Requirement, (3) deposit to the Capitalized Interest Fund for the proposed 2010 Bonds, and (4) pay the original issue discount, underwriters' discount, bond insurance premium, and other costs of Bond issuance.

Outstanding Bonds. Table 27 presents the Outstanding principal amounts of the Senior Obligations after July 1, 2010, payments and final maturity dates.

The 2008A Bonds, the 2008B Bonds, and the 2008C Bonds were issued as Senior Obligations under the Indenture and the First Supplemental Indenture.

The 2009A Bonds and the 2009B Bonds were issued as Senior Obligations under the Indenture and the Third Supplemental Indenture.

Table 27
OUTSTANDING SENIOR OBLIGATIONS
Sacramento County Airport System

Outstanding Senior Obligations	Original principal amount: Refunding	TMP project costs	Outstanding principal	Final maturity date
Series 2008A	$111,360,000	$ 58,215,000	$160,600,000	July 1, 2041
Series 2008B	35,800,000	278,540,000	309,660,000	July 1, 2039
Series 2008C	12,280,000	--	6,450,000	July 1, 2012
Series 2009A	--	31,115,000	31,115,000	July 1, 2041
Series 2009B	--	170,685,000	170,685,000	July 1, 2039
	$159,440,000	$538,555,000	$678,510,000	

Source: Sacramento County Airport System.

Table 28 presents the Outstanding principal amounts of the Subordinate Obligations after July 1, 2010, payments and final maturity dates. The Series 2008D Bonds and the Series 2008E Bonds (the 2008 Subordinate Bonds) were issued as Subordinate Obligations under the Indenture and the Second Supplemental Indenture in non-AMT and AMT series, respectively. The 2008 Subordinate Bonds are secured by the Trust Estate and payable from Net Revenues on a subordinate basis to the Senior Obligations.

The County issued the Series 2009C Bonds and the Series 2009D Bonds (the 2009 Subordinate Bonds) as Subordinate Obligations under the Indenture and the Fourth Supplemental Indenture. The 2009 Subordinate Bonds are secured by the Trust Estate and payable from Net Revenues on parity with the 2008 Subordinate Bonds.

In addition, the 2008 Subordinate Bonds and the 2009 Subordinate Bonds are payable from and secured by Available PFC Revenues through FY 2016 under the Fourth Supplemental Indenture. The 2009 Subordinate Bonds are also payable from and secured by Available Grant Revenues under the Fourth Supplemental Indenture. Principal and interest to be paid from Available PFC Revenues and Available Grant Revenues are excluded from the calculations of Accrued Debt Service and Aggregate Adjusted Annual Debt Service.

Table 28				
OUTSTANDING SUBORDINATE OBLIGATIONS				
Sacramento County Airport System				

Outstanding Subordinate Obligations	Original principal amount: Refunding	Original principal amount: TMP project cost	Outstanding principal	Final maturity date
Series 2008D	$46,390,000	$ --	$ 43,740,000	July 1, 2026
Series 2008E	43,040,000	--	37,460,000	July 1, 2024
Series 2009C	--	112,860,000	112,860,000	July 1, 2041
Series 2009D	--	165,390,000	157,685,000	July 1, 2035
	$89,430,000	$278,250,000	$351,745,000	

Source: Sacramento County Airport System.

Proposed Bonds. Table 29 presents the final pricing information for the proposed 2010 Bonds.

Table 29

STATISTICS FOR THE PROPOSED 2010 BONDS

Sacramento County Airport System

	Proposed 2010 Bonds
Par amount	$128,300,000
All-in true- interest-cost	4.78%
Average annual debt service	$8,418,495

Source: Public Financial Management, Inc.

Future Bonds for the Airport System. As of the date of this Report, the County has no plans to issue additional Obligations on behalf of SCAS other than the proposed 2010 Bonds during the forecast period, although the County may issue refunding bonds to realize savings on debt service, or refunding bonds backed by PFC revenues if the PFC collection level is increased above $4.50. For the purposes of this Report, it was assumed that no additional Obligations will be issued during the forecast period, and that the PFC level will remain at $4.50.

DEBT SERVICE REQUIREMENTS

Exhibit D presents historical and forecast Debt Service and Accrued Debt Service on Outstanding Bonds and the proposed 2010 Bonds. The exhibit also identifies the amount of Available PFC Revenues irrevocably committed to the payment of debt service through FY 2016 under the Fourth Supplemental Indenture and the amount of

Available Grant Revenues irrevocably committed to pay debt service through FY 2016 under the Fourth Supplemental Indenture.

OPERATING EXPENSES

Exhibit E presents historical, estimated, and forecast Airport System Operating Expenses by type of expense and by cost center for FY 2008 through FY 2016. Operating Expenses for FY 2008 and FY 2009 are based on the County's audited financial statements. Expenses for FY 2010 were estimated by SCAS and expenses for FY 2011 are based on the preliminary operating budget. The County implemented a Countywide furlough program for management and unrepresented employees as a cost reduction initiative in FY 2010. Expiration of the current furlough program was assumed in the FY 2011 preliminary budget, along with cost of living increases for represented employees and other increases in personnel expenses, contributing to a 14.8% increase in salaries and benefits in FY 2011.

Forecast Operating Expenses are based on actual data for FY 2008 and FY 2009, estimated results for FY 2010, and the preliminary budget for FY 2011; assumed increases in the unit costs of labor, services, utilities, and supplies as a result of price inflation; and additional costs associated with future capital projects. In particular, it was assumed that:

- The costs of labor and services will increase an average of approximately 5% per year after FY 2011 to reflect increases in staffing levels, salary levels, benefit costs, and contract service levels during the forecast period.

- The costs of supplies and materials will increase an average of approximately 4% per year during the forecast period.

- Incremental ongoing additional expenses for future capital projects include:

  - $16.3 million per year for the new terminal facilities beginning January 1, 2012 (the projected date of beneficial occupancy of Central Terminal B).

  - $1.9 million per year to operate the APM beginning on January 1, 2012.

  - $1.2 million per year to operate the baggage handling system in Terminal A and Central Terminal B beginning on January 1, 2012.

  - Up to $1.1 million per year for other miscellaneous projects, including landscaping, roadway, apron, loading bridges, and others at the time each project is expected to be complete.

Certain one-time extraordinary expenses, considered operating expenses under GAAP, are also shown in Exhibit E as "M&O Projects." Expenses for the M&O Projects in FY 2010 are estimated at $8.0 million, including $6.0 million for wastewater connection to the county system and sewer construction. Expenses for the M&O

Projects in FY 2011 are budgeted to total approximately $10.2 million, including $8.5 million for wastewater connection and sewer construction. Operating Expenses, excluding expenses for M&O Projects, were budgeted at $87.4 million in the FY 2011 preliminary budget.

Operating Expenses, excluding one-time expenses for M&O Projects, are forecast to increase from $81.1 million in FY 2009 to $131.3 million in FY 2016.

AIRPORT SYSTEM REVENUES

Exhibit F presents historical, estimated, and forecast Revenues by type of revenue and by cost center for FY 2008 through FY 2016. Revenues for FY 2008 and FY 2009 are based on the County's audited financial statements. Revenues for FY 2010 were estimated based on 9 months of actual data. The assumptions underlying the increases in individual components of Revenues are described in the following paragraphs.

Airline Revenues

Airline revenues are discussed below in total and on a per enplaned passenger basis.

Total Airline Revenues. Airline revenues accounted for 30.7% of Airport System Revenues in FY 2009, reflecting a $10.4 million settlement credit from FY 2008, and are estimated to account for 40.5% of Revenues in FY 2010. By FY 2013, airline revenues are forecast to account for 48.3% of Revenues, as the Terminal Building Requirement and, to a lesser extent, the Airfield Requirement increase faster than nonairline revenues. After FY 2013, airline revenues are forecast to account for a relatively stable share of Revenues, as the Terminal Building Requirement stabilizes.

Exhibit F-1 shows the calculation of forecast airline terminal rental rates. As noted earlier, the new terminal and associated facilities in the TMP are expected to be operational in late 2011. For the purposes of this Report, it was assumed that associated maintenance and operating expenses would be incurred beginning in January 2012.

Exhibit F-2 shows the calculation of forecast airline landing fee rates. The Airport System Landing Fee Requirement is reduced by nonairline Airfield Area revenues to yield the Net Airfield Requirement, which is then divided by passenger and cargo airline landed weight at SMF and Mather Airport to determine the landing fee rate per 1,000 pound units of landed weight.

Passenger Airline Payments per Enplaned Passenger. Exhibit F-3 shows historical and forecast passenger airline payments per enplaned passenger at SMF for FY 2007 through FY 2016. As shown, passenger airline payments per enplaned passenger are forecast to increase from $8.66 in FY 2009 to approximately $18 beginning in FY 2013. At SMF, passenger airline payments include the costs of equipment sometimes owned and operated by the airlines, such as loading bridges and baggage systems. The forecast passenger airline payments per enplaned passenger are at the high end of payments per enplaned passenger forecast at comparable medium-hub airports where major expansion and improvement projects have recently been completed or are planned. The "reasonableness" of airline rates and charges is a judgment to be made by individual airlines in deciding the level of service to provide at SMF and Mather Airport to serve demand in the Sacramento market.

Nonairline Revenues

Major sources of nonairline revenues are terminal building concessions, public automobile parking, and automobile rentals. Forecasts of nonairline revenues are based on the provisions of existing agreements and allowances for inflation, forecast increases in enplaned passengers, and other factors.

It was assumed that agreements expiring during the forecast period will be renewed on substantially similar terms. Table 30 shows various Airport System nonairline revenues (in total and per enplaned passenger) for FY 2009.

Table 30
NONAIRLINE REVENUES, FY 2009
Sacramento County Airport System

	Total (000s)	Per enplaned passenger
Public parking	$49,811	$10.82
Rental cars	12,459	2.71
Terminal concessions	5,905	1.28
Other *(a)*	10,875	2.36
Interest income	3,440	0.75
Total nonairline revenues	$82,490	$17.92

(a) Other nonairline revenues include building and ground rentals and miscellaneous revenues.
Source: Sacramento County Airport System.

Terminal Building Concession Revenues. The primary sources of Terminal Building concession revenues are food and beverage sales, merchandise sales, and sales from other Terminal Building concessions. Table 31 shows the total revenue and revenue per enplaned passenger for each category of Terminal Building concessions for FY 2009.

Table 31
TERMINAL BUILDING CONCESSION REVENUES, FY 2009
Sacramento International Airport

	Revenues to County (000s)	Per enplaned passenger	Percent of total
Food and beverage	$3,182	$0.69	53.9%
Merchandise	2,094	0.45	35.5
Advertising	457	0.10	7.7
Other	173	0.04	2.9
Total	$5,905	$1.28	100.0%

Note: Columns may not add to totals shown because of rounding.
Source: Sacramento County Airport System.

A "street pricing" policy is in effect to ensure that food and merchandise prices at SMF are comparable to those charged at similar stores and restaurants in the Sacramento Area.

Food and Beverage Revenues. HMSHost has a nonexclusive concession privilege to provide food and beverage services in the terminal facilities at SMF, including in-terminal restaurants, cafeterias, snack bars, and cocktail bars. HMSHost operates a mix of branded-food outlets designed to increase food choices and spending at SMF. The HMSHost agreement with the County expires on July 31, 2014; the County has two 1-year options to extend the agreement. The agreement provides for payment to the County of percentages of gross sales or a minimum annual guarantee, whichever is greater.

Terminal A provides approximately 13,000 square feet of space for food/beverage concepts, including a food court offering a wide range of choices, including Burger King, California Pizza Kitchen, CPK Bar, Cinnabon, La Salsa, Lemon Grass, Quiznos, Salad Works, and Zia. Java City, Home Turf Bar, Starbuck's Coffee, and Sbarro are located elsewhere throughout the terminal.

During FY 2009, gross sales for food/beverage outlets were $19.9 million, 17.4% lower than gross sales of $24.1 million in FY 2008. Food and beverage revenues received by the County are estimated to decrease from $3.2 million in FY 2009 to $2.8 million in FY 2010, and are forecast to be flat in FY 2011. Food and beverage revenues are forecast to increase in connection with the assumed 2% annual increase in per-passenger spending, forecast increases in numbers of enplaned passengers, and improved facility and terminal configurations after completion of Central Terminal B. The County released requests for proposals to operate food and beverage and retail concessions in Central Terminal B in June 2010.

Merchandise Revenues. The County has executed agreements with various concessionaires to provide retail, news, sundry, and gift services at SMF. The SCAS concession program for Terminal A and the existing Terminal B includes a mix of retail merchandise outlets and national brand-name concessionaires designed to increase passenger choices and spending.

Terminal A provides approximately 15,000 square feet of retail space, including a mall-like retail center that contains Brooks Brothers, Capitol Marketplace gifts and souvenirs, Details women's accessories , Forever Silver by Erwin Pearl, Hometown Favorites, InMotion, Kidzoo, Nelson's Books and News, Nelson's Travel Company, a PGA Tour golf shop, and a Vino Volo wine shop.

During FY 2009, gross sales from retail shops were $13.6 million, 8.8% lower than gross sales of $14.9 million in FY 2008. Merchandise revenues received by the County are estimated to decline from $2.1 million in FY 2009 to $1.8 million in FY 2010 and are forecast to be flat in FY 2011. Merchandise revenues are forecast to increase in connection with the assumed 2% annual increase in per-passenger spending, forecast increases in numbers of enplaned passengers, and improved facility and terminal configurations after completion of Central Terminal B.

Other Concession Revenues. Other Terminal Building revenues include advertising, public telephones, and vending machines. The revenues from these concessions are forecast on the basis of recent trends in revenues per enplaned passenger and the terms of the various concession agreements.

Public Automobile Parking Revenues. Public automobile parking was the largest source of revenues at the Airport in FY 2009 at $49.8 million, equal to approximately 37.2% of Revenues.

AMPCO AirPark operates the public parking facilities at SMF under a parking management agreement executed with the County in December 2005, which expires on December 31, 2010. The County has the option to extend the AMPCO agreement for one additional 5-year term. Pursuant to the AMPCO agreement, AMPCO is responsible for maintaining and operating the parking facilities and collecting parking fees. AMPCO remits all gross parking revenues to the County and is reimbursed for operating expenses and paid a management fee.

Parking Facilities. Table 32 presents public parking spaces at SMF as of May 2010. Parking facilities at SMF include (1) a six story parking garage in front of Terminal A, providing 5,299 spaces for daily parking, (2) hourly surface parking lots directly in front of existing Terminal B , (3) a remote cell phone lot, (4) an overflow lot behind the Terminal A garage, and (5) a remote economy surface parking lot located east of the rental car terminal on Aviation Drive. The surface parking lot adjacent to the hourly lots in front of Terminal B was closed in May 2010 to provide for the construction of Central Terminal B; this lot may reopen in the future.

Table 32
PUBLIC PARKING SPACES
Sacramento International Airport

Number of spaces	
Hourly	
Terminal A Garage	882
Terminal B Surface	475
Daily	
Terminal A Garage	4,417
Terminal A Overflow	2,815
Economy Parking	7,635
Cell Phone Waiting Lot	1,600
Total Spaces	**17,824**

Source: Sacramento County Airport System.

Forecast Parking Revenues. In connection with the SMF Master Plan and other studies, the County developed various projections of parking demand and rates. These studies have taken into account the historical trend in parking demand at SMF, forecast growth in passenger traffic at SMF, comparative parking rates at other airports, and anticipated trends in the use of short-term and long-term parking facilities at SMF.

On the basis of these studies, the County adopted Resolution 2008-0780 in July 2008 to increase parking rates effective July 2008, and to authorize the Director of Airports to implement the rate increases on January 1, 2012, and on July 1, 2014. Current parking rates and assumed future parking rates are presented in Table 33.

Parking revenues are expected to decrease to approximately $45.5 million in FY 2010 as a result of the decrease in the number of enplaned passengers and the effect of the recent economic recession. Parking revenues are forecast to recover with improvement in the regional economy, as well as the planned parking rate increases.

Table 33
CURRENT AND ASSUMED PUBLIC PARKING RATES
Sacramento International Airport

	Existing (June 1, 2010)	FY 2013	FY 2015
Maximum daily rates			
Hourly			
Terminal A Garage	$29	$31	$33
Terminal B Surface	27	29	31
Daily			
Terminal A Garage	15	17	19
Terminal A Overflow	13	15	17
Terminal B Surface	13	15	17
Economy Parking	9	10	10

Source: Sacramento County Airport System.

Rental Car Revenues. Seven rental car companies (Alamo, Avis, Budget, Dollar, Enterprise, Hertz, and National) operate at the Airport under agreements with the County that extend to 2014. All rental car companies operate their counters and offices from a common rental car reception building, and rental car customers are transported by shuttle bus to the rental car reception building.

Under the rental car agreements, the County receives the greater of privilege fees equal to 10% of gross receipts or a minimum annual guarantee, plus rentals for counter space, office space, and service facility ground areas. The County also receives certain cost-recovery fees for the rental car shuttle operation. In addition, the County assesses fees and charges on off-Airport rental car companies accessing SMF, including an annual permit fee and privilege fees of 10% of annual gross receipts that exceed $150,000 per company.

CFCs have been implemented at a number of airports to help pay the costs of rental car facilities and services, such as consolidated busing. The County has not imposed a CFC at SMF and it has no plans to implement a CFC during the forecast period.

Revenues from rental car concession privilege fees are forecast to increase in relation to the forecast trends in passenger traffic at SMF and inflation; revenues from cost-recovery shuttle bus operation fees are forecast to increase 4% per year.

Other Nonairline Revenues. Other nonairline revenues consist principally of building and ground rentals. The forecasts of rentals paid for hangars, other buildings, cargo facilities, ground leases from rental car companies, and other ground leases are based on an assumed rate of inflation, provisions of existing agreements, and SCAS policies. The on-Airport hotel generated approximately $275,000 in ground rent in

FY 2008. This property was acquired by the County and demolished to clear the site for TMP construction.

Nonoperating revenues. Nonoperating revenues in FY 2009 and beyond include interest income, a one-time transfer from the Capital Improvement Fund to cover the final airline settlement for FY 2008 and prior fiscal years, and projected releases from the Operating Reserve Account in FY 2010 to be deposited in the Revenue Fund. Nonoperating revenues in FY 2008 also included PFC revenues transferred to the Revenue Fund and prepaid revenues from the airlines, which were discontinued in FY 2009 under the Master Indenture.

Interest income under the Indenture excludes interest earnings on amounts in the Construction Fund and PFC Revenues. Interest income totaled $3.5 million in FY 2009 and is forecast to change, mainly reflecting changes in the fund balance generating interest income.

Reliever and General Aviation Airports. The revenues associated with activity at the reliever and general aviation airports (Mather Airport, Executive Airport, and Franklin Field) are included in the revenue categories described above.

Application of Airport System Revenues

Section 5.04 of the Indenture requires that all Revenues be applied to deposits and payments in the following order of priority:

a. **Operating Expenses.** To make deposits to the Operating Fund to pay Operating Expenses.

b. **Debt Service on Senior Obligations.** To make required deposits to the Senior Debt Service Fund for Outstanding Senior Bonds; to pay each Credit Provider the amount of the Reimbursement Obligation on Senior Bonds, if any, to the extent not included in Debt Service on Senior Bonds; to pay each Qualified Counterparty the amount of Net Revenues, if any, payable by the County in accordance with each applicable Qualified Swap relating to the Senior Obligations; and to pay the Debt Service on Outstanding Senior Obligations not specified above.

c. **Debt Service Reserve for Senior Obligations.** To make required deposits to the Senior Debt Service Reserve Fund, to each Senior Series Debt Service Reserve Fund, and to each debt service reserve for any Outstanding Senior Obligations other than Senior Bonds; and to make payments, if any, pursuant to each applicable Reserve Guaranty Agreement relating to Senior Obligations.

d. **Rebate for Senior Obligations.** To make required deposits to the Rebate Fund in the amount required to be paid for Senior Obligations pursuant to the Rebate Instructions.

e. **Debt Service on Subordinate Obligations.** To make required deposits to the Subordinate Debt Service Fund and to satisfy certain other deposit and payment requirements for Subordinate Obligations (and Senior Obligations) as set forth in Section 5.04(e) of the Indenture.

f. **Debt Service Reserve for Subordinate Obligations.** To make required deposits to the Subordinate Debt Service Reserve Fund and to satisfy certain other deposit and payment requirements for Subordinate Obligations as set forth in Section 5.04(f) of the Indenture.

g. **Rebate for Subordinate Obligations.** To make required deposits to the Rebate Fund in the amount required to be paid for Subordinate Obligations pursuant to the Rebate Instructions.

h. **Operating Reserve Requirement.** To make monthly deposits to the Operating Reserve Account in an amount equal to one-twelfth (1/12) of the Operating Reserve Requirement, but only to the extent necessary to ensure that the amount on deposit in the Operating Reserve Account equals the Operating Reserve Requirement. The Indenture defines the Operating Reserve Requirement as 25% of the amount included in the then-current Annual Budget for Operating Expenses.

i. **Junior Subordinate Obligations.** To make required deposits to the Junior Subordinate Fund to satisfy debt service and other requirements relating to Junior Subordinate Obligations, as set forth in Section 5.10 of the Indenture.

j. **Rebate for Junior Subordinate Obligations.** To make required deposits to the Rebate Fund in the amount required to be paid for Junior Subordinate Obligations pursuant to the Rebate Instructions.

k. **Reserve and Contingency Requirement.** To make monthly deposits to the Reserve and Contingency Fund in an amount equal to the greater of: (i) 1/12 of $2,000,000 or (ii) the amount, if any, specified in the Annual Budget, but only to the extent required to ensure that the amount on deposit equals the Reserve and Contingency Requirement. The Indenture defines the Reserve and Contingency Requirement as $2,000,000 or such greater amount as specified in the then-current Annual Budget.

After making the deposits and payments required by Sections 5.04(a) through (k) of the Indenture, the County may withdraw any remaining balance from the Revenue Fund and deposit the moneys in the Capital Improvement Fund.

Exhibit G presents the forecast application of Airport System Revenues for FY 2010 through FY 2016, which satisfies a primary requirement of the Rate Covenant that Net Revenues are demonstrated to be at least equal to 100% of the aggregate amount of transfers required to be made pursuant to Sections 5.04(b) through (k) during such Fiscal Years.

APPLICATION OF AVAILABLE REVENUES

Section 5.14 of the Indenture requires that the County, promptly upon receipt, deposit all Available Grant Revenues in the Available Grant Account and all Available PFC Revenues in the Available PFC Account. The pro rata amount of such Available Revenues, including investment earnings thereon, on deposit in the applicable account, is to be applied to the payment of Obligations secured thereby, and such amount is to be accounted for as a credit against the amounts required to be deposited for such purposes pursuant to Section 5.04 of the Indenture. Exhibit C presents the forecast application of Available PFC Revenues for the principal and interest payments on the 2008 Subordinate Bonds and the 2009 Subordinate Bonds. Exhibit D presents the forecast application of Available PFC Revenues and Available Grant Revenues to the principal and interest payments.

DEBT SERVICE COVERAGE AND RATE COVENANT

Exhibit H presents the forecast of Net Revenues and Transfers in relation to Accrued Debt Service on (1) Senior Obligations to show compliance with Rate Covenant Section 6.04(b)(i) of the Indenture, (2) Senior Obligations and Subordinate Obligations to show compliance with Rate Covenant Section 6.04(b)(ii) of the Indenture, and (3) Senior Obligations, Subordinate Obligations, and Junior Subordinate Obligations to show compliance with Rate Covenant Section 6.04(b)(iii) of the Indenture. Although not required by the Indenture, the calculations of debt service coverage are also shown without Transfers. Exhibit G shows positive contribution to the Capital Improvement Fund each year of the forecast period, which indicates compliance with Section 6.04(a) of the Rate Covenant in each year of the forecast period. Thus, the Rate Covenant is forecast to be met in each year of the forecast period.

Exhibit A

PROJECT COST AND SOURCES OF FUNDING
CAPITAL IMPROVEMENT PROGRAM (a)
Sacramento County Airport System
(dollars in thousands)

	AIP		Bonds						
	LOI (b)	Other AIP Grants	ASRB	Prior bonds	PFC	PFC PAYGO	SCAS	Other (c)	Total
SMF									
Terminal Modernization Program									
Airside concourse	$ 52,021	$ -	$ 229,180	$ -	$ 7,879	$ 42,641	$ 36,287	$ 7,064	$ 375,073
Landside terminal	-	-	158,717	7,884	203,868	77,359	46,200	-	494,027
Special systems	-	-	104,357	-	-	-	-	-	104,357
Early projects	-	-	15,130	-	-	-	-	-	15,130
Ancillary projects	-	-	48,635	-	-	-	-	-	48,635
Terminal Modernization Program	$ 52,021	$ -	$ 556,019	$ 7,884	$ 211,747	$ 120,000	$ 82,487	$ 7,064	$ 1,037,222
Non-TMP projects	-	41,356	-	-	-	-	30,567	34,800	106,723
SMF total	$ 52,021	$ 41,356	$ 556,019	$ 7,884	$ 211,747	$ 120,000	$ 113,054	$ 41,864	$ 1,143,945
Other airports									
Executive Airport	-	16,984	-	-	-	-	1,559	-	18,543
Franklin Field	-	-	-	-	-	-	100	-	100
Mather Airport	-	66,743	-	-	-	-	4,913	-	71,656
SCAS total	$ 52,021	$ 125,083	$ 556,019	$ 7,884	$ 211,747	$ 120,000	$ 119,626	$ 41,864	$ 1,234,244
Terminal Modernization Program	52,021	-	556,019	7,884	211,747	120,000	82,487	7,064	1,037,222
Non-TMP projects	-	125,083	-	-	-	-	37,139	34,800	197,022

(a) Includes costs for Terminal Modernization Program incurred prior to Fiscal Year 2011.
(b) A portion of the $59.9 million LOI reimbursement is to be used for interest payments.
(c) Includes grants from Transportation Security Administration for the TMP, and 3rd-party financing for a future fuel system.
AIP = Airport Improvement Program; LOI = Letter of Intent; ASRB = Airport System Revenue Bonds; PFC = Passenger Facility Charge; PAYGO = pay-as-you-go.
Sources: Sacramento County Airport System.

Exhibit B

SOURCES AND USES OF FUNDS
TERMINAL MODERNIZATION PROGRAM
Sacramento County Airport System
(dollars in thousands)

		Senior Bonds			Sub. Bonds	
	Total	2008	2009 A/B	2010 (a)	2009C/D	Other Sources
Sources of funds						
Par amount of Bonds	$ 945,105	$ 336,755	$ 201,800	$ 128,300	$ 278,250	$ -
Reoffering premium/discount	(955)	(3,980)	-	3,025	-	-
Original issue discount	(4,808)	-	(1,127)	-	(3,681)	-
Bond Construction Fund Interest Income	14,493	7,642	2,557	506	3,789	-
LOI PAYGO	8,972	-	-	-	-	8,972
PFC PAYGO	120,000	-	-	-	-	120,000
TSA	7,064	-	-	-	-	7,064
2006A Bonds	7,884	-	-	-	-	7,884
SCAS internal cash	82,487	-	-	-	-	82,487
Total sources of funds	$ 1,180,242	$ 340,417	$ 203,229	$ 131,831	$ 278,358	$ 226,407
Use of funds						
Project costs	$ 1,037,222	$ 275,833	$ 166,396	$ 113,789	$ 254,797	$ 226,407
Total underwriter's discount	5,205	1,937	1,097	688	1,484	-
Costs of issuance	10,365	7,814	1,056	529	967	-
Deposit to Debt Service Reserve Fund	39,115	-	9,378	8,626	21,111	-
Deposit to Capitalized Interest Fund	88,334	54,833	25,302	8,199	-	-
Total uses of funds	$ 1,180,242	$ 340,417	$ 203,229	$ 131,831	$ 278,358	$ 226,407

(a) Public Finance Management, Inc.
Source: Sacramento County Airport System, unless noted.

Exhibit C

HISTORICAL AND FORECAST PFC REVENUES

Sacramento County Airport System
For Fiscal Years ending June 30
(dollars in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by Airport System management as described in the accompanying text. Inevitably some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical (a)		Estimated	Forecast					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
PFC collections									
Enplaned passengers	5,295	4,603	4,446	4,476	4,539	4,630	4,745	4,869	5,000
Percent of PFC-eligible passengers	101.1%	86.1%	98.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%
PFC-eligible enplaned passengers	5,351	3,964	4,357	4,163	4,221	4,306	4,413	4,528	4,650
PFC level	$ 4.50	$ 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)	(0.11)
Net PFC level	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39
PFC collections	$ 23,491	$ 17,403	$ 19,128	$ 18,275	$ 18,531	$ 18,903	$ 19,372	$ 19,879	$ 20,414
Cumulative PFC collections	$ 242,871	$ 263,379	$ 283,257	$ 302,050	$ 320,903	$ 340,044	$ 359,604	$ 379,627	$ 400,152
PFC cash flow									
PFC fund beginning balance	$ 103,608	$ 126,622	$ 115,949	$ 50,378	$ 19,108	$ 13,436	$ 10,637	$ 8,256	$ 6,336
Deposits:									
PFC collections	$ 23,491	$ 17,403	$ 19,128	$ 18,275	$ 18,531	$ 18,903	$ 19,372	$ 19,879	$ 20,414
Excess fund from 1996C Bonds	4,826	-	-	-	-	-	-	-	-
Interest earnings	4,857	3,106	750	517	322	238	187	144	111
Total annual PFC revenues	$ 33,174	$ 20,509	$ 19,878	$ 18,793	$ 18,854	$ 19,141	$ 19,559	$ 20,023	$ 20,525
Annual use of PFC revenues									
Pay-as-you-go	$ (4)	$ (24,359)	$ (65,000)	$ (28,056)	$ (2,585)	$ -	$ -	$ -	$ -
Debt service									
Series 2008 D&E and prior	(4,154)	(6,823)	(7,821)	(8,354)	(8,266)	(8,181)	(8,078)	(7,973)	(7,890)
Series 2009 C&D	-	-	(12,628)	(13,652)	(13,675)	(13,759)	(13,863)	(13,970)	(14,055)
Terminal A debt service	(6,003)	-	-	-	-	-	-	-	-
Total annual use of PFC revenues	$ (10,160)	$ (31,181)	$ (85,449)	$ (50,062)	$ (24,526)	$ (21,940)	$ (21,941)	$ (21,943)	$ (21,945)
PFC ending balance	$ 126,622	$ 115,949	$ 50,378	$ 19,108	$ 13,436	$ 10,637	$ 8,256	$ 6,336	$ 4,916

(a) Sacramento County Airport System.

Exhibit D

DEBT SERVICE REQUIREMENTS
Sacramento County Airport System
For Fiscal Years ending June 30
(dollars in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by Airport System management as described in the accompanying text. Inevitably some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical		Estimated	Forecast					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Senior Obligations									
Series 1992A	$ 181	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Series 1998A	1,442	-	-	-	-	-	-	-	-
Series 2002A	2,423	-	-	-	-	-	-	-	-
Series 2002B	731	-	-	-	-	-	-	-	-
Series 2006A	4,530	-	-	-	-	-	-	-	-
Series 2008A	3,728	$ 8,389	$ 9,250	$ 9,409	$ 10,062	$ 10,731	$ 10,743	$ 10,739	$ 10,744
Series 2008B	893	4,104	4,476	4,398	11,386	18,357	18,278	18,192	18,114
Series 2008C	106	3,479	3,481	3,480	3,477	-	-	-	-
Series 2009A/B	-	-	-	-	7,019	15,586	13,081	16,005	16,081
Proposed 2010 Bonds (a)	-	-	-	-	4,037	7,453	7,325	8,629	8,624
Accrued Debt Service on Senior Obligations	$ 14,035	$ 15,972	$ 17,207	$ 17,287	$ 35,981	$ 52,127	$ 49,428	$ 53,565	$ 53,563
Subordinate Obligations									
Series 1996C	$ 811	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Series 1998B	1,163	-	-	-	-	-	-	-	-
Series 2008D	1,105	2,268	3,225	3,851	3,849	3,850	3,850	3,850	3,854
Series 2008E	1,075	4,672	4,596	4,503	4,417	4,330	4,227	4,123	4,036
Series 2009C	-	-	6,217	6,722	6,722	6,722	6,722	6,722	6,722
Series 2009D	-	-	16,092	16,054	15,124	15,258	15,413	15,577	7,334
Annual debt service on Subordinate Obligations	$ 4,154	$ 6,940	$ 30,131	$ 31,130	$ 30,112	$ 30,160	$ 30,212	$ 30,272	$ 21,945
Less:									
Available PFC Revenues	(4,154)	(6,940)	(20,449)	(22,006)	(21,941)	(21,940)	(21,941)	(21,943)	(21,945)
Available Grant Revenues	-	-	(9,682)	(9,124)	(8,171)	(8,220)	(8,271)	(8,329)	-
Accrued Debt Service on Subordinate Obligations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Senior and Subordinate Obligations									
Accrued Debt Service	$ 14,035	$ 15,972	$ 17,207	$ 17,287	$ 35,981	$ 52,127	$ 49,428	$ 53,565	$ 53,563
Allocation of Accrued Debt Service									
Airfield		$ 1,014	$ 1,013	$ 1,013	$ 1,175	$ 856	$ 919	$ 958	$ 988
Apron		289	1,174	1,194	2,434	3,039	2,633	2,635	2,529
Cargo Apron		-	-	-	-	-	-	-	-
Loading Bridges		640	566	554	1,301	2,156	1,974	2,270	2,269
Terminal Building		3,431	3,583	3,538	18,736	34,532	32,809	36,494	36,668
Rental Cars		632	559	548	538	525	514	501	490
Other Building and Areas		2,081	2,550	2,550	3,390	3,154	2,820	2,795	2,715
Parking		7,748	7,626	7,755	8,272	7,826	7,719	7,871	7,864
Reliever Airports		136	136	136	135	40	40	40	40
Franklin Field		-	-	-	-	-	-	-	-
Total Accrued Debt Service		$ 15,972	$ 17,207	$ 17,287	$ 35,981	$ 52,127	$ 49,428	$ 53,565	$ 53,563

(a) Public Financial Management, Inc.
Source: Sacramento County Airport System, unless noted.

Exhibit E

OPERATING EXPENSES
Sacramento County Airport System
For Fiscal Years ending June 30
(dollars in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by Airport System management as described in the accompanying text. Inevitably some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical (a)		Estimated	Forecast					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
By major object category									
Salaries and benefits	$ 32,043	$ 33,508	$ 32,976	$ 37,864	$ 39,758	$ 41,745	$ 43,833	$ 46,024	$ 48,326
Supplies and services	44,882	46,664	48,839	48,526	50,467	52,486	54,585	56,769	59,040
Other charges	838	882	873	987	1,027	1,068	1,111	1,155	1,201
Subtotal	$ 77,762	$ 81,054	$ 82,687	$ 87,378	$ 91,252	$ 95,299	$ 99,529	$ 103,948	$ 108,566
M&O projects (b)	10,080	3,837	7,972	10,186	-	-	-	-	-
Equipment purchases (c)	1,504	-	-	-	-	-	-	-	-
Other capital outlays (c)	449	-	-	-	-	-	-	-	-
Base operating expenses	$ 89,795	$ 84,891	$ 90,659	$ 97,564	$ 91,252	$ 95,299	$ 99,529	$ 103,948	$ 108,566
Incremental operating expenses									
Salaries and benefits					$ 3,412	$ 7,132	$ 7,488	$ 7,863	$ 8,256
Supplies and services					6,282	13,248	13,655	14,078	14,518
Other charges					-	-	-	-	-
Incremental operating expenses (d)					$ 9,694	$ 20,380	$ 21,143	$ 21,941	$ 22,774
Operating Expenses	$ 89,795	$ 84,891	$ 90,659	$ 97,564	$ 100,946	$ 115,679	$ 120,672	$ 125,889	$ 131,340
By cost center									
Airfield area		$ 16,364	$ 16,844	$ 18,023	$ 18,538	$ 19,510	$ 20,375	$ 21,278	$ 22,223
Apron area		1,047	1,011	1,171	1,300	1,357	1,417	1,480	1,545
Cargo apron area		133	160	143	146	153	159	167	174
Loading bridges		844	891	910	1,142	1,192	1,244	1,298	1,354
Terminal building		29,978	30,659	32,309	42,382	54,069	56,331	58,695	61,166
Rental car		3,628	3,744	3,919	4,016	4,194	4,380	4,574	4,778
Other buildings and areas		7,174	10,277	12,890	4,498	4,697	4,906	5,123	5,351
Parking		18,179	19,260	19,711	20,195	21,391	22,339	23,330	24,365
Reliever airports		7,164	7,366	8,044	8,274	8,641	9,025	9,425	9,844
Franklin field		379	447	444	455	476	497	519	542
Operating Expenses		$ 84,891	$ 90,659	$ 97,564	$ 100,946	$ 115,679	$ 120,672	$ 125,889	$ 131,340
Annual percent change		-5.5%	6.8%	7.6%	3.5%	14.6%	4.3%	4.3%	4.3%

(a) Sacramento County Airport System.
(b) FY 2008 expenses included Willey Preserve construction and endowment. Sewer construction of $6.0 million and $8.5 million are included in FY 2010 and FY 2011 expenses respectively. Major M&O project expenses are shown in Other Building and Areas cost center and capitalized for rate calculation.
(c) Under the new Master Indenture effective FY 2009, Operating Expenses do not include equipment purchases and project expenses.
(d) Indicating Operating expenses associated with new capital projects as projects are expected to come online.

Exhibit F

REVENUES

Sacramento County Airport System
For Fiscal Years ending June 30
(dollars in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by Airport System management as described in the accompanying text. Inevitably some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical (a)		Estimated	Forecast					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Airline revenues									
Terminal rentals (b) (c)	$ 10,991	$ 24,392	$ 27,173	$ 26,007	$ 37,417	$ 46,836	$ 45,376	$ 48,433	$ 49,524
Parking position fees (b)	884	3,404	891	2,682	4,455	5,250	4,804	4,868	4,794
Loading bridge use fees (b)	964	2,830	1,553	1,558	2,841	3,914	3,740	4,162	4,215
Baggage system recovery	-	-	-	-	580	1,159	1,159	1,159	1,159
Landing fees (b)	22,109	10,471	24,579	25,918	26,970	27,638	28,919	30,413	31,292
Total airline revenues	$ 34,948	$ 41,097	$ 54,196	$ 56,165	$ 72,262	$ 84,797	$ 83,998	$ 89,036	$ 90,984
Nonairline revenue									
Airfield area	$ 1,257	$ 946	$ 740	$ 740	$ 766	$ 794	$ 823	$ 854	$ 885
Terminal building									
Food/beverage	3,117	3,181	2,825	2,825	3,008	3,313	3,463	3,625	3,797
Merchandise	2,068	2,094	1,804	1,804	1,921	2,116	2,212	2,316	2,425
Other terminal rents	891	630	814	814	841	875	914	956	1,001
Total terminal building	6,076	5,905	5,443	5,443	5,770	6,305	6,590	6,897	7,224
Parking	47,191	49,811	45,534	46,283	51,204	55,199	56,494	61,685	63,262
Other areas									
Auto rentals	10,410	9,842	8,701	8,701	8,996	9,357	9,776	10,227	10,707
Auto rental shuttle bus fees	2,254	2,616	2,092	3,919	4,016	4,194	4,380	4,574	4,778
Other rentals/miscellaneous	8,236	7,376	9,179	9,179	9,265	9,356	9,449	9,545	9,642
Total other areas	20,900	19,835	19,971	21,799	22,277	22,906	23,606	24,347	25,127
Other revenues	2,658	2,553	1,861	1,982	2,029	2,078	2,129	2,182	2,237
Subtotal	$ 78,082	$ 79,050	$ 73,549	$ 76,246	$ 82,046	$ 87,282	$ 89,642	$ 95,964	$ 98,735
GAAP adjustment	(13)	(21)	-	-	-	-	-	-	-
Non-airline operating revenues	$ 78,069	$ 79,029	$ 73,549	$ 76,246	$ 82,046	$ 87,282	$ 89,642	$ 95,964	$ 98,735
Total operating revenues	$ 113,017	$ 120,126	$ 127,744	$ 132,411	$ 154,309	$ 172,079	$ 173,639	$ 185,000	$ 189,719
Interest income	4,719	3,461	2,996	2,719	3,100	3,469	3,418	3,309	3,350
PFC transfers for terminal A debt service	2,601	-	-	-	-	-	-	-	-
Transfers from Capital Improvement Fund (b)	-	10,449	-	-	-	-	-	-	-
Operating Reserve Account release	-	-	3,232	-	-	-	-	-	-
Prepaid revenues	3,316	-	-	-	-	-	-	-	-
Revenues	$ 123,653	$ 134,036	$ 133,972	$ 135,131	$ 157,409	$ 175,548	$ 177,058	$ 188,309	$ 193,069
Airline revenues as % of total (c)	28.3%	30.7%	40.5%	41.6%	45.9%	48.3%	47.4%	47.3%	47.1%

(a) Sacramento County Airport System.
(b) Airline revenues in FY 2009 are net of a $10.4 million settlement credit for prior years, Transferred from the Capital Improvement Fund and shown separately as nonoperating revenues.
(c) Increase in airline payments in FY 2009 and beyond was due to the implementation of compensatory ratemaking methodology.

Exhibit F-1

CALCULATION OF TERMINAL BUILDING RENTAL RATE

Sacramento County Airport System
For Fiscal Years ending June 30
(dollars in thousands except rates)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by Airport System management as described in the accompanying text. Inevitably some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Estimated	Forecast					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Terminal building requirement							
Operating Expenses	$ 30,659	$ 32,309	$ 42,382	$ 54,069	$ 56,331	$ 58,695	$ 61,166
Capital outlays	323	455	743	741	733	721	494
Senior Bonds Accrued Debt Service	3,583	3,538	18,736	34,532	32,809	36,494	36,668
Senior Bonds coverage requirement (25%)	896	884	4,684	8,633	8,202	9,124	9,167
Subordinate Bonds Accrued Debt Service and coverage (110%)	-	-	-	-	-	-	-
Junior Subordinate Obligations	-	-	-	-	-	-	-
Historical amortization	5,415	4,903	4,046	3,872	2,592	2,521	2,483
Amortization of M&O projects	-	-	755	755	755	755	755
Future amortization	-	-	1,797	3,811	3,985	4,110	4,170
Operating Reserve Requirement	1,114	(181)	2,518	2,922	566	591	618
Reserve and Contingency Fund deposit	-	-	-	-	-	-	-
Total terminal building requirement	$ 41,989	$ 41,908	$ 75,660	$ 109,335	$ 105,973	$ 113,011	$ 115,521
Less:							
Rentals from unenclosed airline operations apace	(402)	(293)	(275)	(256)	(256)	(256)	(256)
Baggage system recovery	-	-	(580)	(1,159)	(1,159)	(1,159)	(1,159)
Federal/TSA reimbursement	(703)	(703)	(703)	(703)	(703)	(703)	(703)
Net terminal building requirement	$ 40,884	$ 40,912	$ 74,103	$ 107,217	$ 103,855	$ 110,893	$ 113,403
Rentable space (enclosed)							
Airline rentable space	192	193	262	335	335	335	335
Nonairline rentable space	89	84	120	152	152	152	152
Total rentable space	280	277	381	487	487	487	487
Average rental rate (per square foot per year)	$ 145.77	$ 147.68	$ 194.34	$ 220.38	$ 213.47	$ 227.94	$ 233.10
Airline rented space	174	174	191	211	211	211	211
Airline terminal rentals (enclosed space)	$ 25,419	$ 25,714	$ 37,142	$ 46,580	$ 45,120	$ 48,177	$ 49,267
Airline unenclosed operations space rentals							
Unenclosed operations space	34	24	23	21	21	21	21
Rate per square foot	12.00	12.00	12.00	12.00	12.00	12.00	12.00
	$ 402	$ 293	$ 275	$ 256	$ 256	$ 256	$ 256
Airline terminal rentals	$ 25,821	$ 26,007	$ 37,417	$ 46,836	$ 45,376	$ 48,433	$ 49,524
Settlement for prior years	1,352	-	-	-	-	-	-
Total airline terminal rentals	$ 27,173	$ 26,007	$ 37,417	$ 46,836	$ 45,376	$ 48,433	$ 49,524

Exhibit F-2

CALCULATION OF LANDING FEE RATE

Sacramento County Airport System
For Fiscal Years ending June 30
(dollars in thousands except rates)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by Airport System management as described in the accompanying text. Inevitably some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Estimated	Forecast					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Airport system landing fee requirement							
Operating Expenses	$ 16,844	$ 18,023	$ 18,538	$ 19,510	$ 20,375	$ 21,278	$ 22,223
Capital outlays	209	265	420	418	412	404	267
Senior Bonds Accrued Debt Service	1,013	1,013	1,175	856	919	958	988
Senior Bonds coverage requirement (25%)	253	253	294	214	230	240	247
Subordinate Bonds Accrued Debt Service and coverage (110%)	-	-	-	-	-	-	-
Junior Subordinate Obligations	-	-	-	-	-	-	-
Historical amortization	2,087	2,075	2,075	1,794	1,794	1,667	1,667
Amortization of M&O projects	314	314	314	314	314	314	314
Future amortization	-	-	37	133	267	693	803
Operating Reserve Requirement	348	82	129	243	216	226	236
Reserve and Contingency Fund deposit	-	-	-	-	-	-	-
Reliever airports operating deficit	2,993	4,383	4,754	4,950	5,215	5,487	5,433
Airport system landing fee requirement	$ 24,062	$ 26,408	$ 27,736	$ 28,431	$ 29,742	$ 31,267	$ 32,178
Nonairline airfield revenue	(667)	(490)	(766)	(794)	(823)	(854)	(885)
Net airfield requirement	$ 23,394	$ 25,918	$ 26,970	$ 27,638	$ 28,919	$ 30,413	$ 31,292
Total landed weight (a)	6,321	6,340	6,405	6,505	6,639	6,783	6,928
Landing fee rate per 1,000 pounds	$ 3.70	$ 4.09	$ 4.21	$ 4.25	$ 4.36	$ 4.48	$ 4.52
Airline landing fee requirement	$ 23,394	$ 25,918	$ 26,970	$ 27,638	$ 28,919	$ 30,413	$ 31,292
Settlement for prior years	1,184	-	-	-	-	-	-
Total landing fee revenues	$ 24,579	$ 25,918	$ 26,970	$ 27,638	$ 28,919	$ 30,413	$ 31,292

(a) Including scheduled passenger airline and cargo carrier landed weight at SMF and MHR.

Exhibit F-3

PASSENGER AIRLINE PAYMENTS PER ENPLANED PASSENGER
Sacramento County Airport System
For Fiscal Years ending June 30
(dollars in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by Airport System management as described in the accompanying text. Inevitably some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Historical (a)		Estimated	Forecast					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Passenger airline payments									
Terminal rentals	$ 10,991	$ 24,392	$ 27,173	$ 26,007	$ 37,417	$ 46,836	$ 45,376	$ 48,433	$ 49,524
Parking position fees	884	3,404	891	2,682	4,455	5,250	4,804	4,868	4,794
Loading bridge use fees	964	2,830	1,553	1,558	2,841	3,914	3,740	4,162	4,215
Baggage system recovery	-	-	-	-	580	1,159	1,159	1,159	1,159
Landing fees /(b)	22,109	10,471	24,579	25,918	26,970	27,638	28,919	30,413	31,292
Total airline payments	$ 34,948	$ 41,097	$ 54,196	$ 56,165	$ 72,262	$ 84,797	$ 83,998	$ 89,036	$ 90,984
Less: cargo airline landing fees	(2,915)	(1,218)	(2,376)	(2,532)	(2,680)	(2,777)	(2,922)	(3,084)	(3,184)
Passenger airline payments	$ 32,033	$ 39,879	$ 51,820	$ 53,633	$ 69,582	$ 82,020	$ 81,076	$ 85,952	$ 87,800
Enplaned passengers	5,295	4,603	4,446	4,476	4,539	4,630	4,745	4,869	5,000
Passenger airline payments per e.p.	$ 6.05	$ 8.66	$ 11.66	$ 11.98	$ 15.33	$ 17.71	$ 17.09	$ 17.65	$ 17.56

(a) Sacramento County Airport System.
(b) Decline of FY 2009 landing fee revenues was due to credit for 2008 settlement.

Exhibit G

APPLICATION OF REVENUES

Sacramento County Airport System
For Fiscal Years ending June 30
(dollars in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by Airport System management as described in the accompanying text. Inevitably some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

	Estimated	Forecast					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues							
Airline revenues	$ 54,196	$ 56,165	$ 72,262	$ 84,797	$ 83,998	$ 89,036	$ 90,984
Nonairline revenues	73,549	76,246	82,046	87,282	89,642	95,964	98,735
Interest income	2,996	2,719	3,100	3,469	3,418	3,309	3,350
Transfers from Capital Improvement Fund	-	-	-	-	-	-	-
Operating Reserve Account release	3,232	-	-	-	-	-	-
Revenues	$ 133,972	$ 135,131	$ 157,409	$ 175,548	$ 177,058	$ 188,309	$ 193,069
Application of Revenues and Rate Covenant 6.04 (a)							
Operating Expenses	$ 90,659	$ 97,564	$ 100,946	$ 115,679	$ 120,672	$ 125,889	$ 131,340
Senior Debt Service Fund	17,207	17,287	35,981	52,127	49,428	53,565	53,563
Senior Debt Service Reserve Fund	-	-	-	-	-	-	-
Subordinate Debt Service Fund	30,131	31,130	30,112	30,160	30,212	30,272	21,945
Available PFC Revenues	(20,449)	(22,006)	(21,941)	(21,940)	(21,941)	(21,943)	(21,945)
Available Grant Revenues	(9,682)	(9,124)	(8,171)	(8,220)	(8,271)	(8,329)	-
Subordinate Debt Service Reserve Fund	-	-	-	-	-	-	-
Operating Reserve Account	-	363	846	3,683	1,248	1,304	1,363
Capital outlays	1,058	1,875	2,718	2,683	2,617	2,531	1,462
Reserve and Contingency Fund	-	-	-	-	-	-	-
Deposit to Capital Improvement Fund	25,048	18,041	16,918	1,375	3,092	5,019	5,341
Total application of Revenues	$ 133,972	$ 135,131	$ 157,409	$ 175,548	$ 177,058	$ 188,309	$ 193,069

Exhibit H

DEBT SERVICE COVERAGE AND RATE COVENANT
Sacramento County Airport System
For Fiscal Years ending June 30
(dollars in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by Airport System management as described in the accompanying text. Inevitably some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast and the variations could be material.

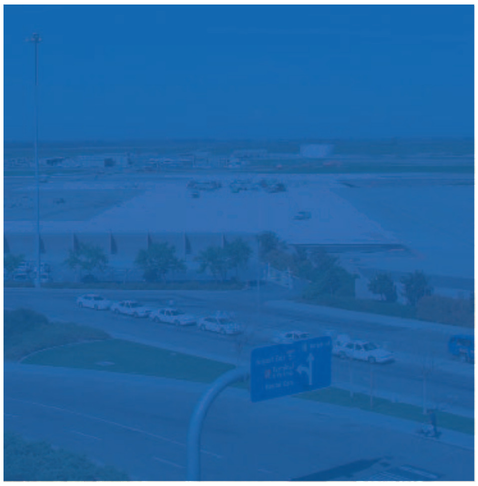
	Estimated	Forecast					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Rate Covenant per section 6.04 (b)(i)							
Revenues	$ 133,972	$ 135,131	$ 157,409	$ 175,548	$ 177,058	$ 188,309	$ 193,069
Less: Operating Expenses	(90,659)	(97,564)	(100,946)	(115,679)	(120,672)	(125,889)	(131,340)
Net Revenues	$ 43,313	$ 37,567	$ 56,463	$ 59,869	$ 56,386	$ 62,420	$ 61,729
Transfer (limited to 25%)	4,302	4,322	8,995	13,032	12,357	13,391	13,391
Net Revenues + Transfer	$ 47,615	$ 41,889	$ 65,458	$ 72,900	$ 68,743	$ 75,811	$ 75,119
Accrued Debt Service on Senior Obligations	$ 17,207	$ 17,287	$ 35,981	$ 52,127	$ 49,428	$ 53,565	$ 53,563
Debt service coverage (>1.25)	2.77	2.42	1.82	1.40	1.39	1.42	1.40
Debt service coverage w/o Transfer	2.52	2.17	1.57	1.15	1.14	1.17	1.15
Rate Covenant per Section 6.04 (b)(ii)							
Net Revenues	$ 43,313	$ 37,567	$ 56,463	$ 59,869	$ 56,386	$ 62,420	$ 61,729
Transfer (limited to 10%)	1,721	1,729	3,598	5,213	4,943	5,356	5,356
Net Revenues + Transfer	$ 45,034	$ 39,295	$ 60,061	$ 65,081	$ 61,328	$ 67,776	$ 67,085
Accrued Debt Service on Senior Obligations	$ 17,207	$ 17,287	$ 35,981	$ 52,127	$ 49,428	$ 53,565	$ 53,563
Debt Service on Subordinate Obligations	30,131	31,130	30,112	30,160	30,212	30,272	21,945
Less: available PFC Revenues	(20,449)	(22,006)	(21,941)	(21,940)	(21,941)	(21,943)	(21,945)
Less: available Grant Revenues	(9,682)	(9,124)	(8,171)	(8,220)	(8,271)	(8,329)	-
Accrued Debt Service of Senior & Subordinate Obligations	$ 17,207	$ 17,287	$ 35,981	$ 52,127	$ 49,428	$ 53,565	$ 53,563
Debt service coverage (>1.10)	2.62	2.27	1.67	1.25	1.24	1.27	1.25
Debt service coverage w/o Transfer	2.52	2.17	1.57	1.15	1.14	1.17	1.15
Rate Covenant per section 6.04 (b)(iii)							
Net Revenues	$ 43,313	$ 37,567	$ 56,463	$ 59,869	$ 56,386	$ 62,420	$ 61,729
Accrued Debt Service on							
Senior Obligations	$ 17,207	$ 17,287	$ 35,981	$ 52,127	$ 49,428	$ 53,565	$ 53,563
Subordinate Obligations	-	-	-	-	-	-	-
Junior Subordinate Obligations	-	-	-	-	-	-	-
Total	$ 17,207	$ 17,287	$ 35,981	$ 52,127	$ 49,428	$ 53,565	$ 53,563
Debt service coverage (>1.00)	**2.52**	**2.17**	**1.57**	**1.15**	**1.14**	**1.17**	**1.15**

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

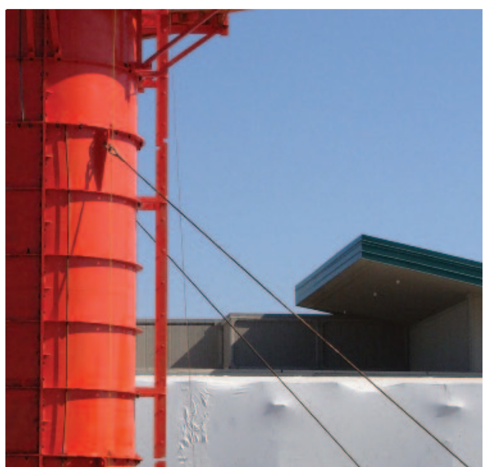
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEARS ENDED JUNE 30, 2008 AND 2009

[This Page Intentionally Left Blank]



FISCAL YEAR ENDED

JUNE 30 2009



COMPREHENSIVE ANNUAL FINANCIAL REPORT

A DEPARTMENT OF THE COUNTY OF SACRAMENTO • SACRAMENTO, CALIFORNIA

SACRAMENTO
COUNTY AIRPORT SYSTEM

Comprehensive Annual Financial Report

For the
Sacramento County Airport System

An Enterprise Fund of the County of Sacramento, California

For the Fiscal Years Ended
June 30, 2009 and 2008

Prepared by:
Sacramento County Airport System
Finance and Administration Division

Camelia Radulescu, CPA……………………………………… Sr. Accounting Manager
Claire Stetson ………………………………………………...Accounting Manager
Tim McPherson ……………………………………………………. .Sr. Accountant
Gabriela Stan ………………………………………………………..Sr. Accountant
Imelda Jaime …………………………………………………………….Accountant
Yolanda Llorente ……………………………………………………..Accountant

Sacramento County Airport System
Table of Contents
For the Fiscal Years Ended June 30, 2009 and 2008

Page

INTRODUCTORY SECTION

AIRPORT LOCATIONS AND SERVICE AREA 3
CERTIFICATE OF ACHIEVEMENT 4
TRANSMITTAL LETTER 5
ORGANIZATIONAL CHART 22
LIST OF PRINCIPAL OFFICIALS 23

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTAL INFORMATION) 28
BASIC FINANCIAL STATEMENTS:
Statements of Net Assets 34
Statements of Revenues, Expenses and Changes in Net Assets 35
Statements of Cash Flows 36
Notes to the Basic Financial Statements 38

STATISTICAL SECTION

NET ASSETS 61
CHANGES IN NET ASSETS 62
TOTAL ANNUAL REVENUES 64
TOTAL ANNUAL EXPENSES 65
AIRLINE RATES AND CHARGES 66
AIRLINE AND NONAIRLINE REVENUES 67
DEBT SERVICE COVERAGE 68
RATIO OF ANNUAL DEBT SERVICE TO TOTAL EXPENSES 69
DEBT PER ENPLANED PASSENGER 69
OUTSTANDING DEBT 70
SERVICE AREA POPULATION 72
POPULATION/PERSONAL INCOME 73
PRINCIPAL EMPLOYERS FOR THE COUNTY OF SACRAMENTO 74
ACTIVITY STATISTICS 75
SCHEDULED AIRLINE SERVICE 76
PRINCIPAL CUSTOMERS 78
AIRPORT SYSTEM EMPOLYEES 78
CAPITAL ASSETS 78

BOND DISCLOSURE SECTION

ANNUAL REPORT 82
HISTORICAL ENPLANED PASSENGERS 83
HISTORICAL AIRCRAFT LANDED WEIGHTS 84
AIRLINES' MARKET SHARES OF ENPLANED PASSENGERS 85
AIRLINES' MARKET SHARES OF AIRCRAFT LANDED WEIGHT 86
AIRLINE AND NONAIRLINE REVENUES 87

Intentionally Blank

Introductory Section

This section contains the following subsections:

Airport Locations and Service Area

Certificate of Achievement

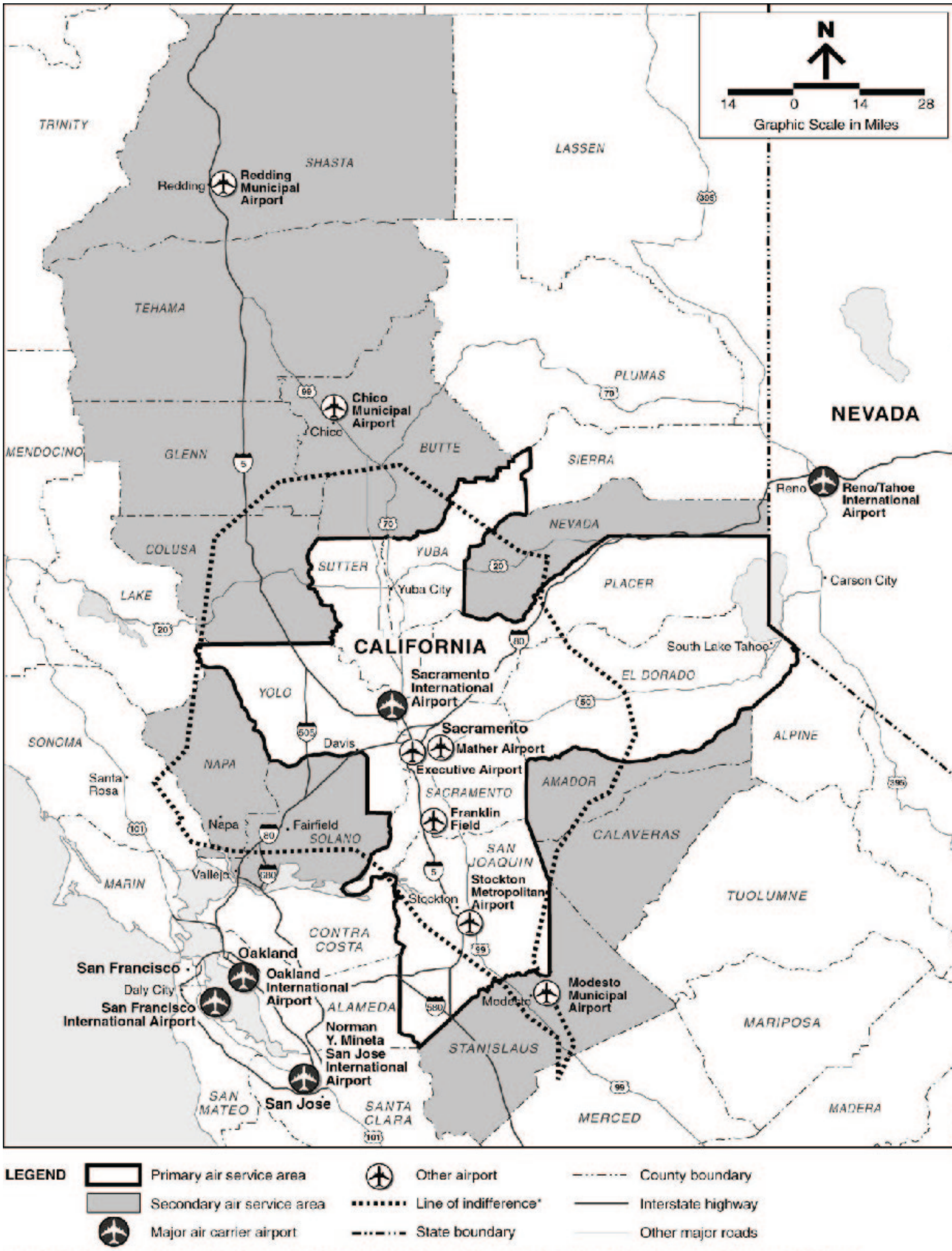
Transmittal Letter

Organizational Chart

List of Principal Officials

Intentionally Blank

Airport Locations and Service Area



* Line of indifference denotes the Census tracts within which potential customers (residents and visitors) are indifferent about using Sacramento International Airport or one of the three Bay Area airports (Oakland, San Francisco, or Norman Y. Mineta San Jose International Airports), *Defining the Sacramento Catchment Area*, GRA Inc., April 2007.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Sacramento County Airport System California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

December 16, 2009

To The Public:

The Comprehensive Annual Financial Report for the Sacramento County Airport System (Airport System), for the fiscal years ended June 30, 2009 and 2008, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Airport System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the funds of the Airport System. All disclosures necessary to enable the reader to gain an understanding of the Airport System's financial activities have been included.

The Government Finance Officers Association (GFOA), under its certificate program, requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Airport System's MD&A can be found prior to the report of the independent auditor.

The County of Sacramento is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations." The Airport System, as a department of the County, is included in the scope of the County's audit. Information related to this single audit, including the schedule of expenditures of federal awards, findings and questioned costs, and independent auditor's report on internal controls and tests of compliance with applicable laws, regulations, and contracts and grants is included in the County's Comprehensive Annual Financial Report.

PROFILE OF THE GOVERNMENT

The Airport System was created by Sacramento County Code in 1963 as a department within the County of Sacramento. The purpose of the Airport System is to provide for the efficient planning, development and operation of public air transportation facilities in Sacramento County and adjoining areas. In addition to promoting the efficient use and development of air transportation, the Airport System is responsible for assuring residents of Sacramento and the immediate surrounding areas of minimal environmental impact from air navigation and transportation.

The Airport System consists of Sacramento International Airport (International Airport), Executive Airport, Mather Airport, and Franklin Field. International is the principal air carrier airport serving the County of Sacramento and a wide region surrounding the County. International's primary service area is a seven-county region consisting of Sacramento, El Dorado, Placer, San Joaquin, Sutter, Yolo and Yuba counties (the Sacramento Area). Executive Airport is a general aviation reliever airport with no scheduled airline service. Mather Airport serves as an air cargo and general aviation facility. Franklin Field is a general aviation reliever airstrip used primarily for training.

ECONOMIC CONDITIONS AND OUTLOOK

The nationwide demand for aviation is a function of domestic and foreign population and economic growth, airline industry developments, and airport and airspace capacity. Airline traffic at airports that principally service origin-destination passengers is most responsive to local economic and population growth. As a predominantly origin-destination medium-hub airport, International is dependent upon the regional economy and population for the travelers who produce its revenue base.

The current recession in the U.S. economy began with the housing and financial market crises in December, 2007. The California economy followed national economic trends in 2008, with falling home prices, worsening credit availability, shrinking equity values, and growing job losses. The Bureau of Labor Statistics data show the State's unemployment rate was 11.6% in June 2009, compared to the U.S. national average of 9.5% unemployment during the same time period. The State is currently facing significant intrinsic problems, which include a severe budget shortfall, which is expected to cause the post-recession recovery in the State to lag that of the nation.

After a sustained period of economic growth, as measured by Gross Regional Product (GRP), that began in the late 1990's and continued into 2007, the Sacramento Area has experienced generally weak economic conditions. Significant factors in the downturn have been (1) the turmoil in the housing market and (2) job losses.

The California Association of Realtors reports that the median sale price of existing homes in the Sacramento Area fell to $175,000 in the second quarter of 2009, which is a 53% reduction from the 2005 peak of $375,900. The economic situation in Sacramento is also affected by the broader economies of the State, as well as the U.S., which has been in recession since December 2007. All of these factors have influenced jobs losses in the Sacramento Area; many of the jobs lost in our region in 2007 and 2008 were related to housing and retail trade activities.

The long-term economic outlook for the Sacramento Area is favorable based on its competitive advantages: the State capital, affordable housing, a well-educated work force, and attractive natural amenities. Other significant strengths of the Sacramento Area are: its competitive position in the emerging clean energy-green tech industry; expected additional investments in public infrastructure projects and the health care industry in the next 5 years; and increasing interest from international companies that desire access to the State's decision-makers who govern the eighth largest economy in the world from Sacramento.

Population

The population of the Sacramento Area was 2.95 million in 2008, concentrated primarily (72%) in the Sacramento-Arden-Arcade-Roseville MSA (the Sacramento MSA), as indicated in Table 1 below.

The Sacramento Area accounted for 8.0% of the State's population and 7.5% of its non-agricultural employment in 2008. In 2007 the Sacramento Area accounted for 7.1% of the State's personal income and per capita personal income was 88.6% of the State average and 95.1% of the national average. Population and employment in the Sacramento Area are projected to grow faster than in the State and nation through 2020, while per capita personal income is projected to grow at a slightly lower rate.

Table 1
Population by County
Sacramento Area

MSA/Counties	2008	Percent of Sacramento Area total population
Sacramento MSA		
Sacramento	1,394,200	47.3%
Placer	341,900	11.6
Yolo	197,700	6.7
El Dorado	176,100	6.0
Subtotal	2,109,900	71.6%
Stockton MSA		
San Joaquin	672,400	22.8
Yuba City MSA		
Sutter	92,200	3.1%
Yuba	73,100	2.5
Subtotal	165,300	5.6%
Sacramento Area total	2,947,600	100.0%
Projected 2010 total population	3,067,400	
Projected 2020 total population	3,689,700	
Projected average annual growth, 2007-2020	1.9%	

Note: Columns may not add to totals shown because of rounding.
Source: U.S. Department of Commerce, Bureau of the Census, www.census.gov, accessed May 2009. Projected growth rates sourced from NPA Data Services, Inc., *Key Indicators of County Growth, 1970-2030*, 2008 Edition.

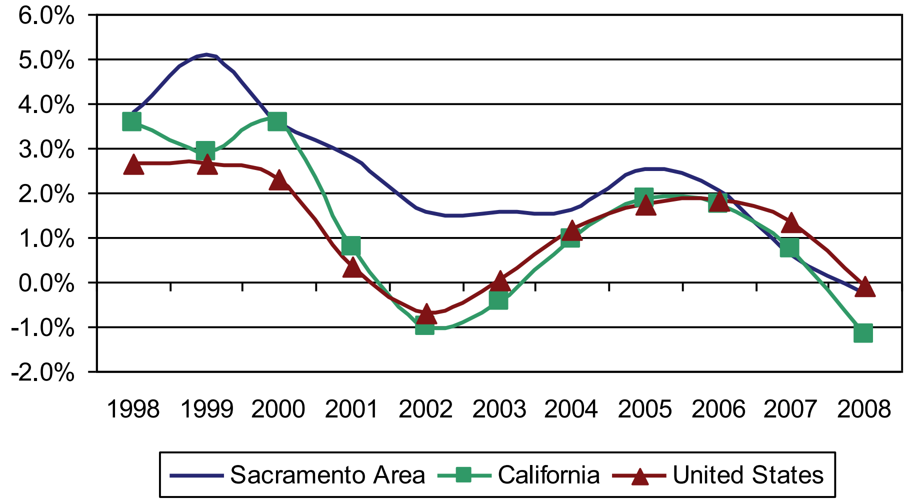
Employment

Between 1997 and 2007, and prior to the current economic downturn, the Sacramento Area experienced a decade of relatively strong job growth. Total non-agricultural employment increased from 1.39 million jobs to 1.64 million jobs between 2000 and 2007. Figure 1 presents a comparison of the annual change in non-agricultural employment in the Sacramento Area from 1997 to 2008 with that of California and the nation. In 2008, Sacramento Area jobs declined by approximately 0.2%, which compares to the 1.2% decline in jobs in the State, and 0.1% decline in jobs in the U.S.

The rate of unemployment in the Sacramento Area generally tracks the statewide pattern, as Figure 2 illustrates, but is typically higher than the national rate. In 2008, unemployment in the Sacramento Area averaged 8.0%, up from the most recent low of 5.5% in 2006. Unemployment has continued to increase in 2009. The June 2009 labor force data show unemployment to be 11.6% in the Sacramento Area.

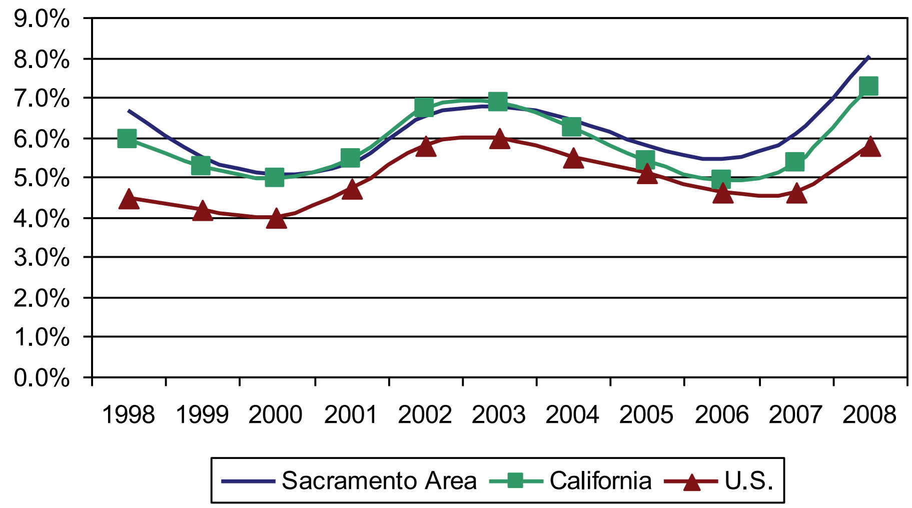
Employment in sectors such as agriculture and construction is seasonal in nature; these sectors account for a large portion of jobs in California, and especially in the Sacramento Area. Thus, unemployment rates alone are not a perfect indicator of the health of the local economy, but overall trends can provide a strong indication from the standpoint of economic opportunities for local residents.

Figure 1
Change in Total Non-Agricultural Employment 1998–2008
Sacramento Area, California, and United States



Note: Data are not seasonally adjusted.
Sources: State of California Employment Development Department, Labor Market Information Division, and U.S. Department of Commerce, Bureau of Labor Statistics. Websites accessed April 21, 2009.

Figure 2
Annual Unemployment Rates
1998 – 2008



Notes: Unemployment rates presented in this table were not seasonally adjusted.
Sources: State of California Employment Development Department, Labor Market Information Division; U.S. Department of Labor, Bureau of Labor Statistics. Websites accessed April 21, 2009.

State, local, and federal government employment accounted for 25.5% of all non-agricultural employment in the Sacramento Area in 2008. This share has been relatively stable throughout the last decade. The largest number of government employees in the Sacramento Area work in local government, which represented approximately 13.7% of total non-agricultural employment in 2008. As would be expected of the State's capital, State government is also a significant employer, with an approximate 10.2% share of all non-agricultural labor in the Sacramento Area in 2008. The federal government accounted for 1.6% of total non-agricultural employment in the Sacramento Area in 2008, down from 2.6% in 1998. The decrease in federal government employment is largely the result of a reduction in U.S. Department of Defense personnel, as McClellan Air Force Base was closed in 2001.

In the near term, 2009-2010, employment in the government sector may suffer reductions, as efforts to reduce the State budget cause state government jobs to be eliminated. The Sacramento Regional Research Institute (SRRI) believes that government employment will be stable in the long term, as government employment is strongly correlated to population size and growth, and the State's steady population growth is expected to result in increased demand for public services. The Public Policy Institute of California (PPIC) forecasts steady population growth for the State of California and for the Sacramento Area in particular through 2025. This increasing population would provide a demand for government services, which long term is expected to support stable growth in the government employment sector.

Table 2 lists the major employers, excluding government, in the Sacramento Area. The table indicates a diversity of economic activity, as well as four of the top ten major employers are in health care, which is one of the fields that have been most stable during the recent economic downturn. Many of the companies listed are involved in national and international operations that rely on airline travel.

Table 2

Major Private Sector Employers

Sacramento Area

Company	Industry	Number of local employees June 2009
Kaiser Permanente	Health care	9,608
Sutter Health Sacramento Sierra Region	Health care	8,220
Mercy /Catholic Healthcare West	Health care	6,328
Intel Corp.	Semiconductors and related devices	6,300
Wells Fargo & Co.	Financial services	6,272
AT&T California	Telecommunications	5,389
Hewlett-Packard Co.	Computer hardware manufacturer	3,600
Raley's Inc.	Retail groceries	3,335
Health Net of California	Health care	2,720
PRIDE Industries Inc.	Manufacturing and logistics services	2,504
Safeway Inc.	Retail groceries	2,469
Cache Creek Casino Resort	Casino	2,420

Source: *Sacramento Business Journal Annual Book of Lists*

Housing

Affordable housing continues to be a major attraction for businesses and the workers they employ. The California Association of Realtors reports that the median sale price of existing homes in the Sacramento Area fell to $175,000 in June 2009, which is a 53% reduction from the 2005 peak of $375,900 and a reduction of 20.5% since June 2008. While the rate of decline in Sacramento home sales prices has become less dramatic than the statewide average, they are still falling at a more rapid pace than the national average.

Consequently, the Sacramento Area remains one of the most affordable among neighboring and major regions in the State. Taking both the falling home sale prices and regional incomes into account demonstrates that 66 percent of the homes sold in the Sacramento Area during the fiscal year 2009 were affordable to a family earning a median income.

Business Growth

The Sacramento Area is one of the most attractive locations in which to do business in the western United States. Few inland metropolitan areas can boast a major airport, an airport specializing primarily in air cargo, a deep-water port, a transcontinental rail line and several interstate freeways. Comparatively inexpensive business costs, plentiful skilled labor, abundant water supply, quality of life and proximity to the San Francisco Bay Area create an outstanding business climate.

Despite the region's attractive economic conditions, the current recession has influenced negatively the business growth in the Sacramento Area during fiscal year 2009. As the downturn continues, weak performance keeps spreading throughout the region's economy. As a consequence, according to a study released by the Sacramento Area Commerce and Trade Organization (SACTO), ten of the Sacramento Area's eleven major sectors are now shedding jobs on an annual basis. Only the Educational & Health Services sector continued to add jobs in the local economy with gains in both the private education and health care components (4,400 jobs added).

Construction and Trade, Transportation, & Utilities posted the most severe losses in the past year (dropping a combined 25,400 jobs) while Leisure & Hospitality and Professional & Business Services also fell toward the bottom of the list with relatively heavy job declines. Sacramento Area's sector trends are similar to the State with only one sector adding jobs and the same two sectors posting the greatest job declines. The widespread losses in both the private and public sectors led to a net decrease that dropped the Sacramento Area's total employment to just over 873,000, which is around the same levels as 2003 and well below the 2007 peak of about 953,000 jobs.

Despite the broader economic downturn, SACTO's prospect activity has remained exceptionally high. In the most recent quarter, prospect levels were higher than they have been in the past five years, an excellent leading indicator of positive economic conditions and market opportunities. This activity is being driven by companies looking to establish manufacturing, clean energy technology or distribution operations-these three categories make up nearly three-quarters of all prospect activity, indicating that companies view the Region as a viable and desirable place to do business.

Air Service

An integral component in a region's economic growth is the availability of accessible, affordable, and convenient air transportation service. International Airport, as the chief point of entry for many of Sacramento Area's business, government, and leisure travelers, as well as some air cargo shipments, is well suited to meet these demands for economic activity.

Passenger Traffic

Passenger traffic at International is affected by the Sacramento Area's economic profile; for example, the amount and type of commerce in the Sacramento Area may affect the level of business travel to and from Sacramento, or the amount of per capita personal income in the Sacramento Area may affect the level of discretionary travel from International Airport. Approximately 9.2 million total passengers (enplaning and deplaning) chose International during fiscal year 2009, reflecting a 13.1 percent decline over the prior year.

According to a passenger survey conducted by the Airport System in July 2007, business travelers accounted for 38% of all passengers using International. The remaining 62% of passengers at the airport were traveling for personal reasons. Residents of the Sacramento Area and other areas in northern California accounted for 54% of passengers; the remaining 46% of passengers surveyed consisted of residents of southern California (12%), visitors from elsewhere in the United States (32%), and foreign visitors (2%).

Fourteen scheduled airlines serving Sacramento had 148 daily departures in June 2009. The busiest carrier at International is Southwest Airlines (76 daily nonstop flights), followed by United Airlines/United Express (21 daily nonstop flights), Alaska/Horizon Airlines (14 daily nonstop flights) and U.S. Airways (10 daily nonstop flights). Over 140, 000 operations (takeoffs and landings) occurred at International during fiscal year 2009 on parallel runways that can accommodate up to 400,000 operations per year, a decrease of 16.4 percent as compared with fiscal year 2008.

Over two-thirds of the passenger traffic at International is concentrated in the 13-gate Terminal A. The terminal has an ultimate build-out potential of 22 gates. Southwest Airlines, serving close to five million passengers, comprises the majority of passenger traffic in Terminal A. Southwest has accounted for approximately half the number of passengers enplaned at International each year since FY 1998; since then, Southwest's traffic growth has lagged that of the other airlines serving Sacramento. US Airways, the airport's third-largest carrier, served over 600,000 passengers. Other airline tenants in Terminal A include Delta, Hawaiian and Northwest Airlines.

The 12-gate Terminal B houses Alaska Airlines, American Airlines, Continental Airlines, Horizon Air, JetBlue Airways, Mexicana de Aviación (for ticketing activities), and United Airlines/United Express, the second largest carrier at International (more than 1,000,000 passengers). The Interim International Arrivals Building (IIAB) provides 1 contact gate and serves Mexicana arrivals and departures. Mexicana de Aviación was the first airline to initiate international service at SMF, beginning in July 2002. As of June 2009, international service at SMF consisted of one daily flight to Guadalajara, Mexico and less-than-daily flights to Los Cabos, Mexico and Morelia, Mexico.

Terminal B, which opened in 1967, is over 40 years old and cannot reasonably or economically be modernized to meet future needs. The Terminal Modernization Program is planned to replace the 12 gates at Terminal B and the IIAB with 19 gates and to modify Terminal A to provide 2 additional gates, for a total of 34 gates.

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. The recession that began in December 2007 combined with reduced discretionary income and increased airfares will contribute to reduced air travel demand in the near term. Nearly all airlines serving Sacramento were providing fewer seats in FY 2009 than in FY 2008. Reductions in overall seat capacity at International are indicated by flight schedules filed by the airlines with Official Airline Guide.

The number of enplaned passengers is projected to continue to decrease in FY 2010 and to recover thereafter to the FY 2008 level of 5.3 million in FY 2016. In the 2 years following FY 2009, passenger traffic is expected to transition from negative to positive growth. The timing of the return of the national economy to positive growth; the degree to which airlines are able to adjust their business models to re-balance demand, capacity, cost, and airfares; and the extent to which consumers alter their travel behavior in response to these factors will determine the pace and magnitude of the resumption of traffic growth at International.

Air Cargo Traffic

Air cargo is comprised of airfreight and airmail. Airfreight services facilitate business activity for many sectors in the Sacramento Area including the following: banking, computer, entertainment, health care, high-technology, and telecommunications. Local companies that are supported by airfreight activity include American Express, Bank of America, Corporate Express, Hewlett-Packard, IBM, Intel, Lucent, NEC Electronics and Oracle, as well as the U.S. Postal Service. In addition, growth of on-line purchasing has increased the number of customers who utilize airfreight on a regular basis. Such activities are driving the demand for shipments of just-in-time airfreight, a business strategy that has helped companies decrease inventory-to-sales ratios and improve customer service.

During fiscal year 2009, airlines and freight-only carriers transported over 258 million pounds of air cargo (airfreight and airmail combined) through both Mather Airport and International, a decrease of 24.5 percent compared to 341 million pounds the previous year, due primarily to a reduction in flights by FedEx, and to the virtual cessation of operations by ABX Air/DHL in early 2009. All-cargo airline landed weight is projected to decrease 3.7% in FY 2010 and to increase an average of 2.4% per year between FY 2010 and FY 2016.

Master Plan 2020

The County Board of Supervisors approved the Sacramento International Airport Master Plan on August 7, 2007 and certified that the Final Environmental Impact Report required by the California Environmental Quality Act is adequate and complete. The Airport System received a Finding of No Significant Impact-Record of Decision for the National Environmental Protection Act Environmental Assessment for the Terminal Modernization Program in April of 2008. The plan prepares International for the future with a three-phased Capital Improvement Program (CIP) that has an anticipated completion date of 2020. Near-term and immediate-term plans include airfield improvements and the construction of a new terminal complex with expected completion in 2011.

The Mather Airport Master Plan began June 2001 and is currently in the environmental review phase. The draft plan includes extension of the north runway. Upon completion of the environmental review process for Mather Airport, the Board of Supervisors will take formal action to approve the master plan.

The Executive Airport and Franklin Fields Master Plans are currently in the development phase; significant analyses include assessing the economic benefits of each airport and drafting a financial plan and a capital improvement program for the 20-year planning horizons.

Capital Improvement Program

A new CIP for fiscal years 2010-2014 has been developed, with an estimated cost of approximately $1.22 billion. The largest component of the CIP, the Terminal Modernization Program (TMP), has begun construction since receiving the environmental approvals discussed earlier. In fiscal year 2009, the TMP was revised to eliminate the in-terminal hotel and defer construction of the parking garage. The current program is referred to as the Revised TMP and is also known as “The Big Build”.

Table 3 presents the estimated project costs and funding for the major components of the CIP, which is summarized to Revised TMP and Non-TMP projects. The CIP represents, to the County’s best knowledge and belief at this time, all of the significant capital improvements expected to be undertaken by the Airport System through fiscal year 2014. Table 3 also shows expected sources of funding for the CIP, which are preliminary. The costs of the CIP are expected to be funded through a combination of internally generated cash, Passenger Facility Charges (PFC) Airport Improvement Program (AIP) grants, State grants, Transportation Security Administration (TSA) funding, other funding sources, the Series 2008 Bonds, the proposed Series 2009 Bonds, and the future Series 2010 Bonds.

The Airport System’s capital needs are reassessed at least annually and the CIP will be modified as necessary to accommodate traffic activity, security needs, and other factors, which could result in additions or subtractions to the CIP or changes in the timing of certain projects.

Table 3

Summary of FY 2010-2014 Capital Improvement Program [1]

Sacramento County Airport System

(in thousands)

	AIP				Bonds					
Project	LOI Ent.	LOI Disc.	Other Disc.	State	GARB	PFC	PFC PAYGO	SCAS	Other	Total
SMF										
Revised Terminal Modernization Program										
Terminal Facilities - Airside	$ 15,400	$ 35,753	$ -	$ -	$ 226,500	$ 8,747	$ 8,699	$ 83,907	$ 10,000	$ 389,006
Terminal Facilities - Landside	-	-	-	-	188,477	200,855	116,301	1,200	-	506,833
Special Systems	-	-	-	-	118,310	-	-	-	-	118,310
Enable Projects	-	-	-	-	15,574	-	-	-	-	15,574
Ancillary Projects	-	-	-	-	48,967	-	-	-	-	48,967
Revised TMP Total	$ 15,400	$ 35,753	$ -	$ -	$ 597,828	$ 209,602	$ 125,000	$ 85,107	$ 10,000	$ 1,078,690
Airfield	-	-	2,318	-	-	-	-	2,158	-	4,476
Other Buildings and Areas	-	-	2,176	-	-	-	-	15,338	-	17,514
Parking and Roadway	-	-	-	-	-	-	-	12,145	-	12,145
Terminal	-	-	-	-	-	-	-	600	34,800	35,400
SMF Total	$ 15,400	$ 35,753	$ 4,494	$ -	$ 597,828	$ 209,602	$ 125,000	$ 115,348	$ 44,800	$ 1,148,224
OTHER AIRPORTS										
Executive Airport	-	-	4,000	84	-	-	-	1,703	-	5,788
Franklin Field	-	-	315	-	-	-	-	35	-	350
Mather Airport	-	-	59,530	1,426	-	-	-	5,214	-	66,169
SCAS Total	$ 15,400	$ 35,753	$ 68,339	$ 1,510	$ 597,828	$ 209,602	$ 125,000	$ 122,300	$ 44,800	$ 1,220,531
Revised TMP	15,400	35,753	-	-	597,828	209,602	125,000	85,107	10,000	1,078,690
Non-TMP Projects	-	-	68,339	1,510	-	-	-	37,193	34,800	141,842

Note: [1] Including cost incurred for the Terminal Modernization Program prior to FY 2010.
LOI = Letter of Intent; GARB = general airport revenue bonds; PFC = Passenger Facility Charges; PAYGO = Pay-as-you-go.

MAJOR INITIATIVES

Terminal Modernization Program

The original Terminal Modernization Program (before it was revised in 2009) had been under consideration by the Airport System since it was recommended in the 2004 Airport Master Plan, which determined that Terminal A would remain a viable facility, but that Terminal B could not reasonably or cost effectively be modified to meet future demand.

In 2009, the Airport System, in response to economic and industry conditions, deleted the proposed in-terminal hotel project and deferred the parking garage project until after FY 2016 to create the Revised TMP, which is depicted in Figure 3. As shown in the figure, a new landside Terminal B is to replace the landside facilities in the existing Terminal B, which was originally constructed in the mid-1960s. Central Terminal B is to be connected to the new 19-gate airside Concourse B via an Automated People Mover (APM). Central Terminal B will be served by a dual level roadway system. The Revised TMP also includes construction of a centralized receiving warehouse, landscaping, and demolition of existing facilities. The figure depicts the location of the deferred parking garage using dashed lines.

Figure 3
Revised TMP
Sacramento International Airport

Source: Corgan Associates, Inc. (TMP Design Consultant for SCAS).

Upon completion of the Revised TMP, facilities at International will support a design capacity of 12 million annual passengers (enplaning and deplaning) and a stress capacity of 14 million to 16 million annual passengers.

Project costs and the phasing of these costs were estimated by the TMP design team in May 2009. Construction costs for the Revised TMP are estimated to be $801 million, soft costs are estimated to be $226 million, and the program-wide contingency allowance is estimated to be approximately $51 million, which equates to approximately 6.4% of construction costs.

In June 2008, the County awarded a $405 million design-build contract for the landside terminal and a $290 million design-build contract for the airside terminal with both at 30% design level. Both design-build contracts are subject to a Guaranteed Maximum Price provision.

Non-TMP Projects in the CIP

In addition to the Revised TMP, the CIP includes approximately $142 million in other projects for the Airport System. Non-TMP Projects would be undertaken as warranted by demand and to the extent that the projects are financially viable. Non-TMP Projects are expected to be financed primarily with AIP grants and internally generated funds. Many of the projects eligible for federal grants will only be undertaken if such federal funds are received.

LONG-TERM FUNDING PLAN

Federal and State Grants

During the fiscal year 2009, the Airport System received $7.9 million in federal AIP grant funds for projects at International, Executive, Franklin Field, and Mather airports. Funding from these grants was used to help finance the apron expansion, taxiway rehabilitation, the perimeter fencing and intrusion detection and the new ARFF vehicle at International, airfield improvement projects at Executive, preparation of the Mather, Executive and Franklin Field Master Plans, and Hangar 4260 improvements at Mather.

On March 6, 2009, the Federal Aviation Administration (FAA) approved the County's Letter of Intent (LOI) application to fund $59.9 million of the eligible costs of the TMP, as presented in Table 4.

Table 4

Schedule of Expected LOI Grants

Federal Fiscal Year	Entitlement	Discretionary	Total
2009	$ 2,013,116	$ 6,000,000	$ 8,103,116
2010	2,182,000	7,500,000	9,682,000
2011	2,124,000	7,000,000	9,124,000
2012	2,171,000	6,000,000	8,171,000
2013	2,220,000	6,000,000	8,220,000
2014	2,271,000	6,000,000	8,271,000
2015	2,328,884	6,000,000	8,328,884
Total LOI	$15,400,000	$44,500,000	$59,900,000

In addition, the Airport System will receive funding from the TSA under the American Recovery and Reinvestment Act for security-related costs in the TMP including $11.3 million to fund the Terminal B Checked Baggage Screening project, and AIP grants for certain non-TMP projects in the CIP, primarily for projects at Mather Airport.

PFC Revenues

Beginning April 1, 1993, the Airport System was authorized by the FAA to add a $3.00 Passenger Facility Charge to the price of all tickets purchased for travel out of International. PFCs are imposed on enplaned passengers by airport operators—collected by airlines—for the purpose of generating revenue for airport projects that increase capacity, increase safety, or mitigate noise impact. On October 31, 2001, as a result of the Airport System's request to increase the fee, the FAA authorized the Airport System to increase the $3.00 fee to $4.50 per enplaned passenger, but only for certain eligible projects. This increase was approved through February 1, 2003, at which time the rate returned to $3.00 per enplaned passenger. On June 25, 2003, the FAA approved the Airport System's request to increase the level to $4.50 on the remaining eligible projects, effective September 1, 2003.

As shown in Table 5, under approvals received from the FAA, the County is authorized to impose a PFC fee and to use up to $891.3 million of PFC revenues. These approvals include the County's PFC Application #8, which authorized the County to impose a PFC fee and use $603.5 million of PFC revenues on a pay-as-you-go and leveraged basis in connection with the TMP. The PFC collection dates for approved PFC applications are estimated to expire in 2028.

Table 5
PFC Approvals
Sacramento County Airport System
Approved PFC amounts (in millions)

	Pay-as-you-go amount	PFC and Subordinate Bonds Bond proceeds	Financing costs *(a)*	Total
Application #1	$27.6	$ --	$ --	$ 27.6
Application #2	6.0	--	--	6.0
Application #3	--	--	--	--
Application #4	--	37.7	41.3	79.0
Application #5	--	22.8	25.5	48.3
Application #6	--	43.6	72.1	115.7
Application #7	11.1	--	--	11.1
Application #8	110.0	200.0	293.5	603.5
Total	$154.7	$304.1	$432.4	$891.3

(a) Includes bond interest, capitalized interest, debt service reserve fund deposits, and other costs of issuance.

During fiscal year 2009, the Airport System received $20.5 million in PFC receipts, bringing the total PFC receipts and interest received under the approved applications to $263.4 million. In fiscal year 2009, PFC revenues provided partial funding for the TMP projects and bond debt service payments.

Capital Improvement Fund

Amounts accumulated in the Capital Improvement Fund may be used for any lawful purpose including payments for capital improvements of the Airport System. In the current CIP presented earlier in Table 3, it was assumed that amounts in the Capital Improvement Fund would be used to pay $85.1 million of project costs in the TMP and $37.2 million of project costs in the non-TMP portion of the CIP.

Airport Bonds

In May 2008, the County issued $496.1 million of Airport System senior revenue bonds and $89.4 million of Airport System subordinate and PFC revenue refunding bonds as listed in Table 6. The proceeds refunded prior bond series and partially funded the Terminal Modernization Program.

In July 2009, the County will issue the Series 2009 Bonds as additional Airport System senior and subordinated bonds in the aggregate principal amount of $480 million, and in late 2010, another $178 million of Airport System senior revenue bonds are expected to be issued to complete the financing of the TMP.

Table 6
Outstanding Senior Obligations

Outstanding Senior Obligations	Original Principal Amount Refunding	TMP Project Cost	Outstanding principal	Final maturity date
Series 2008A	$111,360,000	$58,215,000	$163,695,000	July 1, 2041
Series 2008B	35,800,000	278,540,000	311,730,000	July 1, 2039
Series 2008C	12,280,000	--	9,440,000	July 1, 2012
	$159,440,000	$336,755,000	$484,865,000	

Outstanding Subordinate Obligations

Outstanding Subordinate Obligations	Original Principal Amount Refunding	TMP Project Cost	Outstanding principal	Final maturity date
Series 2008D	$46,390,000	$ --	$45,155,000	July 1, 2026
Series 2008E	43,040,000	--	39,925,000	July 1, 2024
	$89,430,000	$--	$85,080,000	

Concessions Program

Concession revenues derived from retail and food/beverage operations located in airport terminal facilities have grown to represent a major source of non-airline revenues, contributing to the financing of airport operations. Space in Terminal A was designed to maximize concession services offered to airport customers while maximizing revenue to the Airport System. Terminal A includes approximately 25,000 square feet of space for retail and food/beverage concepts. This includes a 13,000-square-foot, mall-like retail center that contains twelve shops: PGA Tour, Nelson's Books and News, KidsZoo, Details, Capital Marketplace, Nelson Travel, Hometown Favorites, Brooks Brothers, InMotion Entertainment, Vino Volo, Massage Bar, Forever Silver, and Butter London which ceased operations in January, 2009. Also included is a 12,000 square-foot food court with a wide range of food choices: Burger King, California Pizza Kitchen, CPK Bar, La Salsa, Lemon Grass, Quiznos, Starbuck's Coffee and Salad Works/Zia. Java City and Home Turf Bar are situated on the concourse serving Southwest Airline gates. Level 1 of Terminal A also hosts food establishments including Cinnabon, Sbarro and Starbucks.

During fiscal year 2009 gross sales for Terminal A retail shops were $10,220,026, providing $1,229,349 in concession revenues to the Airport System. During fiscal year 2009, gross sales for Terminal A food/beverage outlets were $14,859,122, providing $2,033,901 in concession revenues to the Airport System.

During fiscal year 2009, gross sales for Terminal B1 and B2 retail shops were $3,396,898, providing $468,792 in concession revenues to the Airport System. Gross sales for Terminal B1 and B2 food/beverage outlets were $5,023,119, providing $717,571 in concession revenues to the Airport System.

To spur concession sales, a "street pricing" policy is in place to keep both food and merchandise prices at International comparable to those at similar stores and restaurants in the Sacramento area. The concession fees received from the concession program are increasing the revenue base of the Airport System, a self-supporting enterprise.

Air Quality Improvements

During fiscal year 2009, the Airport System continued its efforts to reduce emissions through the use of vehicles powered by clean fuels at International. In 2001, the FAA announced that it would fund up to $2 million for the Inherently Low-Emission Airport Vehicle (ILEAV) program, designed to substantially reduce ozone and carbon monoxide levels at International. This program has been replaced by the Voluntary Airport Low Emission Program (VALE). In addition, a compressed natural gas (CNG) refueling station is on-line at International and over 30 CNG buses have been purchased in the last six years.

The ongoing operation of International's consolidated rental car facility reduces roadway congestion and vehicle emissions (before the new rental car facility opened each company provided individual shuttle bus service for its customers to and from the terminal facilities). All of International's jet bridges now feature electric power, eliminating the need for aircraft to utilize polluting auxiliary-powered units.

Executive Airport

The ongoing focus at Executive will continue to be infrastructure improvements in order to ensure the operational and financial viability of the airport.

Mather Airport

The primary focus is on air cargo, while also serving general aviation users. Cargo carriers shipped over 107.5 million pounds of freight through Mather in fiscal year 2009. Other tenants at Mather include government agencies, an aviation law firm, a Fixed Base Operator (FBO), a full-service aviation flight school, a rental car agency, a full-service aircraft maintenance facility, two major air cargo companies and contracted air cargo feeder aircraft. Compared to International, Mather offers cargo carriers more spacious facilities, including longer runways and more cargo, warehouse and office space. At International, the ramp space utilized by former cargo carriers that have relocated to Mather is providing extra capacity to meet the future demand for passenger air carrier transportation in the Sacramento Area.

Future

The current economic conditions have adversely impacted the Airport System, resulting in reductions of daily flights being offered by the airlines serving International Airport and significant reductions in emplaned passengers as compared with the prior years. During fiscal year 2010, the Airport System will work to continue development and expansion of airline service to existing and new locations. A key goal will also be to maintain the Airport System's commitment to providing excellent service to customers while continuing to be a good neighbor to the surrounding community.

FINANCIAL INFORMATION

Management of the Airport System is responsible for establishing internal controls designed to ensure that the assets of the Airport System are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

For financial accounting purposes and in compliance with Governmental Accounting Standards Board Pronouncements, the Sacramento County Airport System is accounted for as a self-sufficient enterprise fund within the County of Sacramento. The Airport System's accounting records are maintained using the accrual basis of accounting.

Single Audit—As a recipient of federal funds and state financial assistance, the Airport System also is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management and the internal audit staff of the County.

As part of the County's Single Audit, tests are made to evaluate the effectiveness of certain internal controls, including that portion related to federal award programs, as well as to determine that the Airport System has complied with applicable laws and regulations. The 2007-2008 Single Audit has been completed and there were no noted significant deficiencies in the Airport System's internal controls or significant violations of applicable laws and regulations. The fiscal year 2008-2009 audit is in progress and is anticipated to be completed in the fall of 2009.

The Airport System was authorized to impose a PFC at International effective April 1, 1993. Legislation authorizing the collection of PFCs restricts use of PFC revenue to acquisition of specified assets and prescribes reporting and control requirements. At least annually during the period in which the PFC is collected, held, or used, the Airport System must provide for an audit of its PFC accounts. The audit must be conducted by an independent certified public accountant. The scope of the audit must include evaluation of the Airport System's internal accounting controls to account for the collection and use of PFCs. The auditor must also issue an opinion on whether the quarterly reports fairly represent the transactions within the PFC accounts. The audit can be performed separately for the PFC account, or as part of the Single Audit. The audit for fiscal year 2009 has been completed and there were no noted material weaknesses in the Airport System's internal accounting controls or instances of noncompliance with applicable PFC regulations.

Budgetary Controls—The Airport System prepares an annual budget to serve as an approved plan for operational control and performance evaluation. State law does not require the formal adoption of an appropriated budget for government enterprise activities. Each year the Airport System prepares an operations budget and a capital budget, which is presented to the County Board of Supervisors (Board) for review and approval. The budget, as approved by the Board, serves as the Airport System's basis for operations. The Airport System and County impose controls that require the use of requisitions, purchase orders, contracts and specific approval for purchases of goods and services. Procedures have been established which verify expenses and ensure budgeted amounts are not exceeded. Monthly comparisons of actual to budgeted revenues and expenses may identify significant variances that would require the Airport System to take corrective action.

Rate Ordinance—The County Board of Supervisors adopted a new Airline Rate Ordinance which became effective July 1, 2008. Under the Rate Ordinance, landing fee rates are calculated annually according to a cost center residual methodology; terminal rental rates are annually calculated according to a commercial compensatory methodology; Revenues, after deposits required by the Bond Master Indenture, are retained by the County; and the County has no obligation to share remaining Revenues with the airlines. Likewise, airlines are under no obligation to pay landing fees in amounts required to ensure that Net Revenues are sufficient to meet the Rate Covenant.

Cash Management— Airport System cash and investments are maintained in the County Treasurer's pool, fiscal agent pool and financial institution trust. The County Treasurer is responsible for managing the investment of pooled cash fund resources.

Cash temporarily idle during the year was invested in certificates of deposit, time certificates, money market funds, commercial paper, repurchase agreements, bankers' acceptances, medium corporate notes and U.S. Treasury investments. The average yield on investments during fiscal year 2009 was 2.43%. The yield for a 1-year U.S. Treasury Note for the same time frame was 1.06%.

The County's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, bank balances were either insured by the Federal Deposit Insurance corporation, for accounts less than $100,000, or collateralized. During the fiscal year, all collateral on deposits was held either by the County, its agent or a financial institution's trust department in the County's name.

Risk Management—The County maintains all-risk blanket property insurance coverage, including flood, which provides limits of liability of $2,189 million per occurrence annually. This policy covers real and personal property of the Airport System and contains additional boiler and machinery coverage in the amount of $100 million per occurrence annually. The Airport System, through the County, maintains an airport operations and hangarkeepers liability insurance policy, which provides limits of liability coverage for up to $500 million annually. Current premium charges are expensed in the year incurred.

The Airport System participates in the County's self-insurance program for crime, pollution, workers' compensation and unemployment claims. Annual premiums are based primarily upon claims experience. Current premiums are charged to expense in the year incurred.

The new terminal and related construction at International is covered separately by an OCIP (Owner Controlled Insurance Program) with coverage ranging between $25 million per occurrence for pollution liability and $205 million general liability, with separate limits for airside and landside.

AWARDS AND ACKNOWLEDGEMENTS

Independent Audit—The financial statements of the Airport System are audited each year by an independent certified public accountant. The accounting firm of Vavrinek, Trine, Day & Co., LLP was selected to perform the fiscal year 2009 audit. The independent auditor's report on the financial statements is included in the financial section of this report.

Awards—The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Sacramento County Airport System for its comprehensive annual financial report for the fiscal year ended June 30, 2008. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Airport System has received a Certificate of Achievement for each of the last 20 years (fiscal years ended 1989-2008). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

Acknowledgments—The preparation of the Comprehensive Annual Financial Report on a timely and efficient basis was made possible by the dedicated service of staff in the Accounting Section. Each member of the section has our sincere appreciation for the contributions made in the preparation of this report.

We also wish to thank staff of the Sacramento County Department of Finance for their cooperation and assistance. And in closing, without the leadership and support of the County Executive and the Board of Supervisors, preparation of this report would not have been possible.

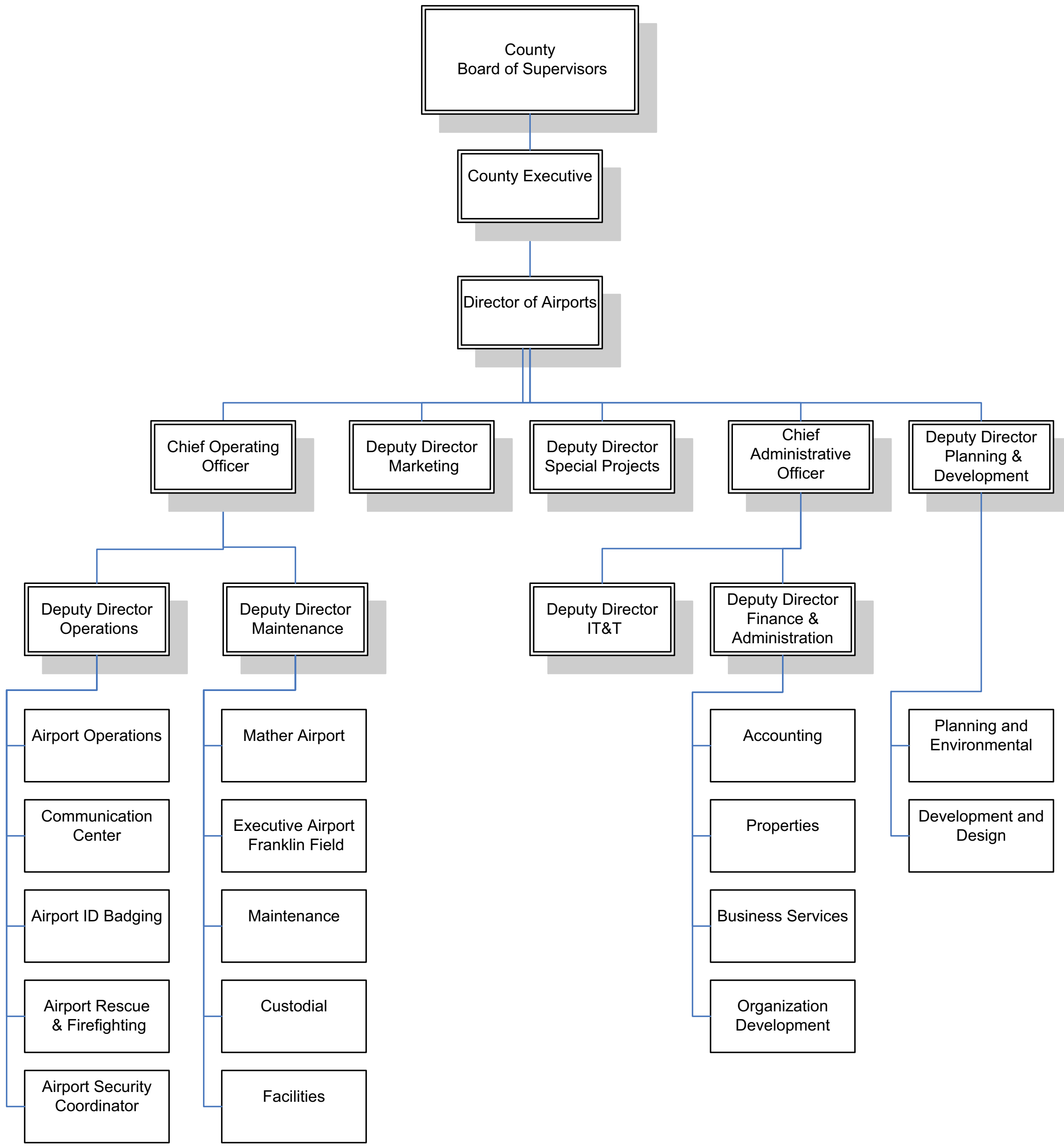
Respectfully submitted,

G. Hardy Acree
Director of Airports

Lisa Stanton
Chief Administrative Officer

Amanda Thomas
Deputy Director, Finance & Administration

Sacramento County Airport System
Organizational Chart



Sacramento County Airport System

List of Principal Officials
At June 30, 2009

ELECTED:

COUNTY BOARD OF SUPERVISORS

Roger Dickinson .... District 1
Jimmie Yee........ District 2
Susan Peters .... District 3
Roberta MacGlashan........ District 4
Don Nottoli .... District 5

APPOINTED:

Terry Schutten........ County Executive

SACRAMENTO COUNTY AIRPORT SYSTEM

G. Hardy Acree .... Director of Airports
Michael La Pier .... Airport Chief Operating Officer
Lisa J. Stanton........ Airport Chief Adminstrative Officer
Amanda Thomas .... Deputy Director, Finance and Administration
Cheryl Marcell .... Deputy Director, Marketing and Public Relations
Steven L. Baird .... Deputy Director, Information Technology and Telecommunications
Frederick Greco .... Deputy Director, Maintenance
Leonard H. Takayama .... Deputy Director, Special Projects
Barry Rondinella........ Deputy Director, Operations
Carl Mosher........ Deputy Director, Planning and Development
Camelia Radulescu, CPA........ Senior Accounting Manager

Intentionally Blank

Financial Section

This section contains the following subsections:

Independent Auditors Report

Management's Discussion and Analysis (Unaudited)

Basic Financial Statements

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Supervisors
County of Sacramento, California

We have audited the accompanying financial statements of the Sacramento County Airport System (the Airport System), an enterprise fund of the County of Sacramento, California (the County) as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Airport System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport System as of June 30, 2009 and 2008, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2009, on our consideration of the Airport System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 28 through 33, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

Our audit was conducted for the purpose of forming an opinion on the Airport System's basic financial statements. The introductory, statistical and bond disclosure sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 14, 2009

Management's Discussion and Analysis (Unaudited)

The following Management's Discussion and Analysis (MD&A) of the Sacramento County Airport System's (Airport System) financial performance provides an introduction to the financial statements for the fiscal years ended June 30, 2009 and 2008. The information contained in this MD&A should be considered in conjunction with the information contained in the Airport System's basic financial statements.

Financial Highlights

The assets of the Airport System exceeded liabilities for the fiscal year ended June 30, 2009 by $502,077,255 (net assets). Of this amount, $119,895,679 (unrestricted net assets) may be used to meet the ongoing obligations of the Airport System, $207,122,260 was restricted for specific purposes (restricted net assets), and $175,059,316 was invested in capital assets, net of related debt.

The Airport System's total net assets increased by $25,364,096 during the fiscal year ended June 30, 2009. This increase was primarily due to operating income of $8,349,047; passenger facility charges of $21,489,873; interest income of $6,155,861; capital contributions and intergovernmental revenues of $7,914,449 and was offset by interest expense of $18,203,544.

Overview of the Basic Financial Statements

The Airport System's financial statements are prepared using the full accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Airport System is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and, with the exception of land and construction in progress, are depreciated over their useful lives. See the notes to the basic financial statements for a summary of the Airport System's significant accounting policies.

Following this MD&A are the basic financial statements of the Airport System together with the notes, which are essential to a full understanding of the data contained in the financial statements. The Airport System's basic financial statements are designed to provide readers with a broad overview of the Airport System's finances.

The Statement of Net Assets presents information on all the Airport System's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Airport System's financial position.

The Statement of Revenues, Expenses and Changes in Net Assets present information showing how the Airport System's net assets changed during the most recent years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Statement of Cash Flows relate to the flow of cash and cash equivalents. Consequently, only transactions that affect the Airport System's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

Management's Discussion and Analysis (Unaudited) (continued)

Financial Analysis

An indicator of the Airport System's financial position is net assets. As shown below and on the next page, at June 30, 2009 assets exceeded liabilities by $502.1 million, an increase over the prior year of 5.3%. Restricted net assets are $207.1 million or 41.2% of total net assets. Restricted net assets represent resources that are subject to restrictions on how they can be used. Net assets invested in capital assets net of related debt at June 30, 2009 were $175.1 million or 34.9% of total net assets and represent investment in capital assets, less the related debt outstanding used to acquire those capital assets. The Airport System uses these capital assets to provide services to its passengers and visitors to the Airport System; consequently these assets are not available for future spending. Although the Airport System's investment in capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining portion of net assets is unrestricted, which was $119.9 million or 23.9% at June 30, 2009 and may be used to meet the Airport System's ongoing obligations. Unrestricted net assets increased during fiscal year 2009, by $2.4 million or 2.1%.

Condensed Statements of Net Assets

	2009	2008	FY09 vs. FY08 % change	2007	FY08 vs. FY07 % change
Assets:					
Current, restricted and other assets	$ 474,369,800	$ 589,827,740	(19.6%)	$ 291,707,835	102.2%
Capital assets, net	672,619,220	476,972,020	41.0	423,622,348	12.6
Total assets	1,146,989,020	1,066,799,760	7.5	715,330,183	49.1
Liabilities:					
Current and other liabilities	92,476,371	29,478,700	213.7	32,957,658	(10.6)
Long-term liabilites outstanding	552,435,394	560,607,901	(1.5)	242,150,661	131.5
Total liabilities	644,911,765	590,086,601	9.3	275,108,319	114.5
Net assets:					
Invested in capital assets, net of related debt	175,059,316	156,199,147	12.1	211,869,303	(26.3)
Restricted net assets	207,122,260	203,027,028	2.0	130,735,961	55.3
Unrestricted net assets	119,895,679	117,486,984	2.1	97,616,600	20.4
Total net assets	$ 502,077,255	$ 476,713,159	5.3%	$ 440,221,864	8.3%

Management's Discussion and Analysis (Unaudited) (continued)

The Airport System's net assets increased during fiscal years ended 2009 and 2008 by $25.4 million (5.3%) and $36.5 million (8.3%), respectively. The following is a summary of changes in net assets for fiscal years ended 2009, 2008 and 2007:

Summary of Changes in Net Assets

	Fiscal Years Ended June 30				
	2009	2008	FY09 vs. FY08 % change	2007	FY08 vs. FY07 % change
Operating revenues:					
Concessions	$ 68,600,549	$ 66,416,283	3.3%	$ 64,892,106	2.3%
Building rents	35,384,002	17,152,979	106.3	16,644,929	3.1
Airfield charges	10,710,482	22,352,752	(52.1)	15,680,196	42.6
Ground leases	2,314,441	3,641,980	(36.5)	4,723,344	(22.9)
Airport services	1,100,127	911,360	20.7	1,015,551	(10.3)
Sale of fuel	580,904	808,229	(28.1)	652,942	23.8
Other	299,511	101,491	195.1	39,528	156.8
Total operating revenues	118,990,016	111,385,074	6.8	103,648,596	7.5
Non-operating revenue:					
Interest income	6,155,861	7,519,233	(18.1)	7,915,789	(5.0)
Passenger facility charges revenue	21,489,873	26,653,518	(19.4)	27,182,405	(1.9)
Intergovernmental revenue	978,992	1,620,376	(39.6)	686,586	136.0
Gain on disposal of assets	64,262	-		84,711	(100.0)
Other nonoperating revenue	157,388	-		82,107	(100.0)
Total revenue	147,836,392	147,178,201	0.4	139,600,194	5.4
Operating expenses:					
Salaries and benefits	33,640,076	32,174,897	4.6	30,274,323	6.3
Services and supplies	49,870,807	54,266,378	(8.1)	46,452,761	16.8
Cost of goods sold	497,815	665,627	(25.2)	573,187	16.1
Depreciation	25,750,395	23,707,907	8.6	21,062,790	12.6
Other	881,876	837,710	5.3	769,160	8.9
Total operating expenses	110,640,969	111,652,519	(0.9)	99,132,221	12.6
Non-operating expenses:					
Loss on disposal of assets	-	17,151	(100.0)	-	
Other nonoperating expense	-	40,754	(100.0)	-	
Amortization of bond issuance cost	563,240	257,068	119.1	271,965	(5.5)
Interest expense	18,203,544	12,651,944	43.9	12,057,704	4.9
Total expense	129,407,753	124,619,436	3.8	111,461,890	11.8
Net income before capital contributions and transfers	18,428,639	22,558,765	(18.3)	28,138,304	(19.8)
Capital contributions	6,935,457	13,932,530	(50.2)	12,663,761	10.0
Changes in net assets	25,364,096	36,491,295	(30.5)	40,802,065	(10.6)
Total net assets, beginning of year	476,713,159	440,221,864	8.3	399,419,799	10.2
Total net assets, end of year	$ 502,077,255	$ 476,713,159	5.3%	$ 440,221,864	8.3%

For fiscal year 2009:

Operating revenue

Operating revenues increased $7.6 million (6.8%), due to an increase in concession revenue of $2.2 million (3.3%), as well as increases in building rent by $18.2 million (106.3%) determined by the increase in terminal rental rates, and an increase in airport services of $0.2 million (20.7%) offset by decreases in airfield charges of $11.6 million (52.1%), a decrease in ground leases of $1.3 million (36.5%), and a decrease in sales of fuel of $0.2 million (28.1%).

Management's Discussion and Analysis (Unaudited) (continued)

Operating expenses

Operating expenses decreased $1 million (0.9%) primarily due to decreases in services and supplies of $4.4 million (8.1%), and a decrease of $0.2 million (25.2%) in cost of goods sold offset by an increase in salaries and benefits of $1.5 million (4.6%) and an increase in depreciation expense of $2 million (8.6%).

Non-operating revenues

Passenger facility charges decreased $5.2 million primarily due to a 13.1% decrease in enplaned passengers. Capital contributions decreased $7 million from the previous year due to a decrease in expenses funded by grants.

For fiscal year 2008:

Operating revenue

Operating revenues increased $7.7 million (7.5%), due to an increase in concession revenue of $1.5 million (2.3%), as well as increases in building rent by $0.5 million (3.1%), an increase in airfield charges of $6.7 million (42.6%) and an increase in the sale of fuel of $0.2 million (23.8%) offset by a decrease in ground leases of $1.1 million (22.9%) and a decrease in airport services revenues of $0.1 million (10.3%).

Operating expenses

Operating expenses increased $12.3 million (12.6%) primarily due to an increase in salaries and benefits of $1.9 million (6.3%); an increase in depreciation expense of $2.6 million (12.6%); an increase in services and supplies of $7.8 million (16.8%) resulting from increased expenses for building maintenance, land improvement services (including a one time payment of $4.1 million for the Willey Wetland Endowment), construction contracts, legal services, environmental services, and services provided by other County departments; an increase in other costs of $0.1 million (8.9%) due to increases in bond issue cost amortization and countywide cost allocations and an increase in cost of goods sold of $0.1 million (16.1%).

Non-operating revenues

Passenger facility charges decreased primarily due to a 0.2% decrease in enplaned passengers. Capital contributions increased from the previous year due to an increase in grant funded projects.

Capital Assets

The Airport System's investment in capital assets as of June 30, 2009 amounted to $931.2 million before depreciation. This investment in capital assets includes buildings and structures, improvements, runways, taxiways, roads, machinery, equipment and construction in progress. The total increase in the Airport System's investment in capital assets before depreciation for fiscal year 2009 was 31% or $220.5 million, due primarily to the Terminal Modernization Program breaking ground last year.

Major capital asset events during fiscal year 2009 included the following:

Major projects completed at International Airport were the Remain Overnight Pad, $12.4 million; the West Electrical Vault Emergency Generator replacement, $0.9 million; the Perimeter Fencing and Intrusion Detection, $1.6 million; Terminal B1 and B2 Flooring, $1 million; additional Closed Circuit TV cameras, $0.5 million, as well as a new ARFF vehicle, $0.7 million. At Mather, completed projects included an upgrade and roof replacement of several buildings. Construction in progress at June 30, 2009 was $274 million, which included the Terminal Modernization Program, $265 million; the Economy Lot parking reconstruction, $1.3 million; the apron, tie-down and hangar pavement at Executive, $1.3 million, and the McReady Avenue Rehabilitation Phase 1, $3 million at Mather.

Management's Discussion and Analysis (Unaudited) (continued)

The Airport System's investment in capital assets as of June 30, 2008 amounted to $710.7 million before depreciation. This investment in capital assets included land, buildings and systems, improvements, runways, taxiways, roads, machinery, equipment and construction in progress. The total increase in the Airport System's investment in capital assets before depreciation for fiscal year 2008 was 12.2% or $77.1 million.

Major capital asset events during fiscal year 2008 included the following:

Major projects completed at International Airport were the Rehabilitation of Runway 16R/34L, $16.1 million; expansion of the Terminal A east apron and Taxiway C3, $9.5 million; and Integrated Electronic Aviation System, $6.5 million. At Mather, completed projects included an upgrade and roof replacement of Hangar 4260, $2.1 million; and adding to Runway 22L centerline and touchdown zone lights, $1.3 million. Construction in progress at June 30, 2008 was $73.2 million, which included the Terminal Modernization Program, $48.2 million; and McReady Avenue Rehabilitation Phase 1, $2.2 million.

Capital Assets

	Fiscal Years Ended June 30		
	2009	2008	2007
Land	$ 40,245,470	$ 40,245,470	$ 40,245,070
Structures and improvements	534,809,391	519,332,400	478,458,174
Leasehold improvements	53,359,904	52,117,131	47,596,634
Equipment	28,754,168	25,794,001	22,317,060
Construction in progress	274,061,939	73,235,823	45,005,085
	$ 931,230,872	$ 710,724,825	$ 633,622,023

Additional information on the Airport System's capital assets can be found in Note 5 located on page 47 of this report.

Long-term Debt Administration

As of June 30, 2009, the Airport System had outstanding revenue bonds of $580,655,000, a decrease of $4.9 million as compared to the prior year, due to the principal payment on July 1, 2008.

As of June 30, 2008, the Airport System had outstanding revenue bonds of $585,625,000, an increase compared to the prior year due to the issuance of new bonds.

For more detail on the Airport System's long-term debt, see Note 6 on pages 48 through 50 of this report.

Management's Discussion and Analysis (Unaudited) (continued)

Airline Rates and Charges

The level of annual rates and charges billed to the airlines was as follows:

	2009	2008	FY09 vs. FY08 % change	2007	FY08 vs. FY07 % change
Landing Fee (Per 1,000 lbs.)					
Signatory	$ -	$ 2.77	(100.0)	$ 1.99	39.2
Non Signatory	3.30	3.29	0.3	2.45	34.3
Terminal Rental Rates (Per Sq. Foot)					
Ticket Counter	140.48	65.48	114.5	65.52	(0.1)
Office and Enclosed	140.48	65.48	114.5	65.52	(0.1)
Unenclosed	12.00	12.00	--	12.00	--
Holdroom	140.48	65.48	114.5	65.52	(0.1)
Baggage Makeup/Joint Use	140.48	65.48	114.5	65.52	(0.1)
Storage	140.48	65.48	114.5	65.52	(0.1)
Loading Bridge Fees	81,502.00	52,704.00	54.6	28,778.00	83.1
Preferential Aircraft Parking Position	$ 107,340.00	$ 17,581.00	510.5	$ 52,387.00	(66.4)

Effective May 1, 2008 the County terminated the Scheduled Airline Operating Agreement and Terminal Building Lease. All airlines were charged the non-signatory landing fee rate for the remainder of the fiscal year 2008. Effective July 1, 2008, the County adopted a new airline Rate Ordinance pursuant to which airline rates and charges were calculated for fiscal year 2009. Under the Rate Ordinance, landing fees are calculated according to a cost center residual methodology and terminal building rentals are calculated according to a commercial compensatory methodology.

Requests for Information

This financial report is designed to provide a general overview of the Airport System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance and Administration Division, Sacramento County Airport System, 6900 Airport Boulevard, Sacramento, California 95837.

Sacramento County Airport System
Statements of Net Assets
June 30, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash and investments	$ 147,527,551	$ 119,564,463
Restricted cash and investments	55,509,309	13,248,148
Deposits with others	5,592,908	86,016
Receivables, less allowance for doubtful accounts of $167,099 in 2009 and $192,313 in 2008	11,326,947	9,198,118
Due from other governments	6,123,823	2,765,679
Prepaid expenses	12,877,642	452,125
Inventories	230,753	274,779
Total current assets	239,188,933	145,589,328
Noncurrent assets:		
Restricted assets (cash and cash equivalents $110,307,524 in 2009 and $154,461,703 in 2008)	221,047,161	429,553,448
Deferred charges	14,133,706	14,684,964
Capital assets:		
Land	40,245,470	40,245,470
Structures and improvements	534,809,391	519,332,400
Leasehold improvements	53,359,904	52,117,131
Equipment	28,754,168	25,794,001
Construction in progress	274,061,939	73,235,823
Total capital assets	931,230,872	710,724,825
Less accumulated depreciation	(258,611,652)	(233,752,805)
Net capital assets	672,619,220	476,972,020
Total noncurrent assets	907,800,087	921,210,432
Total assets	1,146,989,020	1,066,799,760
LIABILITIES		
Current liabilities:		
Warrants payable	14,977,357	1,671,661
Accounts payable and accrued expenses	20,937,147	12,691,379
Deferred revenue	1,052,558	1,735,422
Current liabilities payable from restricted assets	55,509,309	13,248,148
Total current liabilities	92,476,371	29,346,610
Noncurrent liabilities:		
Revenue bonds payable	548,920,572	557,406,271
Compensated absences	3,350,707	3,023,959
OPEB Liability	164,115	132,090
Estimated arbitrage taxes payable		177,671
Total noncurrent liabilities	552,435,394	560,739,991
Total liabilities	644,911,765	590,086,601
NET ASSETS		
Invested in capital assets, net of related debt	175,059,316	156,199,147
Restricted:		
Expendable:		
Revenue bond maintenance and operations reserve	27,260,013	21,730,250
Revenue bond renewal and repalcement reserve	2,000,000	1,333,333
Revenue bond interest account	72,066,304	56,161,338
Passenger facility charges	103,733,132	123,802,107
Art Endowment Fund Interest Earnings	62,811	
Nonexpendable:		
Art Endowment Fund	2,000,000	
Total restricted	207,122,260	203,027,028
Unrestricted	119,895,679	117,486,984
Total net assets	$ 502,077,255	$ 476,713,159

See accompanying notes to the basic financial statements.

Sacramento County Airport System
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Concessions	$ 68,600,549	$ 66,416,283
Building rents	35,384,002	17,152,979
Airfield charges	10,710,482	22,352,752
Ground leases	2,314,441	3,641,980
Airport services	1,100,127	911,360
Sale of fuel	580,904	808,229
Other	299,511	101,491
Total operating revenues	118,990,016	111,385,074
Operating expenses:		
Salaries and benefits	33,640,076	32,174,897
Services and supplies	49,870,807	54,266,378
Cost of goods sold	497,815	665,627
Depreciation	25,750,395	23,707,907
Other	881,876	837,710
Total operating expenses	110,640,969	111,652,519
Operating income (loss)	8,349,047	(267,445)
Nonoperating revenues (expenses):		
Interest income	6,155,861	7,519,233
Passenger Facility Charges revenue	21,489,873	26,653,518
Intergovernmental revenue	978,992	1,620,376
Gain (loss) on disposal of assets	64,262	(17,151)
Other nonoperating revenue (expense)	157,388	(40,754)
Amortization of bond issuance cost	(563,240)	(257,068)
Interest expense	(18,203,544)	(12,651,944)
Net nonoperating revenues	10,079,592	22,826,210
Income before capital contributions and transfers	18,428,639	22,558,765
Capital contributions	6,935,457	13,932,530
Change in net assets	25,364,096	36,491,295
Total net assets, beginning of year	476,713,159	440,221,864
Total net assets, end of year	$ 502,077,255	$ 476,713,159

See accompanying notes to the basic financial statements.

Sacramento County Airport System
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities:		
Receipts from customers and users	$ 117,281,890	$ 109,764,202
Payments to suppliers	(40,429,643)	(55,169,092)
Payments to employees	(33,149,213)	(31,723,958)
Other receipts	157,388	136,917
Net cash provided by operating activities	43,860,422	23,008,069
Cash Flows from Noncapital Financing Activities:		
Intergovernmental revenue	1,455,370	787,545
Net cash (used for) provided by noncapital financing activities	1,455,370	787,545
Cash Flows from Capital and Related Financing Activities:		
Proceeds from capital debt		325,208,532
Capital contributions	4,800,972	18,452,407
Passenger facility charges	20,508,756	28,347,187
Acquisition and construction of capital assets	(197,585,353)	(73,575,206)
Principal paid on long term debt	(4,970,000)	(4,705,000)
Interest paid on long term debt	(17,495,881)	(19,646,742)
Bond issuance costs paid	(11,982)	(14,773,481)
Proceeds from sale of surplus property	27,768	20,990
Net cash provided by (used for) capital and related financing activities	(194,725,720)	259,328,687
Cash Flows from Investing Activities:		
Interest received	10,912,254	8,503,261
Purchase of Investments	(79,875,271)	(275,091,745)
Sale of Investments	244,443,015	
Net cash provided by (used for) investing activities	175,479,998	(266,588,484)
Net increase in cash and cash equivalents	26,070,070	16,535,817
Cash and cash equivalents, beginning of year	287,274,314	270,738,497
Cash and cash equivalents, end of year	$ 313,344,384	$ 287,274,314
Reconciliation of Cash and Cash Equivalents to Statements of Net Assets:		
Cash and investments	$ 147,527,551	$ 119,564,463
Restricted cash and investments	55,509,309	13,248,148
Restricted assets	221,047,161	429,553,448
Less: non-cash investing, capital and financing activities	(110,739,637)	(275,091,745)
	$ 313,344,384	$ 287,274,314

(Continued on page 37)

See accompanying notes to the basic financial statements.

Sacramento County Airport System
Statements of Cash Flows (continued)
For the Fiscal Years Ended June 30, 2009 and 2008

	2009	2008
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$ 8,349,047	$ (267,445)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	25,750,395	23,707,907
Provision for uncollectable accounts	(25,214)	101,305
Other nonoperating revenue	157,388	136,917
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,122,497)	(3,035,665)
(Increase) decrease in deposits with others	(331,067)	2,140,993
Decrease in prepaid expense	393,577	(170,181)
(Increase) decrease in inventories	44,026	(232,286)
Increase in accounts payable	11,243,977	394,664
Increase in warrants payable	(529,659)	(1,532,567)
(Decrease) in deferred revenue	(560,414)	1,313,488
Increase in compensated absences & OPEB Liability	490,863	450,939
Total adjustments	35,511,375	23,275,514
Net cash provided by operating activities	$ 43,860,422	$ 23,008,069

Non cash capital and related financing activities:

During the fiscal years ended June 30, 2009 and 2008, the Airport System retired assets with a net book value of $27,588 and $53,142, respectively.

Capital asset purchases included in accounts payable and warrants payable at June 30, 2009 and 2008 were $46,627,024 and $8,377,819, respectively.

During the fiscal year ended June 30, 2009, the Airport System transferred assets of $2.9 million to the City of Sacramento and the County Water Agency, according to the agreement approved by the Board of Supervisors with Resolution number 2006-0852. At the end of the fiscal year, $1.8 million was recorded as due from other governments in the Statement of Net Assets.

See accompanying notes to the basic financial statements.

Notes to the Basic Financial Statements
For the Fiscal Years ended June 30, 2009 and 2008

Note 1 – Summary of Significant Accounting Policies

Reporting Entity
The Airport System is an enterprise fund of the County of Sacramento. The Airport System is responsible for the operations, maintenance and development of all four of its airports which include Sacramento International Airport, Sacramento Executive Airport, Mather Airport and Franklin Field. The Airport System is accounted for as a single enterprise fund with no financial accountability for any component units.

The five members of the County's Board of Supervisors serve as the governing body that oversees the operation of the Airport System. The Airport System is operated as a self-sufficient enterprise, and is administered by the Director of Airports who reports to the County Executive and the County Board of Supervisors.

Basis of Accounting
The Airport System uses the accounting principles applicable to a similar private business enterprise, where the cost of providing services to the public on a continuing basis is recovered through user fees. The Airport System uses the flow of economic resources measurement focus applied on a full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing services and delivering goods in connection with airport operations. The principal operating revenues of the Airport System include charges to customers for landing fees, terminal rents, parking and concession fees. Primary operating expenses include cost of sales and services including employee wages and benefits, purchases of materials and supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Airport System's policy to use restricted resources first, and then unrestricted resources, as they are needed.

Under Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Airport System has elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

Budgetary Process
The Airport System prepares an annual operating and capital budget, which is approved and adopted by the County Board of Supervisors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California state law does not require formal adoption of appropriated budgets for enterprise funds.

Cash and Investments
For purposes of the statements of cash flows, the Airport System considers all short-term highly liquid investments, including restricted assets and amounts held in the County's investment pools, to be cash and cash equivalents. Amounts held in the County's investment pools are available on demand; thus, they are considered highly liquid and cash equivalents for purposes of the statements of cash flows. Restricted Assets as of June 30, 2009 included $71,454,524 invested with the fiscal agent, and $36,778,469 held outside the County's investment pool that are not considered cash and cash equivalents and $2,506,644 held under various trust accounts.

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Restricted Assets as of June 30, 2008 included $213,190,897 invested with the fiscal agent and $61,900,848 held outside the County's investment pool that are not considered cash and cash equivalents. Investments in the County pool are reported at their fair value and the guaranteed investment contracts at their amortized cost.

Due From Other Governments

Federal grant funding for capital projects is accounted for on a reimbursement basis whereby costs are incurred prior to actual cash receipt of the grant. The amounts due from other governments represent claims to federal and State agencies and due from the City of Sacramento for operating and capital project costs incurred but not reimbursed at year-end.

Inventories

Inventories consist of ground fuel purchased for resale. Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories are recorded as expenses when consumed rather than when purchased.

Deferred Charges

Deferred charges consist of costs incurred for the issuance of the Series 2008 Airport System Revenue Bonds.
On May 1, 2008, the County issued Series 2008 Airport System Senior Revenue Bonds and Series 2008 Airport System Subordinate and PFC Revenue Refunding Bonds. These Bonds fully refunded all prior outstanding bond series and the deferred charges related to the refunded bonds were written off as part of the refunding transaction.

Amortization of the bond issuance costs is computed using the straight-line method over the life of the debt. Accumulated amortization was $563,240 at June 30, 2009.

Capital Assets

Capital assets are carried at cost except for capital assets contributed to the Airport System, which are stated at their fair market value on the date contributed. When capital assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in non-operating revenues (expenses) for the period. Maintenance and repair costs are expensed as incurred. Significant renewals or betterments are capitalized and depreciated over their estimated useful lives.

Depreciation and amortization of capital assets is computed under the straight-line method over the following estimated useful lives:

Structures and improvements	15 – 40 years
Leasehold improvements	5 – 15 years
Equipment	5 – 15 years

Costs incurred for major improvements are carried in construction in progress until the project is complete, at which time costs related to the project are reclassified in the appropriate capital asset account.

The Airport System's policy is to capitalize all capital assets with a cost greater than $5,000 and a useful life of more than three years.

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Capitalization of Interest

Interest costs relating to the acquisition or construction of capital assets are capitalized as a component of the cost of the capital assets. In situations where capital assets are financed with the proceeds of tax-exempt debt, the amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. Total capitalized interest relating to projects completed or in progress during the fiscal years ended June 30, 2009 and 2008 was $11,211,932 and $2,587,415 respectively.

Long-Term Debt Refunding

The Airport System periodically refunds its debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the life of the old or new debt, whichever is shorter. The amount deferred is reported as a deduction from the new debt liability.

Compensated Absences

Airport System employees accrue vacation in varying amounts based on job classification and length of service. Additionally, certain employees are allowed compensated time off in lieu of overtime compensation and/or working on holidays.

Sick leave is earned by regular, full-time employees. Any sick leave hours not used during the period are carried forward to following years, with no limit to the number of hours that can be accumulated. Any sick leave hours unused at the time of an employee's retirement are added to the actual period of service when computing retirement benefits. Upon retirement, management employees have the option of receiving payment for one half of accrued sick leave with the balance included in the calculation of retirement benefits.

It is the policy of the County not to pay accumulated sick leave to employees who terminate prior to retirement. The liability for compensated absences earned through year-end, but not yet taken, is accrued in the accompanying financial statements. Compensated Absences liability activity for the fiscal years ended June 30, 2009 and June 30, 2008 can be found in Note 6 on long term liabilities.

Passenger Facility Charge Revenue

Passenger Facility Charges (PFCs) are fees charged to enplaned passengers by airport operators for the purpose of generating revenue for airport projects that increase capacity, increase safety, enhance airline competition or mitigate noise impact. On April 1, 1993, the Airport System received approval from the Federal Aviation Administration (FAA) to impose a $3.00 Passenger Facility Charge at Sacramento International Airport, which along with subsequent approvals, authorized the Airport System to finance projects totaling approximately $891.3 million.

On October 31, 2001, as a result of the Airport System's request to increase the fee, the FAA authorized the Airport System to increase the $3.00 fee to $4.50 per enplaned passenger but only for certain eligible projects. This increase was approved through February 1, 2003 at which time the rate returned to $3.00 per enplaned passenger. On June 25, 2003, the FAA approved the Airport System's request to increase the level to $4.50 on the remaining eligible projects, effective September 1, 2003. As of June 30, 2009 the Airport System has cumulatively collected $263.4 million in PFC revenue. PFCs, along with related interest income, are recognized and recorded as non-operating revenue in the year collected from the air carriers.

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Grant Revenue

Federal and state governments reimburse the Airport System for costs incurred on certain capital asset construction projects under capital grant agreements. Amounts claimed under such grants are recorded as capital contributions revenue. Additionally, the Airport System receives reimbursement from federal and state governments for non-capital construction projects and these reimbursements are recorded as intergovernmental revenues with the related program costs recorded as expenses.

Risk Management

The County maintains all-risk blanket property insurance coverage, including flood, earthquake and sabotage and terrorism which provides limits of $2,189 million per occurrence annually. This policy covers real and personal property of the Airport System and contains additional boiler and machinery coverage in the amount of $100 million per occurrence annually. The Airport System, through the County, maintains an airport operations and hangarkeepers liability insurance policy which provides limits of liability coverage for up to $500 million per occurrence. Current premium charges are expensed in the year incurred.

In addition to the above property and airport liability policies, the Airport System participates in the County's self-insurance program for crime, pollution, and workers' compensation. Annual premiums are based primarily upon claims experience. Current premiums are charged to expense when paid.

The new terminal and related construction at Sacramento International is covered separately by an OCIP (Owner Controlled Insurance Program) with coverage ranging between $25 million per occurrence for pollution liability and $205 million for general liability, with separate limits for airside and landside.

During the past three fiscal years, there were no instances of settlements which exceeded insurance coverage and no significant reductions in insurance coverage.

Reclassifications

Certain amounts in the financial statements have been reclassified from the presentation in the prior year report to conform to the current fiscal year presentation.

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Note 2 - Cash and Investments

Cash and Investments as of June 30 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	2009	2008
Cash and Investments	$ 147,527,551	$ 119,564,463
Restricted Cash and Investments - Current	55,509,309	13,248,148
Restricted Cash and Investments - Noncurrent	221,047,161	429,553,448
Total Cash and Investments	424,084,021	562,366,059
Cash and investments as of June 30, consist of the following:		
Deposits with the County's Treasury Pool	290,563,910	263,781,952
Specific directed investments with County Treasury	71,454,524	236,683,259
Investments held by trustee	62,065,587	61,900,848
Total Cash and Investments	424,084,021	562,366,059

The Airport System maintains specific cash deposits and investments with the County and involuntarily participates in the County Treasurer's pool which is not rated. The Airport System's risk disclosures for the cash held by the County Treasurer's pool required by GASB 40, *Deposit and Investment Risk Disclosures,* can be found in the County's Comprehensive Annual Financial Report.

Investments and GASB 40 Presentation

Investments are restricted per Government Code Section 53600 et. Seq. and 16429.1 and the Bond Master Indenture of Trust dated May 1, 2008 and subsequent supplemental indentures (collectively, the Bond Indenture). The County Treasurer also manages the Fiscal Agent Pool to segregate and invest monies in accordance with the Bond Indenture, as well as California Government Code and the County's own investment policy. Details about the investments allowed per the Government Code and the County's investment policy are included in the County's Comprehensive Annual Financial Report. The Bond Indenture follows the County's investment policy with respect to permitted investments. The Airport System was in full compliance with the above cited Government Code sections and the Bond Indenture.

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity to changes in interest rates is. One of the ways that the County manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments. The County's policy regarding interest rate risk is as follows: no investment may have a remaining maturity in excess of 5 years and the weighted average maturity of the pool shall not exceed 3 years. The table on the following page shows the distribution of the Airport Systems investments by maturity.

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

June 30, 2009

	Credit Rating	Under 30 Days	31-180 Days	180-365 Days	1-5 Years	Over 5 Years	Fair Value
Cash in the Treasury Pool	NR						$ 290,563,910
Mutual Funds	AAAm	25,287,118					25,287,118
Guaranteed investment contracts	NR		69,924,349	1,530,174	36,778,470		108,232,993
		$ 25,287,118	$ 69,924,349	$ 1,530,174	$ 36,778,470	$ -	$ 424,084,021

June 30, 2008

	Credit Rating	Under 30 Days	31-180 Days	180-365 Days	1-5 Years	Over 5 Years	Fair Value
Cash in the Treasury Pool	NR						$ 263,781,952
FNMA Discount Notes	P-1/A-1+	4,588,000					4,588,000
FHLB Discount Notes	P-1/A-1+	8,829,714					8,829,714
Mutual Funds	AAAm	10,074,648					10,074,648
Guaranteed investment contracts	NR				275,091,745		275,091,745
		$ 23,492,362	$ -	$ -	$ 275,091,745	$ -	$ 562,366,059

Credit Risk – This is the risk that the Airport System will lose money because of the default of the security of the issuer or investment counterparty. The Airport System is permitted to hold investments of issuers with a short term rating of superior capacity and a minimum long term rating of upper medium grade by the top two nationally recognized statistical rating organizations (rating agencies). For short-term rating, the issuers' rating must be at least A-1 and P-1, and the long-term rating must be at least A- and A3, respectively by Standard & Poor's and Moody's rating agencies. In addition, the Airport System is permitted to invest in the State's Local Agency Investment Fund, collateralized certificates of deposits and notes issued by the County of Sacramento that are not rated. The list of permitted investments with the minimum legal rating is presented on the next page.

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Investment Type	Minimum Legal Rating
Treasury Strips	Aaa/AAA
Federal Farm Credit Bonds	Aaa/AAA
Federal Home Loan Banks	Aaa/AAA
Federal National Mortgage Association	Aaa/AAA
Government Agency Notes	Aaa/AAA
FNMA Discount Notes	Aaa/AAA
FFCB Discount Notes	Aaa/AAA
FHLB Discount Notes	Aaa/AAA
FHLMC Discount Notes	Aaa/AAA
FHLMC	Aaa/AAA
State and Local Governments (SLG's)	Aaa/AAA
Commercial paper	P-1/A-1+
Municipal Bond	Aa2/AA+
Negotiable certificates of deposits	P-1/A-1+
Other assets held by Treasurer (primarily Teeter Plan notes)	NR
Local Agency Investment Fund	NR
Mutual funds	AAAm
Guaranteed investment contracts	NR

Custodial Credit Risk – This is the risk that in the event a financial institution or counterparty fails, the Airport System would not be able to recover the value of its deposits and investments. As of June 30, 2009 and 2008, 100% of the Airport System's investments in deposits are held in the Airport System's or County of Sacramento's name. There are no general policies relating to custodial credit risk.

Concentration of Credit Risk – This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2009, 6% of the portfolio is invested in money market funds and 25.5% in guaranteed investment contracts. The guaranteed investment contracts are invested with FSA and totaled $108,232,993.
As of June 30, 2008, 48.9% of the portfolio was invested in guaranteed investment contracts and totaled $275,091,745.

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Note 3 - Receivables and Payables

Receivables

The following amounts represent receivables due to the Airport System at June 30, 2009 and 2008:

	2009	2008
Receivables:		
Account receivables - trade	$ 8,179,434	$ 7,014,589
Account receivables - passenger facility charges	2,947,013	1,965,896
Amounts due from other County funds	367,599	409,946
Gross receivables	11,494,046	9,390,431
Less allowance for doubtful accounts	(167,099)	(192,313)
Net receivables	$ 11,326,947	$ 9,198,118

Payables

The following represents payables owed by the Airport System at June 30, 2009 and 2008:

	2009	2008
Accounts payable and accrued expenses:		
Due to Airlines	$ 10,163,641	$ -
Vendors	5,652,172	8,412,737
Due to other County funds	3,702,867	3,127,063
Deposits from others	432,922	350,082
Payroll taxes and payroll related	943,262	760,992
Accrued contingencies	31,042	34,463
Due to other governments	516	132,761
Taxes payable other	10,726	5,371
Total payables - unrestricted	20,937,147	12,823,469
Payables from restricted assets:		
Bonds interest payable	14,550,386	-
Bonds payable - current	10,710,000	4,970,000
Vendors	29,773,999	8,262,210
Due to other County funds	474,792	14,721
Due to other governments	132	1,217
Total payables from restricted assets	55,509,309	13,248,148
Total accounts payable and accrued expenses	$ 76,446,457	$ 26,071,617

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Note 4 - Restricted Assets

Restricted assets consist of the following:

	June 30	
	2009	2008
Revenue Bond Operating Reserve Account reflects revenues equal to three months' operating expenses restricted for contingencies related to operations. This is cash held by the County Treasurer's pool.	$27,260,013	$21,730,250
Revenue Bond Reserve and Contingency Account reflects Airport System revenues which are restricted for unanticipated or emergency repairs and emergency replacements to the Airport System. This is cash held by the County Treasurer's pool.	2,000,000	1,333,333
Revenue Bond Construction Account reflects monies restricted for acquisition and construction of projects under the Series 2008 A & B Senior Revenue Bonds. This is cash held by the County as part of the County's Treasurer's Pool and the fiscal agent pool.	71,697,527	237,369,643
Revenue Bond Capitalized Interest Account reflects monies restricted for payment of bond interest expense on the Series 2008 A and B Senior Revenue Bonds. This is cash held by a trustee outside the County of Sacramento.	36,901,852	55,144,724
Revenue Debt Service Reserve Account reflects monies restricted for the purpose of making up any deficiency in the Revenue Bond Debt Service Account to the extent money on deposit in such funds is insufficient to pay interest and principal on the bonds as they become due and payable. This is cash held by the County as part of the County's Treasurer's Pool and the fiscal agent pool.	_	80,050
Revenue Bond Debt Service Account reflects monies restricted for the purpose of payment of principal and interest of the Series 2008 Senior Revenue Bonds and 2008 Subordinate and PFC Revenue Refunding Bonds. This is cash held by the County as part of the County's Treasurer's Pool and by the trustee outside the County of Sacramento.	25,537,593	5,066,205
Revenue Bond Rebate Account reflects monies that are pledged to make rebate payments to the United States government. This is cash held by the County as part of the County's Treasurer's Pool and the fiscal agent pool.	_	281,785
Passenger Facility Charges reflect PFC revenues received which are restricted for specified asset acquisitions. This is cash held by the County Treasurer's pool.	111,123,225	121,795,606
Terminal Modernization Program Art Endowment Trust Fund-Nonexpendable	2,000,000	_
Terminal Modernization Program Art Endowment Interest Earnings - Expendable	36,260	_
Total restricted assets	276,556,470	442,801,595
Less: Restricted current assets reserved to repay current liabilities	(55,509,309)	(13,248,148)
Non-current restricted assets	$ 221,047,161	$ 429,553,448

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Note 5 - Capital Assets

Capital asset activity for the fiscal years ended June 30, 2008 and June 30, 2009 were as follows:

	Balance July 1, 2008	Increase	Decrease	Balance June 30, 2009
Capital assets not being depreciated				
Land	$ 40,245,470	$ -	$ -	$ 40,245,470
Construction in progress	73,235,823	218,585,824	(17,759,708)	274,061,939
Total capital assets, not being depreciated	113,481,293	218,585,824	(17,759,708)	314,307,409
Capital assets being depreciated				
Structures and improvements	519,332,400	18,917,224	(3,440,233)	534,809,391
Leasehold improvements	52,117,131	1,242,773	-	53,359,904
Equipment	25,794,001	3,710,144	(749,977)	28,754,168
Total capital assets, being depreciated	597,243,532	23,870,141	(4,190,210)	616,923,463
Less accumulated depreciation for:				
Structures and Improvements	(197,828,962)	(21,061,635)	169,786	(218,720,811)
Leasehold improvements	(19,546,342)	(2,400,313)	-	(21,946,655)
Equipment	(16,377,501)	(2,289,074)	722,389	(17,944,186)
Total accumulated depreciation	(233,752,805)	(25,751,022)	892,175	(258,611,652)
Total capital assets, being depreciated, net	363,490,727	(1,880,881)	(3,298,035)	358,311,811
Net capital assets	$ 476,972,020	$ 216,704,943	$ (21,057,743)	$ 672,619,220

	Balance July 1, 2007	Increase	Decrease	Balance June 30, 2008
Capital assets not being depreciated				
Land	$ 40,245,070	$ 400	$ -	$ 40,245,470
Construction in progress	45,005,085	56,788,697	(28,557,959)	73,235,823
Total capital assets, not being depreciated	85,250,155	56,789,097	(28,557,959)	113,481,293
Capital assets being depreciated				
Structures and improvements	478,458,174	40,874,226	-	519,332,400
Leasehold improvements	47,596,634	4,520,497	-	52,117,131
Equipment	22,317,060	3,949,311	(472,370)	25,794,001
Total capital assets, being depreciated	548,371,868	49,344,034	(472,370)	597,243,532
Less accumulated depreciation for:				
Structures and Improvements	(178,638,739)	(19,190,223)	-	(197,828,962)
Leasehold improvements	(17,494,232)	(2,053,347)	1,237	(19,546,342)
Equipment	(13,866,704)	(3,023,509)	512,712	(16,377,501)
Total accumulated depreciation	(209,999,675)	(24,267,079)	513,949	(233,752,805)
Total capital assets, being depreciated, net	338,372,193	25,076,955	41,579	363,490,727
Net capital assets	$ 423,622,348	$ 81,866,052	$ (28,516,380)	$ 476,972,020

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Note 6 – Long Term Liabilities

	June 30	
Revenue Bonds:	**2009**	**2008**
2008 series A, 4.85% to 5.0% due 2028-2041	$ 166,675,000	$ 169,575,000
Less unamortized premium and deferred amount on refunding	(9,114,293)	(9,856,419)
	157,560,707	159,718,581
2008 series B, 4.25% to 5.75%, due 2013-2039	313,760,000	314,340,000
Less unamortized discount and deferred amount on refunding	(5,789,538)	(6,084,272)
	307,970,462	308,255,728
2008 series C, 5.2% due 2012	12,280,000	12,280,000
Less deferred amount on refunding	(1,316,865)	(1,755,820)
	10,963,135	10,524,180
PFC and Subordinated Revenue Bonds:		
2008 series D, 5% due 2026	45,595,000	46,390,000
Less unamortized premium and deferred amount on refunding	(2,490,465)	(3,005,593)
	43,104,535	43,384,407
2008 series E, 4.25% to 5.75 % due 2013-2024	42,345,000	43,040,000
Less unamortized premium and deferred amount on refunding	(2,313,266)	(2,546,625)
	40,031,734	40,493,375
Total revenue bonds payable	$ 559,630,572	$ 562,376,271

On May 1, 2008, The County issued $496,195,000 of Airport System Senior Revenue Bonds, Series A, B and C, and $89,430,000 of Airport System Subordinate and PFC Revenue Refunding Bonds, Series D and E.

Series 2008A fully refunded Series 1992B Bonds, Series 1998A Bonds and advance refunded Series 2002A Bonds. Series 2008A also provided $56.5 million to finance a portion of the costs of Terminal Modernization Program at Sacramento International Airport. Series 2008B refunded 45.4% of the Series 2006A Bonds and provided $266.5 million to finance a portion of the costs of Terminal Modernization Program at Sacramento International Airport. Series 2008C advance refunded Series 2002B Bonds. Series 2008D fully refunded Series 1998B Bonds. Series 2008E refunded 54.6% of the Series 2006A Bonds.

The reacquisition price exceeded the net carrying amount of the old debt by $15,225,318. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This current and advance refunding was undertaken in part to adopt a new Bond Indenture that was approved by the County of Sacramento Board of Supervisors. This refunding and advance refunding reduced the total debt service payments over the next 25 years by $38,284,802 and resulted in an economic gain of $24,908,154. The Series A, B and C Bonds are payable from, and secured by, future Net Revenues of the Airport System. The Series D and E Bonds are payable from, and secured by, a pledge of the net proceeds of the PFC imposed by the Airport System. The bonds are additionally payable from, and secured by, the Net Revenues of the Airport System subordinate and junior to the lien of the Series 2008 A, B and C Bonds, and any additional parity revenue bonds that may be issued in the future.

The bonds are issued under the terms of supplemental indentures adopted by the Board and are subject to call and redemption at the option of the Airport System prior to their respective maturity dates. The bonds are redeemable

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

based on the following terms and the redemption may occur from any source.

Series	Maturing After:	Prices Decreasing From:
2008A	July 1, 2019	100% in FY2019 at 100% and thereafter
2008B	July 1, 2019	100% in FY2019 at 100% and thereafter
2008C	July 1, 2012	not subject to optional redemption
2008D	July 1, 2019	100% in FY2019 at 100% and thereafter
2008E	July 1, 2019	100% in FY2019 at 100% and thereafter

Certain revenue bond obligations have been defeased "in-substance" by placement of assets in an irrevocable trust. Their outstanding principal balances at June 30, 2009 are as follows:

Bond Issue:

Series 2002A Revenue Bonds	66,890,000
Series 2002B Revenue Bonds	12,315,000
TOTAL	$79,205,000

Future debt service requirements at June 30, 2009 are as follows:

Year Ending June 30	Principal	Interest	Total
2010	$ 10,710,000	$ 28,847,283	$ 39,557,283
2011	12,035,000	28,356,884	40,391,884
2012	12,965,000	27,868,868	40,833,868
2013	13,295,000	27,353,136	40,648,136
2014	10,180,000	26,901,273	37,081,273
2015 - 2019	54,745,000	127,609,926	182,354,926
2020 - 2024	63,190,000	113,416,011	176,606,011
2025 - 2029	77,580,000	95,586,150	173,166,150
2030 - 2034	103,335,000	71,715,405	175,050,405
2035 - 2039	133,385,000	40,919,119	174,304,119
2040 - 2041	89,235,000	6,671,150	95,906,150
Total	$ 580,655,000	$ 595,245,204	$ 1,175,900,204

The Bond Indenture constitutes a contract between the County and the bondholders, under which the County has irrevocably pledged the Net Revenues of the Airport System for payment of the revenue bonds. Net Revenues, as defined by the Bond Indenture, are revenues less operating expenses. Certain expenses are specifically excluded from the calculation. See Note 7 for more details on the Net Revenue pledge. The County has covenanted that it will establish rates and charges for the use of Airport System services and facilities which yield Net Revenues equal to at least 1.25 times the senior debt service to become due on the bonds for each fiscal year.

The PFC and Subordinated Revenue Bonds are payable from and secured by certain pledged amounts of the net proceeds from the Passenger Facility Charge imposed by the Airport System on and after July 1, 1996, and are additionally payable from and secured by the Net Revenues of the Airport System subordinate and junior to the lien of the senior revenue bonds and certain other obligations. Pursuant to the second supplemental indenture

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

the Airport System has pledged PFCs in the amounts identified in Note 7 – Pledged Revenues on page 51 as Available Revenues for the payment of debt service on the Series 2008D and E Bonds.

The interest paid on most debt issued by state and local governments is exempt from federal income tax. As a result, purchasers of state and municipal debt are willing to accept lower interest rates than they would on taxable debt. State and local governments sometimes temporarily reinvest the proceeds of such debt in higher-yielding taxable securities. The federal tax code refers to this practice as arbitrage. In general, with a few exceptions, any excess earnings resulting from arbitrage must be rebated to the federal government.

The Bond Indenture and the prior bond resolution also require that certain funds be established and certain accounting procedures be followed. For fiscal years 2009 and 2008, the Airport System was in compliance with these covenants.

Long–term liability activity for the fiscal years ended June 30, 2008 and June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due Within One Year
Bonds payable:					
Revenue bonds	$ 496,195,000	$ -	$ 3,480,000	$ 492,715,000	$ 7,850,000
PFC and Subordinated Revenue Bonds	89,430,000	-	1,490,000	87,940,000	2,860,000
Deferred amounts:					
For issuance premiums	4,095,628	-	183,181	3,912,447	-
For issuance discounts	(2,882,702)	-	(92,990)	(2,789,712)	-
On refunding	(24,461,655)	-	(2,314,492)	(22,147,163)	-
Total bonds payable	562,376,271	-	2,745,699	559,630,572	10,710,000
Compensated Absences	3,075,600	2,642,656	2,277,019	3,441,237	90,530
OPEB Liability	132,090	32,025	-	164,115	-
Estimated arbitrage taxes payable	177,671	-	177,671	-	-
Total long term liabilities	$ 565,761,632	$ 2,674,681	$ 5,200,389	$ 563,235,924	$ 10,800,530

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Bonds payable:					
Revenue bonds	$ 205,160,000	$ 496,195,000	$ 205,160,000	$ 496,195,000	$ 3,480,000
PFC and Subordinated Revenue Bonds	49,235,000	89,430,000	49,235,000	89,430,000	1,490,000
Deferred amounts:					
For issuance premiums	1,504,361	4,117,563	1,526,296	4,095,628	-
For issuance discounts	(1,344,284)	(2,898,200)	(1,359,782)	(2,882,702)	-
On refunding	(10,421,595)	(15,225,318)	(1,185,258)	(24,461,655)	-
Total bonds payable	244,133,482	571,619,045	253,376,256	562,376,271	4,970,000
Compensated Absences	2,624,662	2,420,054	1,969,116	3,075,600	51,641
OPEB Liability	-	132,090	-	132,090	-
Estimated arbitrage taxes payable	97,517	80,154	-	177,671	-
Total long term liabilities	$ 246,855,661	$ 574,251,343	$ 255,345,372	$ 565,761,632	$ 5,021,641

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Note 7 – Pledged Revenue

The Airport System has pledged certain future revenues, net of specified operating expenses, to repay $496,195,000 in Senior Revenue Bonds issued in May 2008. Proceeds from the bonds refunded Series 1992B, Series 1998A, Series 2002A, 45.4% of Series 2006A as well as provided $323 million in financing for the Terminal Modernization Program. The bonds are payable solely from Net Revenues of the Airport System and are payable through 2041. Annual principal and interest payments on the bonds are estimated to require an average 36% of Net Revenues over the next four years. The total principal and interest remaining to be paid on these bonds is $1,047,957,047. Principal and interest paid for the current year was $20,183,811 and the total Net Revenues were $49,941,066.

The Airport System has pledged Passenger Facility Charges to repay $89,430,000 in Airport System Subordinate and PFC Revenue Refunding Bonds issued in May 2008. Proceeds from the bonds refunded Series 1996C, Series 1998B and 54.6% of Series 2006A. The bonds are payable through 2026. The pledged revenues below are estimated to require an average 27% of PFC Revenues over the next four years. Total principal and interest remaining to be paid on the bonds is $127,943,157. Principal and interest paid for the current year was $4,219,838 and PFC revenue was $21,489,873. The table below identifies the available PFC revenue pledged for the payment of debt service on the Series 2008D and 2008E bonds:

Fiscal Year Ending June 30	Passenger Facility Charges
2010	$ 7,821,256
2011	8,354,400
2012	8,266,300
2013	8,180,513
2014	8,077,535
2015	7,973,090
2016	7,889,565
2017	7,762,615

Note 8 - Rentals and Operating Leases

The Airport System derives a substantial portion of its revenues from charges to air carriers and concessionaires. Substantially all of the assets classified under capital assets in the statements of net assets are held by the Airport System for the purpose of rental or related use.

The Airport System as lessor, leases land, buildings and terminal space to air carriers and concessionaires on a fixed fee as well as a contingent basis. All leases of the Airport System are treated as operating leases for accounting purposes. Most of the leases provide for an annual review and re-determination of the rental amounts.

In fiscal years 2009 and 2008, the Airport System received approximately $3,241,428 and $7,400,150, respectively, for contingent rental payments in excess of stated minimums. The following is a schedule of future minimum rentals receivable on non-cancelable operating leases as of June 30, 2009.

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Fiscal years ending June 30	
2010	$ 17,030,764
2011	15,243,846
2012	14,525,028
2013	13,656,440
2014	11,797,516
2015-2019	6,011,078
2020-2024	3,112,422
2025-2029	3,159,258
2030-2034	1,367,844
2035-2039	410,872
Total future minimum rentals receivable	$ 86,315,068

Note 9 – Restricted Net Assets

Restricted net assets are assets that are subject to constraints either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provision or enabling legislation.

On March 25, 2008, the Board of Supervisors approved a total TMP art budget of $8 million which included a $2 million endowment to be used to support the airport public art in perpetuity. The interest from the endowment fund will fund: a comprehensive conservation/maintenance and repair program, the creation and maintenance of an ongoing exhibition program and the commissioning of new and permanent artworks. On September 9, 2008, the Board of Supervisors approved a Resolution which directed the Airport System staff to deposit $2 million into the Airport Art Endowment Fund, on or before October 15, 2008.

Net assets restricted by enabling legislation totaling $103,733,132 and $123,802,107 are included in statements of net assets at June 30, 2009 and 2008, respectively.

Note 10 - Related Party Transactions

The Airport System reimburses the County for the cost of providing the Airport System with security, engineering, administrative and certain maintenance services. Amounts charged by other County departments are reported as operating expenses during the period incurred or capitalized as capital assets. Accrued expenses for County services were $2,056,978 and $3,127,063 at June 30, 2009 and 2008, respectively.

Amounts charged by other County departments for fiscal years 2009 and 2008 are as follows:

	2009	2008
Charged to operations	$ 19,167,353	$ 18,184,367
Capitalized as capital assets	6,209,927	2,525,935
Total charged by other County departments	$ 25,377,280	$ 20,710,302

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Note 11 - Defined Benefit Pension Plan

All permanent full-time or part time employees of the Airport System participate in the Sacramento County Employees' Retirement System (SCERS), a cost-sharing multiple-employer defined benefit public employee retirement system. A stand alone report is issued for SCERS and may be obtained from the County Department of Finance located at 700 H Street, Sacramento, California 95814. The payroll for Airport System employees covered by SCERS for the fiscal years ended June 30, 2009 and 2008 was $20,526,538 and $18,694,836, respectively. The Airport System's total payroll for the fiscal years ended June 30, 2009 and 2008 was $21,472,378 and $19,760,139, respectively. Retirement benefits are based on members' years of service and compensation. Additionally, SCERS provides for benefits upon death or disability of eligible members. Upon reaching five years of service, members have earned the right to receive a retirement benefit. Members are eligible for retirement at age 50 or after 30 years of service for miscellaneous members and 20 years of service for safety members.

Under the actuarial funding method used by SCERS, investments are valued at market and all unrealized gains and losses are recognized over the next five years. Therefore, contribution rates reflect the impact of market fluctuations on investments during the five-year period after they occur rather than upon disposition of the investment.

Member contributions are required by law and are based on age of entry into SCERS. County contributions are actuarially determined to provide for the balance of contributions needed. The authority for both benefit provisions and contribution obligations is derived from the County Employees Retirement Act of 1937. The contribution requirement for Airport System employees for the year ended June 30, 2009 was $4,670,684 which consisted of $3,448,250 from the Airport System and $1,222,434 from employees; these contributions represented 16.8 percent and 6.0 percent, respectively, of covered payroll. The contribution requirement for the year ended June 30, 2008 was $4,267,000 which consisted of $3,199,000 from the Airport System and $1,068,000 from employees; these contributions represented 17.1 percent and 5.7 percent, respectively, of covered payroll. For fiscal years 2009, 2008 and 2007, the Airport System's annual pension cost of $3,448,250, $3,199,200 and $3,131,000 respectively, was equal to its required contributions.

Note 12 – Post-Employment Health Care Benefits

Plan Description

The Airport System is a department of the County, which provides medical insurance and dental insurance, and subsidy/offset payments as authorized by the Board of Supervisors on an annual basis. The Board of Supervisors must approve the benefit annually or it is terminated.

All annuitants are eligible to enroll in a retiree medical and/or dental insurance plan in a given calendar year if (1) they began receiving a continuing retirement allowance from SCERS during that calendar year, or (2) they were enrolled in the annual plan previously approved by the County, or (3) they previously waived coverage but elected to enroll during the County authorized enrollment period with a coverage date effective January of the given calendar year (continuous coverage).

Annuitants who retired for any reason on or before May 31, 2007 are eligible to receive a County-paid medical or dental insurance subsidy/offset payment. Annuitants who retire after May 31, 2007 are not entitled to any subsidy/offset payments. The amount of subsidy/offset payments for the calendar year 2008 ranged from $122 to $244 per month depending upon the years of service credit.

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

The amount of any medical subsidy/offset payments made available to annuitants (who retired on or before May 31, 2007) shall be calculated based upon the annuitant's SCERS service credit. The amount of any dental subsidy/offset payments made available to annuitants shall be set by the Board of Supervisors.

Neither SCERS nor the County guarantees that a subsidy or offset payment will be made available to annuitants for the purchase of County-sponsored medical and/or dental insurance. Subsidy/offset payments are not a vested benefit of County employment or SCERS membership.

Funding Policy

The County currently pays for post-employment health care benefits of annuitants who retired on or before May 31, 2007 on a pay-as-you-go basis. These financial statements assume that pay-as-you-go will continue.

Additional details, actuarial assumptions, funded status of the plan and required supplementary information can be found in the County's Comprehensive Annual Financial Report.

Annual OPEB Cost and Net OPEB Obligation

The Airport System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2009 and 2008, are shown in the tables below.

	June 30	
	2009	**2008**
Annual required contribution	$ 535,807	$ 542,477
Interest on net OPEB obligation	3,432	-
Adjustment to annual required contribution	(7,892)	-
Annual OPEB cost	531,347	542,477
Contributions made	(499,322)	(410,387)
Increase in net OPEB obligation	32,025	132,090
Net OPEB obligation - beginning of year	132,090	-
Net OPEB obligation - end of year	$ 164,115	$ 132,090

Fiscal year ended	Annual OPEB Cost	Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 542,477	$ 410,387	76%	$ 132,090
6/30/2009	$ 531,347	$ 499,322	94%	$ 164,115

Additional Disclosure: The County implemented GASB Statement 45 prospectively for the fiscal year ended June 30, 2008; therefore data for fiscal year ended June 30, 2007 is not available. In the future, information from the three most recent valuations will be presented.

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

Note 13 - Commitments and Contingencies

Construction Projects: The Airport System had approximately $143,833,893 in outstanding construction contract commitments at June 30, 2009.

Federal Grant Awards: As of June 30, 2009, the Airport System had outstanding federal grant awards totaling approximately $6.1 million for various construction projects at Sacramento International Airport. Such funds are not available to the Airport System until related approved expenses are incurred and, until such time, are not accrued as receivables.

On March 6, 2009, the FAA approved the County's Letter of Intent application to fund $59.9 million of the eligible costs of the TMP. The AIP grant awards will span between fiscal years 2009 and 2015. In addition, the Airport System will receive $11.3 million funding from the Transportation Security Administration under the American Recovery and Reinvestment Act for security-related projects.

Federal grant funds received or receivable are subject to audit and adjustment by the funding agency or their representative. If grant funds are received for expenses which are subsequently disallowed, the Airport System may be required to repay the revenues to the funding agency. In the opinion of management, liabilities resulting from such disallowed expenses, if any, will not be material to the accompanying financial statements at June 30, 2009.

Environmental Mitigation: Due to various activities occurring on Sacramento International Airport property during 2002 and previous years, wetlands under the jurisdiction of the U.S. Army Corps of Engineers and potential habitat for the Giant Garter Snake (GGS) were allegedly damaged in several locations. The GGS is an aquatic snake listed as "threatened" pursuant to the federal Endangered Species Act and the California Endangered Species Act. As a result of negotiations with State and federal resource agencies, including the U.S. Fish and Wildlife Service (Service) and California Department of Fish and Game (DFG), it was agreed that the situation would be ameliorated through the Airport System's purchase of acreage appropriate for mitigation purposes.

It was also agreed among the resource agencies and the Airport System that the land would be developed as GGS habitat based on consulting assistance provided by specialists possessing special expertise in the habitat needs of the GGS. The habitat preserves were also designed in a manner to exclude water during the snake's winter hibernation period, in order to exclude migratory waterfowl that could pose an aviation safety hazard. During 2007, the Airport System conducted a competitive selection process to identify a qualified non-profit preserve manager for the 43-acre Prichard Lake Preserve on airport operational buffer property north of Sacramento International Airport.

As a result of this selection process, the County Board of Supervisors selected the Center for Natural Lands Management (CNLM) as the Prichard Lake Preserve manager, and authorized the Director of Airports to negotiate with CNLM for the management of other airport mitigation preserves that may be necessary in the future. Consequently, the Airport System negotiated terms and conditions with CNLM for the perpetual management of the 217-acre Willey Wetland Preserve in Sutter County.

The Service previously approved a conceptual design plan for the Willey Wetland Preserve. On July 17, 2007 the County Board of Supervisors approved Resolution 2007-0892, which authorized the Director of Airports to execute a Settlement Agreement between the Service and the County, which specifies the terms and conditions of the Prichard Lake and Willey Preserves. The Settlement Agreement was executed by the Director on July 17, 2007.

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

With regard to the Willey Wetland Preserve, the Airport System will retain title to the property, all of which was purchased during fiscal year 2005 with Airport Enterprise funding; no FAA grant-in-aid funding was utilized in this transaction. The Settlement Agreement specified that the Management and Funding Agreement and conservation easement be executed by April 30, 2008, and that the management and endowment fee be conveyed to the preserve manager by that date as well. Consequently, on April 22, 2008 the Board of Supervisors approved Resolution 2008-0322, which authorized the Director of Airports to:

- Execute a Management and Funding Agreement (MFA) with CNLM for perpetual management of the Willey Wetland Preserve;
- Convey a conservation easement to CNLM; and
- Convey an Initial and Endowment payment to CNLM in the amount of $4,979,816.

The above actions were completed on April 24, 2008, in accordance with the terms of the Settlement Agreement. The Settlement Agreement also specified that construction of the Willey Wetland Preserve be completed by October 1, 2008. The construction contract was awarded through a competitive bid process to Western Engineering Contractors, Inc in the amount of $3,217,997 (Board Resolution 2008-0389). As of the first week of October the construction project was almost complete, but delays beyond the control of the County and the contractor had been encountered. The County Airport System therefore requested that the Service agree to extend the construction completion deadline to November 15, 2008 for completing plant and water well installation. Service authorization for the requested extension was issued on October 3, 2008. Construction of the Willey Wetland Preserve was completed on November 14, 2008, after which CNLM assumed control and management of the site. In 2008 CNLM hired a full-time Preserve Manager, Mr. Judah Grossman, Ph.D. (Ecology/Ecological Restoration) for its Sacramento region, including the Prichard Lake and Willey Preserve. Mr. Grossman's responsibilities include the Prichard Lake and Willey Wetland Preserves.

In a letter dated February 4, 2009, the Service notified the Airport System that the terms and conditions of the Settlement Agreement had been completed, and that the preserves "…are both outstanding examples of habitat preservation and restoration."

Special Facilities Revenue Bonds: Variable Rate Demand Special Facilities Airport Revenue Bonds, Series 1998 (Special Facility Bonds) totaling $9,900,000 were issued on November 3, 1998 to finance the demolition of an existing facility and construction and installation of a replacement aircraft maintenance hangar and associated facilities at Sacramento International Airport for The Cessna Aircraft Company (Cessna). Although taking the legal form of a financing lease between the County and Cessna, the substance of these arrangements is that the Special Facility Bonds constitute a special obligation of the Airport System payable from and secured by certain revenues under its lease with Cessna and certain proceeds pledged therefore under the Indenture. The bonds do not constitute a debt, liability or general obligation of the Airport System or a pledge of the faith and credit of the Airport System. The Airport System will not be obligated to levy any taxes or expend any funds for the repayment of the bonds. As of June 30, 2009 and 2008, the outstanding balance of the debt was $8,800,000.

On May 1, 2008 the County terminated the Scheduled Airline Operating Agreement and Terminal Building Lease (Prior Agreement) and effective July 1, 2008, the County adopted a new airline Rate Ordinance pursuant to which airline rates and charges were calculated for fiscal year 2009. Under the Rate Ordinance, landing fees are calculated according to a cost center residual methodology and terminal building rentals are calculated according to a commercial compensatory methodology. As required by the Prior Agreement, a final settlement of airline rates and charges was conducted and a net amount of $10.4 million was credited against future airline obligations. Under the Rate Ordinance, a similar true-up calculation will be performed. Due to the complexity of this calculation, the

Notes to the Basic Financial Statements (continued)
For the Fiscal Years ended June 30, 2009 and 2008

amounts due to the Airport System or the amounts that the Airport System may owe to the airlines for any given fiscal year cannot be reasonably determined until the following fiscal year. The amount of the true-up will be recorded in the period it becomes estimable.

Note 14 – Subsequent Events

On July 28, 2009, the Airport System issued additional bonds in the amount of $480,050,000 to continue the financing of the Terminal Modernization Program as follows:

Airport System Senior Revenue Bonds		Airport System Subordinate and PFC/Grant Revenue Bonds	
Series 2009 A	$ 31,115,000	Series 2009C	$112,860,000
Series 2009 B	$ 170,685,000	Series 2009D	$165,390,000

The Airport System issued the Series 2009 Senior Bonds as Senior Obligations pursuant to the Master Indenture approved on May 1, 2008 and Third Supplemental Indenture, approved on July 1, 2009. The Series 2009 Senior Bonds are to be secured by the Trust Estate and payable from Net Revenues on parity with the Series 2008 Senior Bonds.

The Airport System issued the Series 2009 Subordinate Bonds as Subordinate Obligations under the Master Indenture and the Fourth Supplemental Indenture approved on July 1, 2009. The Series 2009 Subordinate Bonds are secured by the Trust Estate and payable from Net Revenues on parity with the 2008 Subordinate Bonds. Principal of and interest on the 2009C Bonds and Series 2009D Bonds are additionally payable from and secured by Available PFC Revenues which consist of a portion of the Passenger Facility Charges approved by the Federal Aviation Administration and imposed and collected with respect to International Airport, and by Available Grant Revenues which consist of a portion of the Letter of Intent grant awards approved by the FAA on March 6, 2009.

Intentionally Blank

Statistical Section

This section contains the following subsections:

Financial Trends

Net Assets
Changes in Net Assets

Revenue Capacity

Total Annual Revenues
Total Annual Expenses
Airline Rates and Charges
Airline and Nonairline Revenues

Debt Capacity

Debt Service Coverage
Ratio of Annual Debt Service to Total Expenses
Debt per Enplaned Passenger
Outstanding Debt

Demographic and Economic

Service Area Population
Population/Personal Income
Principal Employers

Operating Information

Activity Statistics
Scheduled Airline Service
Principal Customers/Airport System Employees/Capital Assets

Statistical Section

The information contained in this section is not covered by the Independent Auditors' Report, but is presented as supplemental data for the benefit of the Comprehensive Annual Financial Report. The objectives of the statistical section are to provide financial users with additional historical perspective, context, and detail to assist in using information in the financial statements, notes to the financial statements, and required supplementary information to understand and assess a government's economic condition.

The following sub-sections are included in the Statistical Section:

A. Financial Trends- These schedules contain trend information to help the reader understand how the Airport System's financial performance has changed over time. **Refer to pages 61-63.**

B. Revenue Capacity- These schedules contain trend information to help the reader assess the Airport System's ability to generate its airline and non-airline revenues. Also included in this section are total annual expenses. **Refer to pages 64-67.**

C. Debt Capacity- These schedules present information to help the reader assess the affordability of the Airport System's current levels of outstanding debt and the ability to issue additional debt in the future. **Refer to pages 68-71.**

D. Demographic and Economic Information- These schedules offer demographic and economic indicators to help the reader understand the environment within which the Airport System's financial activities take place. **Refer to pages 72-74.**

E. Operating Information- These schedules contain information about the Airport System's operations and resources to help the reader understand how its financial information relates to the services the Airport System provides and the activities it performs. **Refer to pages 75-78.**

Financial Trends
Net Assets

	2009	2008	2007	2006	2005
Invested in capital assets - net of related debt	$ 175,059,316	$ 156,199,147	$ 211,869,303	$ 190,642,485	$ 164,627,362
Restricted:					
Operating Reserve account	27,260,013	21,730,250	21,460,250	19,393,000	17,175,000
Reserve and Contingency fund	2,000,000	1,333,333	1,000,000	1,000,000	1,000,000
Capital construction	72,066,304	56,161,338	4,449,505	4,982,064	4,356,237
Passenger facility charges	103,733,132	123,802,107	103,826,206	81,920,131	66,390,568
Art Endowment and other restricted	2,062,811	-	-	-	-
Total restricted	207,122,260	203,027,028	130,735,961	107,295,195	88,921,805
Unrestricted	119,895,679	117,486,984	97,616,600	101,482,119	104,777,188
Total net assets	$ 502,077,255	$ 476,713,159	$ 440,221,864	$ 399,419,799	$ 358,326,355

	2004	2003	2002	2001	2000
Invested in capital assets - net of related debt	$ 126,762,388	$ 105,508,679	$ 102,971,937	$ 102,097,452	$ 50,051,991
Restricted:					
Operating Reserve account	17,953,000	17,358,000	16,274,000	14,473,000	13,147,000
Reserve and Contingency fund	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Capital construction	4,399,696	4,416,225	1,859,419	2,150,610	-
Passenger facility charges	52,398,305	48,136,050	44,350,274	37,445,391	44,961,050
Total restricted	75,751,001	70,910,275	63,483,693	55,069,001	59,108,050
Unrestricted	104,009,224	110,420,060	99,911,642	95,345,034	118,675,362
Total net assets	$ 306,522,613	$ 286,839,014 [1]	$ 266,367,272	$ 252,511,487	$ 227,835,403

[1] Fiscal year 2003 net assets were restated due to change in accounting principles.

Source: Airport System's audited financial statements.

Financial Trends (cont.)
Changes in Net Assets

	2009	2008	2007	2006
Operating revenues:				
Concessions	$ 68,600,549	$ 66,416,283	$ 64,892,106	$ 60,367,151
Building rents	35,384,002	17,152,979	16,644,929	16,087,912
Airfield charges	10,710,482	22,352,752	15,680,196	17,779,295
Ground leases	2,314,441	3,641,980	4,723,344	4,403,407
Sale of fuel	580,904	808,229	652,942	1,339,214
Airport services	1,100,127	911,360	1,015,551	900,536
Other	299,511	101,491	39,528	102,681
Total operating revenues	118,990,016	111,385,074	103,648,596	100,980,196
Operating expenses:				
Salaries and benefits	33,640,076	32,174,897 [1]	30,274,323	28,897,193
Services and supplies	49,870,807	54,266,378	46,452,761	41,462,233
Cost of goods sold	497,815	665,627	573,187	1,081,550
Depreciation	25,750,395	23,707,907	21,062,790	20,162,706
Other	881,876	837,710	769,160	670,162
Total operating expenses	110,640,969	111,652,519	99,132,221	91,814,508
Operating income (loss)	8,349,047	(267,445)	4,516,375	9,165,688
Nonoperating revenues (expenses):				
Interest income	6,155,861	7,519,233	7,915,789	6,623,389
Passenger Facility Charges revenue	21,489,873	26,653,518	27,182,405	24,511,950
Intergovernmental revenue	978,992	1,620,376	686,586	849,340
Gain (loss) on disposal of assets	64,262	(17,151)	84,711	993
Other nonoperating revenue (expense)	157,388	(40,754)	82,107	223,468
Amortization of bond issuance cost	(563,240)	(257,068)	(271,965)	(175,358)
Interest expense	(18,203,544)	(12,651,944)	(12,057,704)	(10,536,254)
Net nonoperating revenues	10,079,592	22,826,210	23,621,929	21,497,528
Income before capital contribution and transfers	18,428,639	22,558,765	28,138,304	30,663,216
Capital contributions - grants	6,935,457	13,932,530	12,663,761	10,889,564
Changes in net assets	25,364,096	36,491,295	40,802,065	41,093,444
Total net assets, beginning of year	476,713,159	440,221,864	399,419,799	358,326,355
Total net assets, end of year	$ 502,077,255	$ 476,713,159	$ 440,221,864	$ 399,419,799

2005	2004	2003	2002	2001	2000
$ 54,307,418	$ 47,623,267	$ 46,383,456	$ 40,548,385	$ 40,453,352	$ 36,536,264
14,170,114	13,803,071	14,397,965	14,699,640	14,225,198	14,554,287
17,107,966	12,353,198	8,341,447	10,138,281	11,720,569	10,955,265
3,607,645	3,110,659	2,768,994	2,722,470	2,881,251	2,391,685
1,332,966	2,662,833	3,615,979	3,304,813	3,337,937	3,064,533
636,999	137,513	184,562	161,499	118,087	111,701
1,386,070	39,986	52,570	103,327	34,252	6,372
92,549,178	79,730,527	75,744,973	71,678,415	72,770,646	67,620,107
27,313,968	25,280,428	22,883,432	20,819,372	19,838,553	17,706,356
37,688,533	38,792,551	36,247,504	33,026,722	26,474,417	24,955,201
914,185	712,784	626,644	638,850	685,067	638,127
16,103,705	15,597,039	15,145,180	14,689,534	14,206,060	13,750,108
909,682	1,218,467	1,046,455	641,388	605,547	655,371
82,930,073	81,601,269	75,949,215	69,815,866	61,809,644	57,705,163
9,619,105	(1,870,742)	(204,242)	1,862,549	10,961,002	9,914,944
4,303,953	2,888,108	4,164,015	6,263,408	9,705,073	7,762,871
24,454,819	18,498,324	17,621,861	15,259,334	13,660,759	44,961,050
880,166	702,098	2,831,833	1,313,322	27,321	45,318
503,692	3,988	(1,878)	28,233	(69,863)	-
247,124	140,157	93,133	56,375	57,207	39,918
(171,740)	(171,740)	(171,740)	(128,151)	(128,151)	(128,151)
(12,631,716)	(10,315,087)	(11,023,165)	(11,614,976)	(11,947,001)	(12,196,504)
17,586,298	11,745,848	13,514,059	11,177,545	11,305,345	40,484,502
27,205,403	9,875,106	13,309,817	13,040,094	22,266,347	50,399,446
24,598,339	9,808,493	4,520,415	815,691	2,409,737	5,763,909
51,803,742	19,683,599	17,830,232	13,855,785	24,676,084	56,163,355
306,522,613	286,839,014	269,008,782 [2]	252,511,487	227,835,403	171,672,048
$ 358,326,355	$ 306,522,613	$ 286,839,014	$ 266,367,272	$ 252,511,487	$ 227,835,403

[1] Certain amounts in the financial statements for fiscal year 2008 have been reclassified to conform to the fiscal year 2009 presentation.

[2] Fiscal year 2003 net assets were restated due to change in accounting principle.

Source: Airport System's audited financial statements.

Revenue Capacity
Total Annual Revenues

LAST TEN FISCAL YEARS

	2009	2008	2007	2006	2005
OPERATING REVENUES					
Concessions	$ 68,600,549	$ 66,416,283	$ 64,892,106	$ 60,367,151	$ 54,307,418
Building rents	35,384,002	17,152,979	16,644,929	16,087,912	14,170,114
Airfield charges	10,710,482	22,352,752	15,680,196	17,779,295	17,107,966
Ground leases	2,314,441	3,641,980	4,723,344	4,403,407	3,607,645
Sale of aviation fuel	580,904	808,229	652,942	1,339,214	1,332,966
Airport services	1,100,127	911,360	1,015,551	900,536	636,999
Other	299,511	101,491	39,528	102,681	1,386,070
TOTAL OPERATING REVENUES	$ 118,990,016	$ 111,385,074	$ 103,648,596	$ 100,980,196	$ 92,549,178
NONOPERATING REVENUES					
Interest income	6,155,861	7,519,233	7,915,789	6,623,389	4,303,953
PFC revenue	21,489,873	26,653,518	27,182,405	24,511,950	24,454,819
Capital contributions	6,935,457	13,932,530	12,663,761	10,889,564	24,598,339
Intergovernmental revenue	978,992	1,620,376	686,586	849,340	880,166
Other nonoperating revenue (exp)	157,388	(40,754)	82,107	223,468	205,563
TOTAL REVENUES	$ 154,707,587	$ 161,069,977	$ 152,179,244	$ 144,077,908	$ 146,992,018

	2004	2003	2002	2001	2000 [1]
OPERATING REVENUES					
Concessions	$ 47,623,267	$ 46,383,456	$ 40,548,385	$ 40,453,352	$ 36,536,264
Building rents	13,803,071	14,397,965	14,699,640	14,225,198	14,554,287
Airfield charges	12,353,198	8,341,447	10,138,281	11,720,569	10,955,265
Ground leases	3,110,659	2,768,994	2,722,470	2,881,251	2,391,685
Sale of aviation fuel	2,662,833	3,615,979	3,304,813	3,337,937	3,064,533
Airport services	137,513	184,562	161,499	118,087	111,701
Other	39,986	52,570	103,327	34,252	6,372
TOTAL OPERATING REVENUES	$ 79,730,527	$ 75,744,973	$ 71,678,415	$ 72,770,646	$ 67,620,107
NONOPERATING REVENUES					
Interest income	2,888,108	4,164,015	6,263,408	9,705,073	7,762,871
PFC revenue	18,498,324	17,621,861	15,259,334	13,660,759	44,961,050
Capital contributions	9,808,493	4,520,415	815,691	2,409,737	2,526,129
Intergovernmental revenue	702,098	2,831,833	1,313,322	27,321	45,318
Other nonoperating revenue (exp)	140,157	93,133	56,375	57,207	38,918
TOTAL REVENUES	$ 111,767,707	$ 104,976,230	$ 95,386,545	$ 98,630,743	$ 122,954,393

Source: Airport System's audited financial statements.

[1] Passenger Facility Charges & Intergovernmental Revenue restated to reflect the implementation of GASB 33.

Revenue Capacity (cont.)
Total Annual Expenses

LAST TEN FISCAL YEARS

	2009	2008	2007	2006
OPERATING EXPENSES				
Salaries and benefits	$ 33,640,076	$ 32,174,897 [1]	$ 30,274,323	$ 28,897,193
Services and supplies	49,870,807	54,266,378	46,452,761	41,462,233
Cost of goods sold	497,815	665,627	573,187	1,081,550
Depreciation and amortization	25,750,395	23,707,907	21,062,790	20,162,706
Other	881,876	837,710	769,160	670,162
TOTAL OPERATING EXPENSES	$ 110,640,969	$ 111,652,519	$ 99,132,221	$ 92,273,844
NONOPERATING EXPENSES				
Interest expense	18,203,544	12,651,944	12,057,704	10,536,254
Loss (gain) on disposal of assets	(64,262)	17,151	(84,711)	(993)
Amortization of bond issuance costs	563,240	257,068	271,965	175,358
TOTAL EXPENSES	$ 129,343,491	$ 124,578,682	$ 111,377,179	$ 102,984,463

	2004	2003	2002	2001
OPERATING EXPENSES				
Salaries and benefits	$ 25,280,428	$ 22,883,432	$ 21,194,906	$ 19,838,553
Services and supplies	38,792,551	36,247,504	32,887,678	26,474,417
Cost of goods sold	712,784	626,644	638,850	685,067
Depreciation and amortization	15,597,039	15,145,180	14,689,534	14,206,060
Other	1,218,467	1,046,455	641,388	605,547
TOTAL OPERATING EXPENSES	$ 81,601,269	$ 75,949,215	$ 70,052,356	$ 61,809,644
NONOPERATING EXPENSES				
Interest expense	10,315,087	11,023,165	11,614,976	11,947,001
Loss (gain) on disposal of assets	(3,988)	1,878	(28,233)	69,863
Rebate tax expense				
Amortization of bond issuance costs	171,740	171,740	128,151	128,151
TOTAL EXPENSES	$ 92,084,108	$ 87,145,998	$ 81,767,250	$ 73,954,659

Source: Airport System’s audited financial statements.

[1]Certain amounts in the financial statements for fiscal year 2008 have been reclassified to conform to the fiscal year 2009 presentation.

Revenue Capacity (cont.)
Airline Rates and Charges

LAST TEN FISCAL YEARS

	2009	2008	2007	2006	2005
Landing fee rate (Per 1,000 lbs.) [1]	$ 3.30	$ 2.77	$ 1.99	$ 2.44	$ 2.37
Terminal rental rates (Per Sq. Foot)					
Ticket counter	140.48	65.48	65.52	73.11	64.56
Office and enclosed	140.48	65.48	65.52	73.11	64.56
Unenclosed [2]	12.00	12.00	12.00	12.00	N/A
Holdroom	140.48	65.48	65.52	73.11	64.56
Baggage makeup/joint use	140.48	65.48	65.52	73.11	64.56
Storage	140.48	65.48	65.52	73.11	64.56

	2004	2003 [3]	2002	2001	2000
Landing fee (Per 1,000 lbs.)	$ 1.79	$ 1.21	$ 1.57	$ 1.72	$ 1.72
Terminal rental rates (Per Sq. Foot)					
Ticket counter	48.00	58.20	54.60	54.45	57.60
Office and enclosed	48.00	58.20	54.60	54.45	57.60
Unenclosed [2]	N/A	N/A	N/A	N/A	N/A
Holdroom	48.00	58.20	54.60	54.45	57.60
Baggage makeup/joint use	48.00	58.20	54.60	54.45	57.60
Storage	48.00	58.20	54.60	54.45	57.60

Source: Airport System records.

Note:
The Airport System negotiated the first airline agreement which governed the calculation of rates and fees charged to scheduled airlines effective January 1, 1982. This agreement was terminated July 1, 1989 when the County adopted a Rate Ordinance relating to airline rates and fees. In October, 2000 a new airline agreement was executed and rates and fees were calculated in accordance with the Agreement until the agreement was terminated effective May 1, 2008, at which time rates and fees were again calculated in accordance with the Rate Ordinance. Effective July 1, 2008, the County adopted a new Rate Ordinance which governs the calculation of rates and fees.

[1]Signatory rate shown for years in which an airline agreement was effective.
[2]Effective July 2005, unenclosed space at $1.00 per square foot per month added to Terminal Rental Rates.
[3]Average used for presentation purposes. Due to the imposition of a mid-year adjustment, the landing fee was decreased from $1.39 (July – December 2002) to $1.03 (January – July 2003).

Revenue Capacity (cont.)
Airline and Non-airline Revenues

LAST TEN FISCAL YEARS

	2009	2008	2007	2006	2005
AIRLINE REVENUE:					
Terminal rents	$ 24,391,882	$ 10,991,364	$ 12,124,102	$ 11,498,311	$ 10,006,224
Gate use (apron) fees	6,234,017	1,847,839	1,478,640	1,465,139	628,401
Landing fees	10,471,032	22,108,669	15,477,727	17,250,215	16,861,922
Total	41,096,931	34,947,872	29,080,469	30,213,665	27,496,547
Percent of total revenues	26.6%	21.7%	19.1%	21.0%	18.7%
NON-AIRLINE REVENUES	77,893,085	76,437,202	74,568,127	70,766,531	65,052,631
Percent of total revenues	50.3%	47.5%	49.0%	49.1%	44.3%
NONOPERATING REVENUES	35,717,571	49,684,903	48,530,648	43,097,712	54,442,840
Percent of total revenues	23.1%	30.8%	31.9%	29.9%	37.0%
TOTAL REVENUES	$ 154,707,587	$ 161,069,977	$ 152,179,244	$ 144,077,908	$ 146,992,018
Enplaned passengers	4,603,182	5,294,737	5,307,289	5,150,229	4,986,171
REVENUE PER ENPLANED PASSENGER	$ 33.61	$ 30.42	$ 28.67	$ 27.98	$ 29.48
AIRLINE REVENUE PER ENPLANED PASSENGER [1]	$ 8.93	$ 6.60	$ 5.48	$ 5.87	$ 5.51

	2004	2003	2002	2001	2000 [2]
AIRLINE REVENUE:					
Terminal rents	$ 9,438,916	$ 10,070,679	$ 9,050,197	$ 8,773,980	$ 9,159,263
Gate use (apron) fees	924,016	1,124,946	2,013,206	1,878,296	2,050,080
Landing fees	12,016,265	7,972,534	9,714,846	11,318,609	10,416,215
Total	22,379,197	19,168,159	20,778,249	21,970,885	21,625,558
Percent of total revenues	20.0%	18.3%	21.8%	22.3%	17.6%
NON-AIRLINE REVENUES	57,351,330	56,576,814	50,900,166	50,799,761	45,994,549
Percent of total revenues	51.3%	53.9%	53.4%	51.5%	37.4%
NONOPERATING REVENUES	32,037,180	29,231,257	23,708,130	25,860,097	55,334,286
Percent of total revenues	28.7%	27.8%	24.9%	26.2%	45.0%
TOTAL REVENUES	$ 111,767,707	$ 104,976,230	$ 95,386,545	$ 98,630,743	$ 122,954,393
Enplaned passengers	4,563,607	4,314,273	4,042,585	4,104,096	3,837,471
REVENUE PER ENPLANED PASSENGER	$ 24.49	$ 24.33	$ 23.60	$ 24.03	$ 32.04
AIRLINE REVENUE PER ENPLANED PASSENGER [1]	$ 4.90	$ 4.44	$ 5.14	$ 5.35	$ 5.64

Source: Audited financial statements and Airport System statistics reports.

[1]Includes air cargo landing fees as part of cost.
[2]Nonoperating revenue for FY 99/00 restated to reflect implementation of GASB 33.

Debt Capacity

Debt Service Coverage

LAST TEN FISCAL YEARS

	2009 [3]	2008	2007	2006	2005
SENIOR REVENUE BONDS					
Revenues [1]	$ 134,667,273	$ 118,940,257	$ 116,610,194	$ 111,466,818	$ 104,769,369
Operating Expenses [2]	(84,890,322)	(87,769,525)	(78,636,521)	(72,668,987)	(67,524,525)
Net Revenues	$ 49,776,951	$ 31,170,732	$ 37,973,673	$ 38,797,831	$ 37,244,844
Accrued Debt Service [3]	$ 15,971,841	$ 15,507,142	$ 12,458,165	$ 14,721,391	$ 16,835,805
RATIO OF NET REVENUES TO DEBT SERVICE	3.1	2.0	3.0	2.6	2.2
PFC AND SUBORDINATED REVENUE BONDS [4]					
PFC revenues [5]	$ 20,508,755	$ 26,653,518	$ 27,182,405	$ 24,511,950	$ 24,454,819
Accrued Debt Service	$ 6,939,856	$ 4,153,778	$ 3,877,516	$ 3,882,096	$ 3,951,616
RATIO OF REVENUES TO DEBT SERVICE	3.0	6.4	7.0	6.3	6.2

	2004	2003	2002	2001	2000
SENIOR REVENUE BONDS					
Revenues [1]	$ 90,323,829	$ 89,255,168	$ 83,865,381	$ 84,936,877	$ 78,480,010
Operating Expenses [2]	(66,842,925)	(63,338,095)	(56,134,649)	(49,297,268)	(45,103,600)
Net Revenues	$ 23,480,904	$ 25,917,073	$ 27,730,732	$ 35,639,609	$ 33,376,410
Accrued Debt Service	$ 16,840,105	$ 15,062,285	$ 12,106,987	$ 12,099,721	$ 12,105,681
RATIO OF NET REVENUES TO DEBT SERVICE	1.4	1.7	2.3	2.9	2.8
PFC AND SUBORDINATED REVENUE BONDS [4]					
PFC revenues [5]	$ 18,498,324	$ 17,621,861	$ 15,259,334	$ 13,706,418	$ 12,807,547
Accrued Debt Service	$ 3,951,476	$ 3,946,921	$ 3,948,571	$ 3,946,527	$ 3,945,652
RATIO OF REVENUES TO DEBT SERVICE	4.7	4.5	3.9	3.5	3.2

Note: The calculations presented in this table provide an indication of debt capacity but do not conform to the rate covenant calculations prescribed by Section 6.04 (b) of the Bond Indenture.

[1]Per bond indenture and prior resolution, Revenues include all Airport System revenues excluding certain interest earnings and restricted revenues.
[2]Per bond indenture and prior resolution, Operating Expenses include all Airport System operating costs and certain capital and other non operating expenses. Operating Expenses exclude depreciation, amortization and debt service.
[3] The Accrued Debt Service for 2009 includes the principal payment due on July 1, 2009.
[4]Per the second supplemental indenture, PFC and Subordinated Revenue Bonds are payable from and secured by pledged Available PFC Revenues and Net Revenues subordinate and junior to the lien on Senior Revenue bonds.
[5]PFC and Subordinated Revenues represent PFC collections and interest earned during the year.

Debt Capacity (cont.)
Ratio of Annual Debt Service to Total Expenses

LAST TEN FISCAL YEARS

	2009	2008	2007	2006	2005
Principal	$ 4,970,000	$ 4,705,000	$ 7,660,000	$ 6,705,000	$ 6,425,000
Interest [1]	18,203,544	11,516,327	11,800,681	11,881,872	14,082,421
Total debt service	$ 23,173,544	$ 16,221,327	$ 19,460,681	$ 18,586,872	$ 20,507,421
Total expenses	$ 129,364,269	$ 124,769,226	$ 111,488,714	$ 102,984,463	$ 95,188,366
RATIO OF DEBT SERVICE TO TOTAL EXPENSES	17.9%	13.0%	17.5%	18.1%	21.8%

	2004	2003	2002	2001	2000
Principal	$ 4,845,000	$ 4,470,000	$ 4,250,000	$ 4,055,000	$ 4,565,000
Interest [1]	14,366,581	14,164,206	11,585,558	11,796,248	11,996,333
Total debt service	$ 19,211,581	$ 18,634,206	$ 15,835,558	$ 15,851,248	$ 16,561,333
Total expenses	$ 92,084,108	$ 87,145,998	$ 81,767,250	$ 73,954,659	$ 70,029,818
RATIO OF DEBT SERVICE TO TOTAL EXPENSES	22.6%	21.8%	19.6%	21.7%	22.9%

[1]Does not include capitalized interest.

Debt per Enplaned Passenger

LAST TEN FISCAL YEARS

	2009	2008	2007	2006	2005
Bonds payable	$ 559,630,572	$ 562,376,271	$ 244,133,482	$ 248,835,292	$ 261,578,571
Enplaned passengers	4,603,182	5,294,737	5,307,289	5,150,229	4,986,171
DEBT PER ENPLANED PASSENGER	$ 121.57	$ 106.21	$ 46.00	$ 48.32	$ 52.46

	2004	2003	2002	2001	2000
Bonds payable	$ 267,519,013	$ 271,879,455	$ 195,617,887	$ 199,570,443	$ 203,302,998
Enplaned passengers	4,563,607	4,314,273	4,042,585	4,104,096	3,837,471
DEBT PER ENPLANED PASSENGER	$ 58.62	$ 63.02	$ 48.39	$ 48.63	$ 52.98

Debt Capacity (cont.)
Outstanding Debt

LAST TEN FISCAL YEARS

Revenue Bonds	2009	2008	2007	2006
1989 series (6.97% to 7.0%, due 2003-2020)	$ -	$ -	$ -	$ -
1992 series (5.8% to 6.0% , due 2006-2024)			6,290,000	6,290,000
1996 series A (5.3% to 6%, due 2006-2024)				
1998 refunding series A (4.1% to 5.0%, due 2006-2026)			38,780,000	39,730,000
2002 series A (3.0% to 5.25%, due 2006-2032)			69,865,000	71,290,000
2002 refunding series B (3.0% to 5.25%, due 2006-2020)			13,900,000	14,650,000
2006 series A (variable interest rate per auction, due 2007 - 2024)			76,325,000	79,450,000
2008 series A (4.85% to 5.0%, due 2028-2041)	166,675,000	169,575,000		
2008 series B (4.25% to 5.75%, due 2013-2039)	313,760,000	314,340,000		
2008 refunding series C (5.20%, due 2012)	12,280,000	12,280,000		
Total revenue bonds	492,715,000	496,195,000	205,160,000	211,410,000
PFC and Subordinated Revenue Bonds				
1996 series C (5.3% to 5.9%, due 2006-2010)			4,870,000	6,150,000
1998 refunding series B (4.1% to 5.0%, due 2006-2026)			44,365,000	44,495,000
2008 refunding series D (5.0%, due 2026)	45,595,000	46,390,000		
2008 refunding series E (4.25% to 5.75%, due 2013-2024)	42,345,000	43,040,000		
Total PFC and subordinated revenue bonds	87,940,000	89,430,000	49,235,000	50,645,000
Total bonds payable	$ 580,655,000	$ 585,625,000	$ 254,395,000	$ 262,055,000

2005	2004	2003	2002	2001	2000
$ -	$ -	$ -	$ 6,960,000	$ 7,155,000	$ 7,330,000
6,290,000	6,290,000	6,290,000	16,510,000	17,295,000	18,040,000
84,085,000	86,310,000	88,430,000	88,430,000	90,450,000	92,375,000
40,640,000	40,985,000	41,315,000	41,315,000	41,630,000	41,935,000
72,675,000	74,015,000	74,015,000			
15,380,000	16,620,000	17,805,000			
219,070,000	224,220,000	227,855,000	153,215,000	156,530,000	159,680,000
7,365,000	8,520,000	9,615,000	9,615,000	10,660,000	11,655,000
44,620,000	44,740,000	44,855,000	44,855,000	44,965,000	45,070,000
51,985,000	53,260,000	54,470,000	54,470,000	55,625,000	56,725,000
$ 271,055,000	$ 277,480,000	$ 282,325,000	$ 207,685,000	$ 212,155,000	$ 216,405,000

Demographic and Economic
Service Area Population

LAST TEN FISCAL YEARS

	2009	2008	2007	2006	2005
PRIMARY AREA					
Sacramento County	1,433,187	1,424,415	1,406,804	1,385,607	1,369,855
Placer County	339,577	333,401	324,495	316,508	305,675
Yolo County	200,709	199,066	193,983	190,344	187,743
San Joaquin County	689,480	685,660	675,463	670,159	659,885
El Dorado County	180,185	179,722	178,674	176,204	173,407
Sutter County	96,554	95,878	93,919	91,450	88,945
Yuba County	72,900	71,929	70,745	69,827	66,734
TOTAL PRIMARY AREA	3,012,592	2,990,071	2,944,083	2,900,099	2,852,244
SECONDARY AREA	942,379	942,002	938,650	935,164	926,661
TOTAL POPULATION	3,954,971	3,932,073	3,882,733	3,835,263	3,778,905

	2004	2003	2002	2001	2000
PRIMARY AREA					
Sacramento County	1,335,400	1,309,600	1,279,900	1,258,600	1,209,500
Placer County	292,100	275,600	264,900	257,500	234,400
Yolo County	184,500	181,300	176,300	173,500	162,900
El Dorado County	644,513	166,000	163,600	159,700	152,900
San Joaquin County	168,100	625,600	607,487	591,081	568,991
Sutter County	85,500	83,200	81,900	80,900	77,900
Yuba County	64,800	62,800	61,000	60,800	60,700
TOTAL PRIMARY AREA	2,774,913	2,704,100	2,635,087	2,582,081	2,467,291
SECONDARY AREA	912,425	901,878	889,834	882,722	869,721
TOTAL POPULATION	3,687,338	3,605,978	3,524,921	3,464,803	3,337,012

Source: California Department of Finance.

Secondary area population is estimated at 81% of total population for counties included in this category. The secondary area includes Alpine, Amador, Butte, Calaveras, Colusa, Glenn, Napa, Nevada, Plumas, Sierra, Solano, Tehama and Tuolumne Counties.

Demographic and Economic (cont.)
Population/Personal Income of Sacramento County

LAST TEN FISCAL YEARS

	2009	2008	2007	2006	2005
Population	1,433,187	1,424,415	1,406,804	1,385,607	1,369,855
Personal income	N/A [1]	$ 50,157,252	$ 48,313,850	$ 46,376,000	$ 43,228,715
Per capita personal income	N/A [1]	$ 36,340	$ 35,197	$ 34,014	$ 31,987
Unemployment rate (%)	11.1	6.5	5.3	4.7	4.5

	2004	2003	2002	2001	2000
Population	1,335,400	1,309,600	1,279,900	1,258,600	1,209,500
Personal income	$ 40,093,483	$ 38,649,539	$ 37,225,183	$ 35,016,668	$ 32,018,953
Per capita personal income	$ 30,538	$ 29,699.00	$ 29,398.00	$ 28,463.00	$ 26,535.00
Unemployment rate (%)	5.2	5.2	4.7	4.2	4.8

Source: California Department of Finance, U.S. Bureau of Labor Statistics and the US Department of Commerce.

[1] Figures not available

Demographic and Economic (cont.)
Principal Employers for the County of Sacramento

	JUNE 30, 2009			JUNE 30, 2000		
Employer (a)	Employees (b)	Rank	Percentage of Total County Employment	Employees (c)	Rank	Percentage of Total County Employment
Kaiser Permanente	9,608	1	1.50%	7,826	3	1.34%
Sutter / California Health Services	8,220	2	1.28%	15,100	1	2.59%
CHW / Mercy Health Care	6,328	3	0.99%	6,000	5	1.03%
Intel Corporation	6,300	4	0.98%	5,000	10	0.86%
Wells Fargo & Co.	6,272	5	0.98%			
AT & T California	5,389	6	0.84%			
Hewlett-Packard	3,600	7	0.56%	5,800	6	1.00%
Raley's Inc. / Bel Air	3,335	8	0.52%	6,430	4	1.10%
Health Net of California	2,720	9	0.42%			
PRIDE Industries	2,504	10	0.39%			
Oracle Corporation				8,500	2	1.46%
Pacific Bell & Subsidiaries				5,658	7	0.97%
Horizons West Inc.				5,400	8	0.93%
Apple Computers				5,000	9	0.86%
Total	54,276		8.46%	70,714		12.14%

(a) Pacific Bell merged with AT&T in November 2005
(b) Source: Sacramento Business Journal Annual Book of Lists
(c) Source: Sacramento Area Commerce and Trade Organization

Operating Information

Activity Statistics

LAST TEN FISCAL YEARS	2009	2008	2007	2006	2005
SACRAMENTO INTERNATIONAL AIRPORT					
Passengers					
Enplanements	4,603,182	5,294,737	5,307,289	5,150,229	4,986,171
Deplanements	4,605,605	5,303,596	5,307,799	5,144,838	4,974,239
Total passengers	9,208,787	10,598,333	10,615,088	10,295,067	9,960,410
Air mail (lbs.)					
Inbound	2,347,643	420,402	2,356,604	8,488,572	10,955,369
Outbound	1,666,447	2,828,593	1,320,976	7,018,259	10,373,197
Total airmail	4,014,090	3,248,995	3,677,580	15,506,831	21,328,566
Air freight (lbs.)					
Inbound	71,964,353	89,168,308	79,697,218	75,706,041	76,002,268
Outbound	78,120,699	82,452,491	74,955,862	61,030,139	55,446,447
Total air freight	150,085,052	171,620,799	154,653,080	136,736,180	131,448,715
Aircraft operations	140,179	167,725	173,903	172,902	162,397
SACRAMENTO EXECUTIVE AIRPORT					
Aircraft operations	94,035	98,130	122,271	118,405	109,765
SACRAMENTO MATHER AIRPORT					
Air mail (lbs.) [1]					
Inbound	-	-	-	-	-
Outbound	-	-	-	-	-
Total air mail	-	-	-	-	-
Air freight (lbs.)					
Inbound	52,722,440	81,703,461	72,609,458	68,851,888	67,014,010
Outbound	54,753,639	87,841,564	82,530,228	60,115,274	58,295,663
Total air freight	107,476,079	169,545,025	155,139,686	128,967,162	125,309,673
Aircraft operations	91,014	88,245	94,886	98,099	80,532
	2004	2003	2002	2001	2000
SACRAMENTO INTERNATIONAL AIRPORT					
Passengers					
Enplanements	4,563,607	4,314,273	4,042,585	4,093,049	3,837,471
Deplanements	4,551,895	4,332,641	4,025,712	4,092,629	3,869,635
Total passengers	9,115,502	8,646,914	8,068,297	8,185,678	7,707,106
Air mail (lbs.)					
Inbound	8,230,789	7,092,275	7,599,352	10,137,470	8,257,440
Outbound	14,043,719	14,300,327	17,018,953	22,807,330	24,699,669
Total airmail	22,274,508	21,392,602	24,618,305	32,944,800	32,957,109
Air freight (lbs.)					
Inbound	71,737,037	74,534,298	66,279,952	49,849,350	52,181,649
Outbound	58,015,622	60,348,955	56,605,573	47,870,051	51,933,150
Total air freight	129,752,659	134,883,253	122,885,525	97,719,401	104,114,799
Aircraft operations	162,416	159,795	153,846	150,737	153,157
SACRAMENTO EXECUTIVE AIRPORT					
Aircraft operations	140,935	120,200	112,153	125,643	117,603
SACRAMENTO MATHER AIRPORT					
Air mail (lbs.) [1]					
Inbound	-	-	13,269,189	100,742,973	79,286,702
Outbound	-	-	13,527,397	99,645,644	81,863,396
Total air mail	-	-	26,796,586	200,388,617	161,150,098
Air freight (lbs.)					
Inbound	67,511,356	59,180,276	61,048,773	73,951,857	83,397,349
Outbound	60,536,105	56,800,781	67,379,721	71,192,100	74,854,739
Total air freight	128,047,461	115,981,057	128,428,494	145,143,957	158,252,088
Aircraft operations	75,110	75,356	82,578	82,283	N/A

Source: Sacramento County Airport System activity reports.

[1]Air mail operations began at Mather Airport in August 1999 and ceased in August 2001.

Operating Information (cont.)
Scheduled Airline Service
As of June 30, 2009

MAJOR AIRLINE SERVICE

Airline	Nonstop Service	One-Stop, Same-Plane Service
Alaska	Seattle, WA (SEA)	
American	Dallas/Ft. Worth, TX (DFW)	Dayton, OH (DAY)
Continental	Houston, TX (IAH)	
Delta	Atlanta, GA (ATL) Salt Lake City, UT (SLC)	Billings, MT (BIL) Orlando, FL (MCO)
Frontier	Denver, CO (DEN)	
Hawaiian	Honolulu, HI (HNL)	
JetBlue	Long Beach, CA (LGB) New York, NY (JFK)	
Mexicana	Guadalajara, Mexico (GDL) San Jose Cabo, Mexico (SJD) Morelia, Mexico (MLM)	Mexico City, Mexico (MEX)
Northwest	Minneapolis, MN (MSP)	Columbus, OH (CMH) Newark, NJ (EWR)
Southwest	Burbank, CA (BUR) Chicago, IL (MDW) Denver, CO (DEN) Las Vegas, NV (LAS) Los Angeles, CA (LAX) Ontario, CA (ONT) Orange County, CA (SNA) Phoenix, AZ (PHX) Portland, OR (PDX) San Diego, CA (SAN) Seattle, WA (SEA)	Austin, TX (AUS) Nashville, TN (BNA) Raleigh/Durham, NC (RDU) St. Louis, MO (STL)
United	Chicago, IL (ORD) Denver, CO (DEN) Washington, D.C. (IAD)	Omaha, NE (OMA) Rochester, NY (ROC)
US Airways	Charlotte, NC (CLT) Las Vegas, NV (LAS) Philadelphia, PA (PHL) Phoenix, AZ (PHX)	

Operating Information (cont.)

Scheduled Airline Service (cont.)

As of June 30, 2009

REGIONAL AIRLINE SERVICE

Airline	Nonstop Service
Horizon	Boise, ID (BOI)
	Palm Springs, CA (PSP)
	Portland, OR (PDX)
	San Jose, CA (SJC)
	Santa Barbara, CA (SBA)
United Express	Eureka/Arcata, CA (ACV)
	Los Angeles, CA (LAX)
	San Francisco, CA (SFO)

Operating Information (cont.)
Principal Customers/Airport System Employees/Capital Assets

FOR FISCAL YEARS 2008-09 AND 1999-00

Principal Customers

	2008 - 09		1999 - 00	
	Customer Revenue	% Total Customer Revenue	Customer Revenue	% Total Customer Revenue
AMPCO/APCOA Parking [1]	$ 49,540,200	41.63%	$ 25,378,447	37.53%
Southwest Airlines	18,496,107	15.54%	7,851,294	11.61%
United Airlines	4,320,762	3.63%	3,031,298	4.48%
Hertz Corporation	3,667,469	3.08%	-	-
	$ 76,024,538	63.89%	$ 36,261,039	53.62%

[1] AMPCO took over operations January 1, 2006. APCOA Parking ceased operations on December 31, 2005.

Airport System Employees

	2008 - 09	1999 - 00
Full Time Employees	406	377

Capital Assets

	2008-09	2007-08	2006-07	2005-06	2004-05
Aiports	4	4	4	4	4
Licensed Vehicles:					
Cars and Light Trucks	149	148	120	112	108
Buses	47	41	35	44	47

	2003-04	2002-03	2001-02	2000-01	1999-00
Aiports	4	4	4	4	4
Licensed Vehicles:					
Cars and Light Trucks	120	116	126	114	101
Buses	55	47	45	39	37

Intentionally Blank

Intentionally Blank

Bond Disclosure Section

This section contains the following subsections:

Annual Report

Historical Enplaned Passengers

Historical Aircraft Landed Weights

Airlines' Market Shares of Enplaned Passengers

Airlines' Market Shares of Aircraft Landed Weight

Airline and Nonairline Operating Revenues

Annual Report

In accordance with the requirements of the Continuing Disclosure Certificates for the Sacramento County Airport System Revenue Bonds, Series 2008 and 2009 and the Airport System PFC and Subordinated Revenue Bonds, Series 2008 and 2009 (collectively, the "Certificate") the Sacramento County Airport System (Airport System) is including this section to meet the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5)(the Rule).

Beginning with the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2007-2008, and each CAFR thereafter, the Bond Disclosure Section provides the required information consistent with Section 4 of the Certificate. The CAFR is filed with each National and State Repository specified in the Rule, and with any other repository that shall be identified in the future.

ANNUAL REPORT

The following items are required by the Certificate to be included in the Annual Report:

A. The audited financial statements of the Airport System for the most recently completed Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. **Refer to the Financial Section, pages 34-37 of this report.**

B. An annual updating, to reflect results of the most recently completed fiscal year, of the following tables:

1. Historical Enplaned Passengers. Refer to EXHIBIT 1, page 83 of this report.
2. Historical Aircraft Landed Weights. Refer to EXHIBIT 2, page 84 of this report.
3. Airlines' Market Shares of Enplaned Passengers. Refer to EXHIBIT 3, page 85 of this report.
4. Statement of Revenues, Expenses and Changes in Net Assets. Refer to the Statistical Section, Financial Trends, pages 62-63 of this report.
5. Airlines' Market Shares of Aircraft Landed Weight Refer to EXHIBIT 4, page 86 of this report.
6. Nonairline Operating Revenues. Refer to EXHIBIT 5, page 87 of this report.
7. Summary of Historical Revenues, Expenses and Debt Service Coverage. Refer to the Statistical Section, Debt Capacity, page 68 of this report.

REPORTING OF SIGNIFICANT EVENTS

On June 18, 2009, Moody's Investors Service downgraded the ratings on the Sacramento County Airport System's outstanding senior lien revenue bonds from "A1" to "A2", and the outstanding subordinate lien and PFC revenue bonds from "A2" to "A3", and assigned a stable outlook.

On June 24, 2009, Standard & Poor's affirmed the ratings on the Sacramento County Airport System's outstanding senior lien revenue bonds at "A+", and the outstanding subordinate lien and PFC revenue bonds at "A", and revised the outlook from stable to negative.

On November 21, 2008, Financial Security Assurance (FSA), the bond insurer for the Sacramento County Airport System's Series 2008 Bonds, was downgraded by Moody's from "Aaa" to "Aa3".

The above events were disclosed as material events when announced. No additional significant events, as identified in Section 5 of the Certificate, have occurred for any of the outstanding bonds issued by the Sacramento County Airport System, and there is no knowledge on the part of the County of any impending significant events that would require disclosure under the provisions of the Certificate.

Historical Enplaned Passengers

EXHIBIT 1

FISCAL YEARS ENDED JUNE 30

ENPLANEMENTS	2009	2008	2007	2006	2005
Major and Other Airlines (a)	4,245,972	4,741,650	5,075,849	4,897,981	4,763,946
Regional Airlines	357,210	553,087	231,440	252,248	222,225
TOTAL	4,603,182	5,294,737	5,307,289	5,150,229	4,986,171
Percent Change From Prior Year	(13.1%)	(0.2%)	3.1%	3.3%	9.3%

ENPLANEMENTS	2004	2003	2002	2001	2000
Major and Other Airlines (a)	4,336,932	4,096,459	3,853,587	3,966,953	3,707,787
Regional Airlines	226,675	217,814	188,998	137,143	129,684
TOTAL	4,563,607	4,314,273	4,042,585	4,104,096	3,837,471
Percent Change From Prior Year	5.8%	6.70%	(1.5%)	6.9%	4.3%

Source: Airport System statistics reports.

(a) Major airlines are defined for this analysis as scheduled airlines operating aircraft with 60 or more seats; other airlines are nonscheduled.

Historical Aircraft Landed Weight (in 1,000 lb. units)

EXHIBIT 2

FISCAL YEARS ENDED JUNE 30

	2009	2008	2007	2006	2005
Passenger airlines					
All airlines except regionals	5,763,957	6,293,924	6,489,593	6,185,453	6,037,113
Regionals	233,100	456,937	304,247	288,094	255,984
SUBTOTAL	5,997,057	6,750,861	6,793,840	6,473,547	6,293,097
All cargo airlines	811,693	982,234	949,579	728,999	771,423
TOTAL	6,808,750	7,733,095	7,743,419	7,202,546	7,064,520
Percent change from prior year	(12.0%)	(0.1%)	7.5%	2.0%	5.4%

	2004	2003	2002	2001	2000
Passenger airlines					
All airlines except regionals	6,037,113	5,661,830	5,419,459	5,077,398	4,977,201
Regionals	255,984	273,734	264,845	228,166	169,319
SUBTOTAL	6,293,097	5,935,564	5,684,304	5,305,564	5,146,520
All cargo airlines	771,423	764,687	856,342	972,391	1,277,422
TOTAL	7,064,520	6,700,251	6,540,646	6,277,955	6,423,942
Percent change from prior year	5.4%	2.4%	4.2%	(2.3%)	3.6%

Source: Airport System Records

Airlines' Market Shares of Enplaned Passengers

EXHIBIT 3

FISCAL YEARS ENDED JUNE 30

	2009	2008	2007	2006
PERCENTAGE OF TOTAL ENPLANEMENTS				
Major Airlines (a)				
Southwest Airlines	52.6%	50.1%	49.9%	49.9%
United Airlines	7.5%	7.6%	8.8%	10.1%
US Airways (America West Airlines)	6.5%	5.5%	5.9%	5.8%
Delta Airlines	4.4%	4.5%	5.0%	4.9%
Alaska Airlines	4.0%	4.3%	4.8%	4.9%
American Airlines	3.2%	3.8%	4.1%	4.6%
Continental Airlines	3.5%	2.9%	2.8%	2.7%
Frontier Airlines	2.9%	2.6%	2.4%	2.3%
Jet Blue Airlines	2.1%	2.2%	2.8%	1.7%
Northwest Airlines	2.4%	2.0%	2.0%	2.2%
Hawaiian Airlines	1.8%	1.7%	2.0%	1.7%
Mexicana Airlines	1.3%	1.1%	1.1%	1.2%
Aloha Airlines	0.0%	0.9%	1.3%	0.8%
Regional Airlines				
Skywest	4.2%	3.5%	3.8%	4.0%
Horizon Airlines	2.7%	2.9%	2.3%	2.2%
Express Jet	0.8%	2.8%	0.3%	
ASA/Delta Connection	0.0%	1.0%	0.3%	0.5%
Air Canada Jazz	0.1%	0.4%	0.1%	
Mesa Airlines	0.0%	0.2%	0.2%	0.4%
All Other Airlines (b)			0.1%	0.1%
	100.0%	100.0%	100.0%	100.0%
RANKING				
Major Airlines (a)				
Southwest Airlines	1	1	1	1
United Airlines	2	2	2	2
US Airways (America West Airlines)	3	3	3	3
Delta Airlines	4	4	4	4
Alaska Airlines	6	5	5	4
Continental Airlines	7	9	8	7
American Airlines	8	6	6	5
Frontier Airlines	9	11	9	8
Northwest Airlines	11	13	11	9
Jet Blue Airlines	12	12	8	10
Hawaiian Airlines	13	14	11	10
Mexicana Airlines	14	15	13	11
Aloha Airlines		17	12	12
Regional Airlines				
Skywest	5	7	7	6
Horizon Airlines	10	8	10	9
Express Jet	15	10	14	
ASA/Delta Connection		16	14	13
Air Canada Jazz	16	18	16	
Mesa Airlines		19	15	14

Source: Airport System statistics reports.

(a) Defined for this analysis as scheduled airlines operating with 60 or more seats.

(b) Includes nonscheduled, charter, and supplemental airlines.

Airlines' Market Shares of Aircraft Landed Weight

EXHIBIT 4
FISCAL YEARS ENDED JUNE 30

	2009	2008	2007	2006	2005
Major passenger airlines (a)					
Southwest	48.8%	45.0%	43.7%	45.7%	45.0%
United Airlines	6.3%	6.8%	8.0%	9.6%	9.2%
America West Airlines	5.4%	4.8%	5.3%	5.2%	4.7%
Alaska Airlines	3.6%	3.7%	4.2%	4.4%	4.4%
Delta Air Lines	3.3%	3.6%	4.2%	4.1%	4.7%
American Airlines	2.2%	2.6%	3.0%	3.6%	4.8%
Frontier Airlines	3.0%	2.3%	2.2%	2.1%	1.8%
Continental Airlines	2.3%	2.0%	1.9%	2.0%	1.9%
Northwest Airlines	1.7%	1.5%	1.5%	1.7%	1.9%
Hawaiian Airlines	1.7%	1.6%	2.0%	1.6%	1.7%
Jet Blue Airlines	1.8%	2.0%	2.7%	1.5%	1.5%
Mexicana Airlines	1.2%	1.2%	1.1%	1.3%	1.0%
Aloha Airlines	0.0%	1.0%	1.6%	0.8%	0.7%
SUBTOTAL	81.2%	78.1%	81.4%	83.6%	83.3%
Regional airlines	3.4%	5.9%	5.8%	5.9%	5.5%
Other passenger airlines (b)	3.4%	3.3%	0.5%	0.4%	0.3%
Cargo airlines (c)	11.9%	12.7%	12.3%	10.1%	10.9%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

	2004	2003	2002	2001	2000
Major passenger airlines (a)					
Southwest	45.4%	44.1%	42.2%	38.7%	37.4%
United Airlines	8.6%	8.2%	9.2%	12.2%	13.1%
America West Airlines	5.6%	5.5%	7.9%	7.5%	6.9%
Alaska Airlines	4.6%	3.6%	3.8%	3.6%	3.8%
Delta Air Lines	5.0%	5.3%	4.9%	4.8%	5.5%
American Airlines	4.4%	5.1%	4.5%	2.9%	3.1%
Frontier Airlines	1.5%	1.6%	0.6%		
Continental Airlines	1.7%	1.6%	1.5%	1.2%	0.2%
Northwest Airlines	2.0%	2.3%	2.6%	2.4%	2.0%
Hawaiian Airlines	1.8%	1.8%	0.1%		
Jet Blue Airlines	0.4%				
Mexicana Airlines	0.5%	0.6%			
Aloha Airlines	0.7%	0.1%			
TWA	82.2%	0.0%	0.8%	1.7%	1.7%
SUBTOTAL	6.1%	79.8%	78.1%	75.0%	73.7%
Regional airlines	0.3%	6.4%	5.7%	4.6%	4.9%
Other passenger airlines (b)	11.4%	0.7%	0.7%	0.5%	0.7%
Cargo airlines (c)	100.0%	13.1%	15.5%	19.9%	20.7%
TOTAL	117.8%	100.0%	100.0%	100.0%	100.0%

Source: Airport System records.
(a) Defined for this analysis as scheduled passenger airlines operating aircraft with 60 or more seats.
(b) Includes nonscheduled, charter and supplemental airlines.
(c) Includes cargo airlines operating at Mather Airport.

Airline and Nonairline Revenues

EXHIBIT 5

FISCAL YEARS ENDED JUNE 30

	2009	2008	2007
Airline Revenue			
Terminal building rents and fees	$ 24,391,882	$ 10,991,364	$ 11,484,629
Aircraft parking fees	3,403,731	884,287	1,478,640
Loading bridge fees	2,830,286	963,552	639,473
Landing fees	10,471,032	22,108,669	15,477,727
TOTAL AIRLINE REVENUE	$ 41,096,931	$ 34,947,872	$ 29,080,469
NonAirline Revenue			
Airfield area			
Commerical fees	$ 5,503	$ 10,393	$ 10,900
Other landing fees	94,934	117,974	50,539
Aviation fuel sales	845,638	1,129,119	1,152,967
SUBTOTAL	946,075	1,257,486	1,214,406
Terminal building			
Food/beverage	3,181,139	3,116,846	3,329,248
Merchandise	2,094,087	2,068,342	1,582,411
Advertising	456,643	651,857	602,468
Telephones	(34,920)	20,628	31,632
Vending	208,026	218,249	206,846
SUBTOTAL	5,904,975	6,075,923	5,752,605
Parking			
Parking	49,811,395	47,191,301	46,289,886
SUBTOTAL	49,811,395	47,191,301	46,289,886
Other areas			
Auto rentals	9,842,490	10,409,537	10,221,977
Auto rental shuttle bus fees	2,616,398	2,254,039	2,140,558
Taxi/shuttle bus fees	425,291	478,115	479,648
Agricultural leases	-	(12,093)	160,056
Tiedown and hangars	730,797	704,925	717,947
FBO rentals	166,622	165,389	164,322
Aviation ground leases	2,049,707	3,160,651	4,063,263
Other rentals/miscellaneous	4,003,275	3,739,078	2,525,497
SUBTOTAL	19,834,579	20,899,642	20,473,268
Other revenue			
Service fees	1,100,127	911,360	1,015,551
Miscellaneous revenue [1]	474,099	251,281	233,170
SUBTOTAL	1,574,227	1,162,641	1,248,721
TOTAL NONAIRLINE OPERATING REVENUES	78,071,251	76,586,992	74,978,885
Interest income [1]	5,071,128	4,719,298	5,661,918
TOTAL NONAIRLINE REVENUE	$ 83,142,379	$ 81,306,290	$ 80,640,803

Source: Airport System audited financial statements.
[1]As defined in the Bond Master Indenture.

Intentionally Blank

APPENDIX C

CERTAIN UNAUDITED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED MARCH 31, 2009 AND 2010

The information in this Appendix C has been prepared by the County, and is unaudited. Partial year results may not be indicative of full year results.

[THIS PAGE INTENTIONALLY LEFT BLANK]

SACRAMENTO COUNTY AIRPORT SYSTEM
Statement of Revenues, Expenses, and Changes in Net Assets
For the period ended March 31, 2010 and 2009
(Unaudited)

	2010	2009
Operating revenues:		
Concessions	$ 47,112,076	$ 51,209,543
Building rents	27,395,272	25,818,079
Airfield charges	19,920,998	6,702,218
Ground leases	1,943,283	1,785,500
Airport services	664,743	787,771
Sale of fuel	403,602	474,023
Other	98,699	327,252
Total operating revenues	$ 97,538,672	$ 87,104,386
Operating expenses:		
Salaries and benefits	$ 23,348,165	$ 23,847,669
Services and supplies	35,993,901	36,620,622
Depreciation and amortization	18,934,748	19,359,241
Cost of goods sold	323,417	412,805
Other	654,612	664,557
Total operating expenses	$ 79,254,843	$ 80,904,894
Operating income	$ 18,283,829	$ 6,199,492
Nonoperating revenues (expenses):		
Interest income	$ 6,558,168	9,107,286
Passenger Facility Charges revenue	14,516,473	14,471,517
Intergovernmental Revenue	574,191	912,346
Gain (loss) on disposal of assets	(75,333)	1,458
Other nonoperating revenue (expense)	237,270	135,605
Amortization of bond issuance cost	(522,134)	(398,549)
Interest expense	(22,138,969)	(13,657,277)
Net nonoperating revenues (expenses)	$ (850,333)	$ 10,572,386
Income (loss) before contributions	$ 17,433,496	$ 16,771,878
Capital contributions - grants	$ 6,149,334	$ 2,975,816
Changes in net assets	$ 23,582,830	$ 19,747,694
Total net assets - beginning of period	$ 502,077,255	$ 476,713,159
Total net assets - end of period	$ 525,660,084	$ 496,460,853

Certain amounts in the financial statements have been reclassified from the prior year presentation to conform to the current fiscal year presentation.

SACRAMENTO COUNTY AIRPORT SYSTEM
Statement of Net Assets
As of March 31, 2010 and 2009
(Unaudited)

ASSETS		**2010**		**2009**
Current assets:				
Cash and investments	$	130,218,947	$	95,268,167
Deposits with others		12,585,657		3,400,547
Receivables, less allowance for doubtful accounts of $154,572 in 2010 and $119,555 in 2009		8,370,211		6,797,118
Due from other funds				
Due from other governments		2,274,457		2,716,697
Prepaid expenses		9,560,766		10,825,887
Inventories		223,736		252,186
Total current assets	$	163,233,774	$	119,260,602
Restricted current assets used to repay maturing debt	$	73,992,723	$	38,548,534
Noncurrent assets:				
Restricted assets	$	480,886,223	$	332,007,813
Deferred charges	$	18,147,044	$	14,298,397
Capital assets:				
Land	$	40,245,470	$	40,245,470
Structures and improvements		552,545,169		520,663,658
Leasehold improvements		53,525,007		52,676,849
Equipment		27,212,697		27,231,129
Construction in progress		483,510,378		210,079,701
Total capital assets	$	1,157,038,722	$	850,896,807
Less accumulated depreciation and amortization		275,960,624		252,674,710
Net capital assets	$	881,078,097	$	598,222,097
Total noncurrent assets	$	1,380,111,365	$	944,528,307
Total assets	$	1,617,337,862	$	1,102,337,443
LIABILITIES				
Current liabilities:				
Warrants payable	$	2,490,690	$	868,512
Accounts payable and accrued expenses		5,480,612		15,032,407
Total current liabilities	$	7,971,302	$	15,900,919
Current liabilities payable from restricted assets		73,992,723	$	38,548,534
Noncurrent liabilities:				
Revenue bonds payable	$	1,006,198,930	$	548,403,177
Compensated absences		3,350,708		3,023,960
OPEB Liability		164,115		-
Total noncurrent liabilities	$	1,009,713,752	$	551,427,137
Total liabilities	$	1,091,677,778	$	605,876,590
NET ASSETS				
Invested in capital assets, net of related debt	$	224,079,053	$	185,417,308
Restricted Net Assets				
Expendable				
Revenue bond operating reserve	$	24,028,109	$	27,260,013
Revenue bond reserve and contingency		2,000,000		2,000,000
Restricted for debt service		95,624,853		65,501,881
Passenger facility charges		58,661,539		127,176,545
Trust Account interest earnings		57,860		-
Nonexpendable				
Trust Account funds		2,026,551		2,000,000
Total Restricted Net Assets	$	182,398,911	$	223,938,439
Unrestricted Net Assets	$	119,182,120	$	87,105,106
Total net assets	$	525,660,084	$	496,460,853

APPENDIX D

SUMMARY OF THE INDENTURE

General

The following is a summary of certain provisions of the Master Indenture and the Fifth Supplemental Indenture. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Master Indenture and the Fifth Supplemental Indenture. All capitalized terms not defined in this summary or elsewhere in the Official Statement have the meaning set forth in the Indenture.

Certain Amendments to the Master Indenture

In connection with the issuance of the Series 2010 Senior Bonds, the County is seeking to amend and clarify certain provisions of the Master Indenture. Purchasers of the Series 2010 Senior Bonds will, by their purchase and acceptance of the Series 2010 Senior Bonds, give their consent to such amendments to the Master Indenture. Such amendments will become effective when the Outstanding Series 2010 Senior Bonds and any other Senior Obligations, the Owners of which have also given their consent to such amendments, become a majority in aggregate principal amount of all Outstanding Senior Obligations. Additions to the Master Indenture are shown in *italicized* text with additional language to the existing Master Indenture provisions shown in **bold double underline** and deleted language from the existing Master Indenture provisions shown in ~~strikethrough~~. The amendments are described in this summary under the headings "CERTAIN DEFINITIONS," "THE MASTER INDENTURE – Conditions to Issuance of Senior Obligations," "—Conditions to Issuance of Subordinate Obligations" and "—Covenants and Obligations of the County – Rates and Charges."

CERTAIN DEFINITIONS

"Account" means an account, including subaccounts, in any of the Funds established and maintained under the Indenture.

"Accountant's Certificate" means a certificate signed by an Independent Certified Public Accountant.

"Accreted Value" means, with respect to any Capital Appreciation Obligation and as of any date, the Initial Amount thereof plus the interest accrued thereon from its delivery date to such date, compounded at the interest rate with respect to such Capital Appreciation Obligation specified in or determined pursuant to the Supplemental Indenture or Issuing Instrument relating to such Capital Appreciation Obligation, on each compounding date specified in such Supplemental Indenture or Issuing Instrument. The applicable Accreted Value at any date shall be the amount set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, shall be determined by straight-line interpolation with reference to such Accreted Value Table.

"Accreted Value Table" means, with respect to Capital Appreciation Obligations, the table denominated as such in, and to which reference is made in, the Supplemental Indenture or Issuing Instrument relating to such Capital Appreciation Obligations.

"Accrued Debt Service" means, for any period of time and with respect to any Outstanding Obligations, the amount of Debt Service on such Obligations accrued and to accrue during such period, modified as follows:

(a) interest on any Variable Rate Obligation for any portion of such period of time during which the rate has not been established shall be calculated at the maximum rate of interest payable with respect to such Variable Rate Obligation;

(b) interest payable from Capitalized Interest shall be excluded from the calculation;

(c) Debt Service paid from Available Revenues or moneys other than Revenues, including any investment earnings thereon, shall be excluded from the calculation and Debt Service to be paid from Available Revenues or money other than Revenues, including any investment earnings thereon, deposited with the Trustee or another Fiduciary exclusively for such purpose shall be excluded from the calculation;

(d) payments of interest due on any Interest Payment Date for an Obligation shall be deemed to accrue daily in equal amounts from the date of the preceding Interest Payment Date for such Obligation or, with respect to the initial Interest Payment Date for an Obligation, from the dated date of such Obligation; and

(e) payments of maturing principal and Sinking Fund Installments shall be deemed to accrue daily in equal amounts from the date which is one year prior to the due date of such maturing principal and Sinking Fund Installments.

"Act" means Chapter 14 of Part 2 of Division 2 of Title 3 of the Government Code of the State of California (Sections 26301 et seq.), and all laws amendatory thereof or supplemental thereto.

"Additional Bonds" means Additional Senior Bonds, Additional Subordinate Bonds or Additional Junior Subordinate Bonds, as applicable.

"Additional Junior Subordinate Bonds" means Junior Subordinate Bonds issued for the purpose described under the caption "THE MASTER INDENTURE – Authorization and Issuance of Bonds and Obligations – Additional Bonds" below and satisfying the conditions of the Master Indenture relating to the issuance of Junior Subordinate Obligations.

"Additional Senior Bonds" means Senior Bonds, other than the Series 2008 Senior Bonds, issued for the purpose described under the caption "THE MASTER INDENTURE – Authorization and Issuance of Bonds and Obligations – Additional Bonds" below and satisfying the conditions of the Master Indenture relating to the issuance of Senior Obligations.

"Additional Senior Obligations" means Senior Obligations, including Additional Senior Bonds that satisfy the conditions of the Master Indenture relating to the issuance of Senior Obligations.

"Additional Subordinate Bonds" means Subordinate Bonds, other than the Series 2008 Subordinate Bonds, issued for the purpose described under the caption "THE MASTER INDENTURE – Authorization and Issuance of Bonds and Obligations – Additional Bonds" below and satisfying the conditions of the Master Indenture relating to the issuance of Subordinate Obligations.

"Additional Subordinate Obligations" means Subordinate Obligations, including Additional Subordinate Bonds, that satisfy the conditions of the Master Indenture relating to the issuance of Subordinate Obligations.

"Advance Refunded Municipal Securities" means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local government unit of any such state: (a) which are rated "AAA" by S&P and Fitch (if rated by Fitch) or "Aaa" by Moody's; (b) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee, fiscal agent or other fiduciary for such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds or other obligations for redemption on the date or dates specified in such instructions; (c) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) or (b) of the definition of "Permitted Investments" which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in clause (b) above, as appropriate; and (d) as to which the principal of and interest on the bonds and obligations of the character described in clause (a) or (b) of the definition of "Permitted Investments" which have been deposited in such fund, along with any cash on deposit in such fund, have been verified by an Independent Certified Public Accountant as evidenced by an Accountant's Certificate as being sufficient, without reinvestment, to pay principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (b) above, as applicable.

"Aggregate Adjusted Annual Debt Service" means, with respect to any 12 month period of time, the aggregate amount of Accrued Debt Service on any Outstanding Obligations for such period modified, notwithstanding anything to the contrary contained in the definition of "Accrued Debt Service," as follows:

(a) In determining the amount of principal payable in any 12 month period of time, 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 Obligations in accordance with the maturity schedule or amortization schedule (including mandatory redemption from Sinking Fund Installments) established by the Supplemental Indenture or Issuing Instrument for such Obligations, including, as a principal payment, the Accreted Value of any Capital Appreciation Obligations maturing or scheduled for redemption in such year. In determining the amount of interest payable in any 12 month period of time, 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 Interest Payment Dates.

(b) If all or any portion or portions of Outstanding Obligations constitute Balloon Obligations, then, for purposes of determining Aggregate Adjusted Annual Debt Service, each maturity which constitutes Balloon Obligations shall, at the option of the County, unless otherwise provided in the Supplemental Indenture or Issuing Instrument for such Balloon Obligations 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 until the final maturity of such Balloon Obligations, if greater than 20 years) and with substantially level annual debt service payments at an interest rate equal to the rate borne by the Balloon Obligations commencing not later than the year following the year in which such Balloon Obligations was issued.

(c) Any maturity of Obligations which constitutes Balloon Obligations for which the stated maturity date occurs within 12 months from the date the calculation of Aggregate Adjusted 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 the County has received 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 Airport System is sufficient to successfully complete such refinancing; upon the receipt of such letter, such Balloon Obligations 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 Adjusted Annual Debt Service.

(d) If any Outstanding Obligations constitute Variable Rate Obligations except to the extent paragraph (g) applies (including payments or receipts under a Swap determined pursuant to a variable rate formula), the interest rate on such Obligations (or the variable rate formula for such payments or receipts under such Swap) for any period as to which such interest rate cannot be determined shall be assumed to be 110% of the daily average interest rate on such Obligations (or under such Swap) during the 12 months ending with the month preceding the month in which the calculation of Aggregate Adjusted Annual Debt Service is made, or such shorter period that such Obligations shall have been Outstanding.

(e) If any Obligations proposed to be issued shall be Variable Rate Obligations which are Tax-Exempt, except to the extent subsection (h) applies (including payments or receipts under a Swap to be determined pursuant to a variable rate formula based on a tax-exempt index), the interest rate on such Obligations (or the variable rate formula for such payments or receipts under such Swap) shall be assumed to be 110% of the average SIFMA Index during the 12 months ending with the month preceding the month in which the calculation of Aggregate Adjusted Annual Debt Service is made, or if that index is no longer published, 75% of the One Month USD LIBOR Rate, or if the One Month USD LIBOR Rate is not available, another similar rate or index selected by the County.

(f) If any Obligations proposed to be issued shall be Variable Rate Obligations which are not Tax-Exempt, except to the extent subsection (h) applies (including payments or receipts under a Swap to be determined pursuant to a variable rate formula based on the taxable index), the interest rate on such Obligations (or the variable rate formula for such payments or receipts under such Swap) shall be assumed to be 110% of the average One Month USD LIBOR Rate during the 12 months ending with the month preceding the month in which the calculation of Aggregate Adjusted Annual Debt Service is made, or if the One Month USD LIBOR Rate is not available for such period, another similar rate or index selected by the County.

(g) If a Qualified Swap has been entered into by the County with respect to any Outstanding Obligations, the interest rate on such Outstanding Obligations for each period during which payments are to be exchanged by the parties under such Qualified Swap shall be determined for purposes of calculating Aggregate Adjusted Annual Debt Service by adding: (1) the amount of Debt Service paid or to be paid by the County as interest on such Outstanding Obligations during such 12 month period or portion thereof (determined as provided in paragraph (d) if such Outstanding Obligations constitute Variable Rate Obligations) and (2) the net amount (which may be a negative amount) paid or to be paid by the County under the Qualified Swap (after giving effect to payments made and received, and to be made and received, by the County under the Qualified Swap) during such period (determined as provided in paragraph (d)), provided that if such Obligations are subject to a Qualified Swap that effectively converts the interest rate to be paid by the County on such Obligations to a fixed rate of interest, the Obligations shall be assumed to bear interest at the fixed rate of interest specified in such Qualified Swap during the stated term of such Qualified Swap.

(h) If a Qualified Swap has been entered into by the County with respect to any Obligations proposed to be issued, which Qualified Swap will be effective at the time the Obligations are issued, the interest on such proposed Obligations for each period during which payments are to be exchanged under the Qualified Swap shall be determined for purposes of calculating Aggregate Adjusted Annual Debt Service by adding: (1) the amount of Debt Service to be paid by the County as interest on such Obligations during such period (determined as provided in paragraph (e) or (f), as applicable, if such Obligations are to constitute Variable Rate Obligations) and (2) the net amount (which may be a negative amount) to be paid by the County under the Qualified Swap (after giving effect to payments to be made and received by the County under the Qualified Swap) during such period (determined as provided in paragraphs (e) and (f), as applicable), provided that if such Obligations are subject to a Qualified Swap that effectively converts the interest rate to be paid by the County on such Obligations to a fixed rate of interest, the Obligations shall be assumed to bear interest at the fixed rate of interest specified in such Qualified Swap during the stated term of such Qualified Swap.

(i) With respect to any Obligations which are part of a Commercial Paper Program, it shall be assumed that the Outstanding amount of such Commercial Paper Program will be amortized over a term certified by an Authorized County Representative as the expected duration of such Commercial Paper Program at the time the initial Obligations of such Commercial Paper Program are issued or, if such expectations have changed, over a term certified by an Authorized County Representative to be the expected duration of such Commercial Paper Program at the time the calculation of Aggregate Adjusted Annual Debt Service is made, but not to exceed 30 years from the date the initial Obligations of such Commercial Paper Program are issued and it shall be assumed that Debt Service with respect to such Commercial Paper Program 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 average rate for such Obligations during the preceding 12 month period or, if the Obligations have not been Outstanding for a 12 month period, the period since the issuance of such Obligations or, if the Obligations under the Commercial Paper Program are Obligations proposed to be issued, as provided in paragraph (e) or (f) of this definition, as applicable.

(j) Reimbursement Obligations shall be included in the calculation of Aggregate Adjusted Annual Debt Service to the extent of amounts due during such 12 month period on the related Credit Support Instrument and only to the extent not otherwise included in Aggregate Adjusted Annual Debt Service and not otherwise paid as Operating Expenses. Interest on such Reimbursement Obligations shall be calculated at the rate in effect on the date the calculation of Aggregate Adjusted Annual Debt Service is made. Reimbursement of amounts drawn shall be treated as principal and payable as provided in the related Credit Support Agreement.

(k) 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 Debt Service on specified Obligations, then the Debt Service 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 Adjusted Annual Debt Service.

(l) The Purchase Price of Tender Obligations shall not be included in the calculation of Aggregate Adjusted Annual Debt Service unless, at the time of calculation of Aggregate Adjusted Annual Debt Service, the Obligations have been tendered or deemed tendered for purchase in accordance with the applicable Supplemental Indenture or Issuing Instrument and the Purchase Price is not payable from amounts available under a Credit Support Instrument.

(m) If Available Revenues or moneys other than Revenues have been irrevocably committed pursuant to a Supplemental Indenture or Issuing Instrument for the purpose of paying Debt Service on specified Obligations, then the Debt Service to be paid from such amounts, including any investment earnings thereon, shall be disregarded and not included in calculating Aggregate Adjusted Annual Debt Service.

"Airport System" means the whole and each and every part of the existing airport system of the County, including the Sacramento International Airport, Mather Airport, Executive Airport and Franklin Field and any other airport or aviation facility owned or operated by the County and designated by the County to be part of the Airport System, including runways, taxiways, landing pads, aprons, ramps, beacon sites, obstruction lights, navigational and landing aids, control towers, facilities for storage of aircraft and for parking of automobiles, roadways, passenger and freight terminals, land, easements and rights in land for clear zone and approach purposes, maintenance hangars and related facilities and all equipment, buildings, grounds, facilities, utilities and structures owned, leased or operated in connection with or for the promotion or the accommodation of air commerce and air navigation and services in connection therewith, together with all additions, betterments, extensions, replacements, renewals and improvements thereto which may hereafter be undertaken; provided, however, that the term does not include a Special Facility so long as Special Facility Obligations are Outstanding with respect to such Special Facility.

"Airport Consultant" means any independent consultant or firm of independent consultants of national reputation in matters relating to the planning, acquisition, construction, maintenance, operation and financing of airports comparable to the airports included in the Airport System, appointed and paid by the County, and who, or each of whom (a) is in fact independent and not under the domination of the County; (b) does not have a substantial financial interest, direct or indirect, in the operations of the County; and (c) is not connected with the County as a supervisor, officer or employee of the County, but who may be regularly retained to make management reports to the County.

"Annual Budget" means the annual budget, as amended or supplemented, adopted or in effect for a particular Fiscal Year as provided in the Master Indenture.

"Authorized Denominations" means, with respect to the Bonds of any Series, the denomination or denominations designated as such in the Supplemental Indenture authorizing such Bonds.

"Authorized Airport Representative" means the Director of Airports or the Chief Administrative Officer of the Airport System and any other Person who is duly authorized to act as an Authorized Airport Representative for purposes of the Master Indenture or an Issuing Instrument by the Board.

"Authorized County Representative" means the Director of Finance of the County and any other Person who is duly authorized to act as an Authorized County Representative for purposes of the Master Indenture or an Issuing Instrument.

"Available CFC Account" has the meaning set forth under the heading "THE MASTER INDENTURE – Establishment and Application of Funds – Available Revenues" below.

"Available CFC Revenues" means, for any period of time, the amount of Customer Facility Charges specified in a Supplemental Indenture pursuant to the Master Indenture.

"Available Grant Account" has the meaning set forth under the heading "THE MASTER INDENTURE – Establishment and Application of Funds – Available Revenues" below.

"Available Grant Revenues" means, for any period of time, the amount of Grant Funds specified in a Supplemental Indenture pursuant to the Master Indenture.

"Available PFC Account" has the meaning under the heading "THE MASTER INDENTURE – Establishment and Application of Funds – Available Revenues" below.

"Available PFC Revenues" means, for any period of time, the amount of Passenger Facility Charges specified in a Supplemental Indenture pursuant to the Master Indenture.

"Available Revenues" means for any period of time, the amount of Available CFC Revenues, Available Grant Revenues and Available PFC Revenues to be received by the County during such period.

"Balloon Obligations" means, with respect to any Series of Obligations not included in a Commercial Paper Program, those Obligations of such Series which mature on the same date or within a 12-month period (with Sinking Fund Installments on Term Obligations deemed to be payments of matured principal) and which on the date of original issuance constitute at least 25% of the principal amount of the Obligations of such Series. For purposes of this definition, the principal amount maturing on any date shall be reduced by the amount of such indebtedness which is required, by the applicable Supplemental Indenture or Issuing Instrument, to be amortized by prepayment or redemption prior to its stated maturity date.

"Beneficial Owner" means, with respect any Book-Entry Bond, the beneficial owner of such Bond as determined in accordance with the applicable rules of the Securities Depository for such Book-Entry Bonds.

"Board" means the Board of Supervisors of the County or any successor body of the Board of Supervisors.

"Bond" means any of the County of Sacramento Airport System Revenue Bonds authorized pursuant to the Master Indenture and a Supplemental Indenture, whether Senior Bonds, Subordinate Bonds or Junior Subordinate Bonds.

"Bond Counsel" means Orrick, Herrington & Sutcliffe LLP or another attorney or firm of attorneys of recognized national standing in the field of law relating to municipal securities and to exclusion of interest thereon from income for federal income tax purposes selected by the County.

"Bond Debt Service" means, for any period of time, the Debt Service on any Outstanding Bonds during such period **<u>less the amount of any Subsidy received or expected to be received with respect to or in connection with such Outstanding Bonds during such period of time</u>**.

"Bond Register" means the registration books for the ownership of Bonds and other Obligations maintained by (or with respect to Obligation other than Bonds, on behalf of) the Trustee pursuant to the Master Indenture.

"Book-Entry Bonds" means Bonds registered in the name of DTC or any successor Securities Depository for the Bonds, or a nominee thereof, as the registered owner thereof pursuant to the Master Indenture.

"Business Day" means, with respect to each Series of Obligations, unless otherwise provided with respect to a particular Series of Obligations in the Supplemental Indenture or Issuing Instrument relating to such Series, any day of the year other than (a) a Saturday, (b) a Sunday, (c) any day which shall be in Sacramento, California or New York, New York a legal holiday, and (d) any day on which the banks are authorized or required by law or other government action to close in the State of New York or the State or any city in which the Principal Office of the Trustee or any other Fiduciary or any Credit Provider for such Series of Bonds is located.

"Capital Appreciation Obligations" means any Obligations the interest on which is compounded and not scheduled to be paid until the maturity or prior redemption of such Obligations (including, as the context requires, a Convertible Obligation before the applicable Conversion Date).

"Capital Improvement" means, to the extent chargeable to a capital account of the Airport System under Generally Accepted Accounting Principles: (a) any addition, betterment, replacement, renewal, extension, equipping, or improvement of or to the Airport System, including, without limitation, the acquisition of land or any interests therein; and (b) capital costs for the extension, reinforcement, enlargement or other improvement of facilities or property, or the acquisition of interests therein, not included as part of the Airport System, determined by the County to be necessary or convenient in connection with the utilization of the Airport System.

"Capital Improvement Fund" means the Fund so designated, established pursuant to the Master Indenture.

"Capitalized Interest" means the proceeds of Obligations or other moneys deposited with the Trustee, in the case of Bonds, and in the case of other Obligations with a trustee or other fiscal agent for such Obligations, the application of which is limited by the terms of the applicable Supplemental Indenture or Issuing Instrument to the payment of interest on specified Obligations for a specified period.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code in the Master Indenture or an Issuing Instrument shall be deemed to include the applicable United States Treasury Regulations thereunder and also includes all amendments and successor provisions unless the context clearly requires otherwise.

"Commercial Paper Program" means a program of short-term Obligations having the characteristics of commercial paper in that such Obligations have a stated maturity not later than 270 days from their date of issue and that the principal of maturing Obligations of such program are expected to be paid with the proceeds of renewal short-term Obligations except to the extent that the Obligations of such commercial paper program are to be amortized.

"Construction" means, with respect to a Capital Improvement, the planning, designing, acquiring, constructing, installing, furnishing, equipping and financing of such Capital Improvement, placing such Capital Improvement in operation, and obtaining governmental approvals, certificates, permits and licenses with respect to the acquisition, construction, installation, furnishing, equipping and financing of such Capital Improvement and to the operation of such Capital Improvement.

"Construction Fund" means the Fund so designated, established pursuant to the Master Indenture.

"Conversion Date" means the date set forth in the applicable Supplemental Indenture or Issuing Instrument on and after which a Convertible Obligation is deemed a Current Interest Obligation and after which the Owners shall be entitled to current payments of interest on each interest payment date.

"Convertible Obligation" means a Capital Appreciation Obligation which is deemed to be a Current Interest Obligation on and after the applicable Conversion Date.

"Cost" means, with respect to any Capital Improvement, all costs and expenses of the Construction of such Capital Improvement paid or incurred by the County. Payment of Cost shall include the reimbursement to the County for any of the costs included in this definition of Cost paid by the County and not previously reimbursed to the County and which are not to be reimbursed from government grants or other moneys not constituting the proceeds of Obligations.

"Costs of Issuance" means, with respect to any Obligations, all items of expense directly or indirectly payable by or reimbursable to the County and related to the original authorization, execution, sale and delivery of such Obligations, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, including disclosure documents and documents relating to the sale of such Obligations, the initial costs of any Credit Support Instrument and any Reserve Guaranty, the initial fees and charges (including counsel fees) of any Fiduciary and any Credit Provider, legal fees and charges to the County, fees and expenses of financial advisors to the County, fees and expenses of other consultants and professionals providing services to the County, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of such Obligations and any other cost, charge or fee to the County or required to be paid by the County in connection with the authorization, issuance, sale or original delivery of such Obligations.

"County" means the County of Sacramento, a political subdivision of the State of California duly organized and existing under and by virtue of the laws of the State of California.

"Credit Provider" means any insurance company, bank or other institution which has issued any Credit Support Instrument.

"Credit Provider Bonds" means any Obligations the Purchase Price of which has been paid with funds provided under a Credit Support Instrument for so long as such Obligations are held by or for the account of, or are pledged to, the applicable Credit Provider or any assignee thereof in accordance with the applicable Credit Support Agreement.

"Credit Support Agreement" means, with respect to any Credit Support Instrument, the agreement or agreements (which may be the Credit Support Instrument itself) between the County and the applicable Credit Provider providing for, among other things, the reimbursement to the Credit Provider for draws under the applicable Credit Support Instrument, as originally executed or as they may from time to time be supplemented or amended in accordance with the provisions thereof and any applicable Supplemental Indenture or Issuing Instrument. "Credit Support Agreement" also means and includes covenants or agreements of the County contained in a Supplemental Indenture or Issuing Instrument providing for the reimbursement to the Credit Provider for draws under the applicable Credit Support Instrument.

"Credit Support Instrument" means a policy of insurance, a letter of credit, a stand-by purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit and/or liquidity support with respect to the payment of the principal or Purchase Price of, or interest on, any Obligations; provided that the term shall not include any Reserve Guaranty.

"Customer Facility Charges" means charges collected by the County pursuant to the authority granted by the Section 1936 of the Civil Code of the State (or any successor statute), as amended and supplemented from time to time, in respect of any component of the Airport System and interest earnings thereon, net of amounts that collecting entities are entitled to retain for collecting, handling and remitting such customer facility charge revenues.

"Current Interest Obligation" means an Obligation (including, as the context requires, a Convertible Obligation on and after the applicable Conversion Date), the interest on which is payable currently on each Interest Payment Date.

"Debt Service" means, for any period of time and with respect to any Outstanding Obligations, the sum of:

(a) the interest payable during such period on the Obligations, assuming that all Serial Obligations are retired as scheduled and that all Term Obligations are redeemed or paid from Sinking Fund Installments as scheduled;

(b) that portion of the principal amount of all Serial Obligations maturing on each principal payment date during such period, including the Final Compounded Amount of any Capital Appreciation Obligations which are Serial Obligations;

(c) that portion of the principal amount of all Term Obligations required to be redeemed or paid from Sinking Fund Installments becoming due during such period (together with the premiums, if any, thereon), including the Accreted Value of any Capital Appreciation Obligations which are Term Obligations;

(d) the amounts payable as Reimbursement Obligations during such period only to the extent not otherwise included in Debt Service and not otherwise paid as Operating Expenses;

(e) the Purchase Price of Tender Obligations payable by the County during such period to the extent that such Tender Obligations have been tendered or deemed tendered for purchase in accordance with the applicable Supplemental Indenture or Issuing Instrument and the Purchase Price is not payable from the proceeds of remarketing or amounts available under a Credit Support Instrument;

(f) the amounts payable by the County on Obligations relating to payments due under any Swap minus any payments payable to the County under any Swap during such period only to the extent not otherwise included in Debt Service; and

(g) the amounts payable on any other Obligations during such period only to the extent not otherwise included in Debt Service.

"Defeasance Securities" means any of the securities described in clause (a), (b) or (n) of the definition of "Permitted Investments."

"Department" means the Sacramento County Airport System or any successor charged with operating the Airport System.

"DTC" means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York or its successors and assigns. References in the Master Indenture to DTC shall include any Nominee of DTC in whose name any Bond or other Obligation is registered.

"Electronic" means, with respect to notice, notice through telecopy, telegraph, telex, facsimile transmission, internet, e-mail, dedicated electronic link or other electronic means of communication capable of producing a written record.

"Escrow Agent" means the Trustee or a bank or trust company organized under the laws of any state of the United States, or a national banking association, in each case satisfying the financial qualifications of a successor Trustee contained in the Master Indenture and appointed by the County to hold in trust moneys set aside for the payment or redemption of, or interest installments on, a Bond or Bonds, or any portion thereof, deemed paid pursuant to the Master Indenture.

"Event of Bankruptcy" means any of the following with respect to any Person: (a) the commencement by such Person of a voluntary case under the United States Bankruptcy Code or any other applicable federal or state bankruptcy, insolvency or similar laws; (b) failure by such Person to timely controvert the filing of a petition with a court having jurisdiction over such Person to commence, or an order for relief being entered in, an involuntary case against such Person under the United States Bankruptcy Code or any other applicable federal or state bankruptcy, insolvency or similar laws; (c) such Person shall admit in writing its inability to pay its debts generally as they become due; (d) a receiver, conservator, trustee, custodian, liquidator or similar official of such Person or such Person's assets shall be appointed; (e) an assignment for the benefit of creditors shall be made by such Person; or (f) the entry by such Person into an agreement of composition with its creditors.

"Event of Default" means an event described as such under the heading "THE MASTER INDENTURE – Events of Default; Remedies – Events of Default" below.

"Facilities Construction Credits" means the amounts resulting from an arrangement embodied in a written agreement between the County and another Person pursuant to which the County permits such Person to make a payment or payments to the County which is reduced by the amount owed by the County to such Person under such agreement, resulting in a net payment to the County by such Person. The "Facilities Construction Credit" shall be deemed to be the amount owed by the County under such agreement which is "netted" against the payment of such Person to the County.

"Favorable Opinion of Bond Counsel" means, with respect to any action requiring such an opinion, an Opinion of Bond Counsel to the effect that such action shall not, in and of itself, result in the inclusion of interest on the Bonds (or such portion thereof as shall be specified in the applicable provisions of the Master Indenture requiring such an opinion) in gross income for federal income tax purposes and that such action is authorized by or permitted under the terms of the Master Indenture.

"Fiduciary" means the Trustee, any Paying Agents for the Obligations appointed as provided in the Master Indenture and any Escrow Agent, tender agent or other fiscal agent for the Obligations appointed pursuant to a Supplemental Indenture or Issuing Instrument.

"Final Compounded Amount" means the Accreted Value of any Capital Appreciation Obligation on its maturity date (or, as the context requires, the Accreted Value of any Convertible Obligation on its Conversion Date).

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the County.

"Fitch" means Fitch Ratings and any successor entity rating Obligations at the request of the County.

"Fund" means a fund established and maintained under the Master Indenture.

"General Fund" means the fund by that name existing in the treasury of the County created under applicable law.

"Generally Accepted Accounting Principles" means the accounting principles generally accepted in the United States applied on a consistent basis that are applicable to the circumstances as of the date of determination as set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants applicable to a government-owned airport applying all statements and interpretations issued by the Governmental Accounting Standards Board and, to the extent adopted by the County from time to time: (a) the statements and pronouncements of the Financial Accounting Standards Board; and (b) the statements and pronouncements of such other entity or entities as may be approved by a significant segment of the accounting profession.

"Grant Funds" means grants to be provided to the County by the United States or the State pursuant to a Letter of Intent in connection with Airport System facilities or projects, and which grants are permitted by the terms thereof to be used for the payment of Obligations.

"Indenture" means the Master Indenture, as supplemented and amended from time to time by Supplemental Indentures.

"Independent Certified Public Accountant" means any firm of certified public accountants selected by the County, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Mergent" 5250 77 Center Drive, Suite 150, Charlotte, North Carolina, 28217, Attention: Called Bond Department; the Municipal Securities Rulemaking Board, CDI Pilot, 1640 King Street, Suite 300, Alexandria, Virginia 22314; and S&P "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, as the County may designate in writing to the Trustee.

"Initial Amount" means the Accreted Value of a Capital Appreciation Obligation on its date of issuance.

"Interest Payment Date" means, with respect to a Series of Obligations, each date on which interest on Obligations of such Series is scheduled to be paid as set forth in, or determined in accordance with, the Supplemental Indenture or Issuing Instrument relating to such Series.

"Issuing Instrument" means, with respect to any Obligations other than Bonds (Bonds shall be issued pursuant to a Supplemental Indenture), the Master Indenture, trust agreement, loan agreement, lease, installment purchase agreement, revolving credit agreement, Credit Support Agreement, Swap or other instrument or agreement pursuant to which such Obligations are issued or incurred.

"Junior Agreement" has the meaning described under the heading "THE MASTER INDENTURE – Covenants and Obligations of the County – Creation of Prior Liens" below.

"Junior Holder" has the meaning described under the heading "THE MASTER INDENTURE – Covenants and Obligations of the County – Creation of Prior Liens" below.

"Junior Obligation" has the meaning described under the heading "THE MASTER INDENTURE – Covenants and Obligations of the County – Creation of Prior Liens" below.

"Junior Subordinate Bonds" means Bonds issued for the purpose set forth in the Master Indenture and satisfying the conditions of therein relating to the issuance of Junior Subordinate Obligations, which are subordinated as set forth in the provisions of the Master Indenture relating to the issuance of Junior Subordinate Obligations.

"Junior Subordinate Fund" means the Fund so designated, established pursuant to the Master Indenture.

"Junior Subordinate Obligations" means any Junior Subordinate Bonds and any Obligations (or portions thereof) which are subordinated as set forth in the provisions of the Master Indenture relating to the issuance of Junior Subordinate Obligations and that satisfy the conditions of the Master Indenture relating to the issuance of Junior Subordinate Obligations, including without limitation any Termination Payments under Qualified Swaps for Subordinate Bonds, Reimbursement Obligations related to Junior Subordinate Bonds and Net Payments and Termination Payments under Swaps related to Junior Subordinate Bonds.

"Junior Subordinate Payment Default" means a failure to pay when due any Junior Subordinate Obligations.

"Letter of Intent" means a written commitment to make grant payments to the County (which commitment may be subject to appropriations) from the United States of America or any department or agency thereof, including the Federal Aviation Administration of the United States Department of Transportation and the Transportation Security Administration of the United States Department of Homeland Security, or from the State or any department or agency of the State.

"Master Indenture" means the Master Indenture of Trust, dated as of May 1, 2008, between the County and the Trustee, as the provisions thereof may be modified or amended from time to time.

"Moody's" means Moody's Investors Service, Inc. and any successor entity rating Obligations at the request of the County.

"Net Payment" means, with respect to a Swap, the amount payable by the County on each scheduled payment date under such Swap net of the amount payable by the counterparty under such Swap on such scheduled payment date.

"Net Proceeds" means (a) insurance proceeds received as a result of damage to or destruction of Airport System facilities (other than Special Facilities so long as Special Facility Obligations are Outstanding with respect to the damaged or destroyed Special Facilities) and (b) any condemnation award or amounts received by the County from the sale of Airport System land or facilities under the threat of condemnation (other than Special Facilities so long as Special Facility Obligations are Outstanding with respect to such condemned or sold Special Facilities) less (c) expenses (including attorneys' fees and expenses and any fees and expenses of the Trustee) incurred in the collection of such proceeds, sale or award.

"Net Revenues" mean, for any period of time, the Revenues for such period less the Operating Expenses for such period.

"Nominee" means the nominee of the Securities Depository for the Book-Entry Bonds in whose name such Bonds are to be registered. The initial Nominee shall be Cede & Co., as the nominee of DTC.

"Obligations" means any obligation of the County, including any Bond, issued pursuant to the Master Indenture and a Supplemental Indenture or Issuing Instrument, as applicable.

"One Month USD LIBOR Rate" means, as of any date of determination, the offered rate for deposits in U.S. dollars for a one month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then the One Month USD LIBOR Rate for such date shall be the offered rate for deposits in U.S. dollars for a one month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on the next preceding date on which such dealings were transacted in such market.

"Operating Expenses" means the reasonable and necessary costs and expenses of operating, maintaining and administering the Airport System, determined in accordance with Generally Accepted Accounting Principles, including (among other things) salaries and wages, payments in connection with medical, pension and post-retirement medical plans, fees for services, costs of materials, supplies and fuel, reasonable expenses of management, repairs and other expenses necessary to maintain and preserve the Airport System in good repair and working order, reasonable amounts for administration, insurance, taxes (if any) and other similar costs, legal fees and expenses, the fees and expenses of the Fiduciaries, charges under management agreements for the operation and maintenance of the Airport System, the fees and expenses of remarketing agents, auction agents and broker-dealers, the regularly scheduled fees to be paid pursuant to any Credit Support Agreement, expenses (but not debt service) incurred in connection with the purchase or redemption of Obligations, and all other costs properly allocable to the operation, maintenance or administration of the Airport System, but excluding in all cases:

(a) amortization of intangibles or other bookkeeping entries of a similar nature;

(b) amortization and depreciation of Airport System facilities and assets;

(c) charges for the payment of principal, Redemption Price, Purchase Price, interest or other payments on any Obligations;

(d) any items chargeable to a capital account;

(e) any loss from the sale, exchange or other disposition of capital assets of the Airport System;

(f) any unrealized losses on securities held for investment by or on behalf of the County for the Airport System;

(g) any losses resulting from changes in valuation of any Swap;

(h) any unrealized losses from the write-down, reappraisal or revaluation of assets including investments for "other than temporary" declines in book value;

(i) any extraordinary losses;

(j) any loss resulting from extinguishment of indebtedness; and

(k) the costs and expenses of operating, maintaining and administering any Special Facility.

For purposes of testing compliance with the rate covenant and the limitations on the issuance of Obligations contained in the Master Indenture, Operating Expenses will be calculated based upon Generally Accepted Accounting Principles, except that such calculation will include and exclude those items specifically included or excluded above.

"Operating Fund" means the Fund so designated, established pursuant to the Master Indenture.

"Operating Reserve Account" means the Account in the Operating Fund so designated, established pursuant to the Master Indenture.

"Operating Reserve Requirement" means, as of any date of calculation, an amount equal to 25% of the amount included in the then current Annual Budget for Operating Expenses.

"Opinion of Bond Counsel" means a written opinion signed by Bond Counsel.

"Outstanding" means as of any particular time: (a) with respect to Bonds, except as otherwise provided in the Master Indenture, all Bonds theretofore or thereupon being issued by the County except (i) Bonds theretofore cancelled or surrendered to the Trustee for cancellation; (ii) subject to the provisions of the Master Indenture relating to Bonds held by a Credit Provider, Bonds paid or deemed to be paid pursuant to the provisions of the Master Indenture relating to defeasance of bonds; and (iii) Bonds in lieu of or in substitution for which replacement Bonds have been issued; and (b) with respect to any other Obligations, all such Obligations other than Obligations no longer outstanding under the provisions of the Issuing Instrument relating to such Obligations.

"Owner" means, with respect to a Bond, the registered owner of such Bond as set forth in the Bond Register. "Owner", when used with respect to an Obligation other than Bonds means the registered owner or holder of such Obligation as set forth in the Bond Register.

"Participants" means, with respect to a Securities Depository for Book-Entry Bonds, those participants listed in such Securities Depository's book-entry system as having an interest in such Bonds.

"Participating Senior Bonds" means the Senior Bonds of each Series except any Series of Senior Bonds which, pursuant to the terms of the Supplemental Indenture relating to such Series, is not secured by amounts in the Senior Debt Service Reserve Fund.

"Participating Subordinate Bonds" means the Subordinate Bonds of each Series except any Series of Subordinate Bonds which, pursuant to the terms of the Supplemental Indenture relating to such Series, is not secured by amounts in the Subordinate Debt Service Reserve Fund.

"Passenger Facility Charges" means charges collected by the County 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," when used with reference to any Series of Obligations, means any commercial bank or trust company organized under the laws of any state of the United States of America, or any national banking association, designated as paying agent for the Obligations of such Series, and its successor or successors appointed in the manner provided in the Master Indenture.

"Payment Priorities" means payment of Obligations in the following order of priority:

(1) first, the Senior Obligations until they are no longer Outstanding on a pro rata basis and among such maturities and/or Sinking Fund Installments as designated by the County and by lot within a maturity;

(2) second, the Subordinate Obligations until they are no longer Outstanding on a pro rata basis and among such maturities and/or Sinking Fund Installments as designated by the County and by lot within a maturity;

(3) third, the Junior Subordinate Obligations until they are no longer Outstanding on a pro rata basis and among such maturities and/or Sinking Fund Installments as designated by the County and by lot within a maturity; and

(4) fourth, any other payments not covered by (1), (2) and (3) of this definition.

"Permitted Investments" means any of the following:

(a) Direct obligations of the United States (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Farmers Home Administration ("FmHA")
Certificates of beneficial ownership

(ii) Federal Housing Administration ("FHA")
Debentures

(iii) General Services Administration
Participation certificates

(iv) Government National Mortgage Association (“GNMA”)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations (participation certificates)

(v) United States Maritime Administration
Guaranteed Title XI financing

(vi) United States Department of Housing and Urban Development
Capital Improvement Notes
Local Agency Bonds

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Federal Home Loan Bank System
Senior debt obligations

(ii) Federal Home Loan Mortgage Corporation (“FHLMC”)
Participation Certificates
Senior debt obligations

(iii) Federal National Mortgage Association (“FNMA”)
Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal)

(iv) Student Loan Marketing Association
Senior debt obligations

(v) Resolution Funding Corporation (“REFCORP”)
Obligations (only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable)

(vi) Farm Credit System
Consolidated system-wide bonds and notes

(d) Money market funds rated at least “AAAm-G” or “AAAm” by S&P or “Aaa” by Moody’s including funds for which the Trustee or any of its affiliates (including any holding company, subsidiaries, or other affiliates) provides investment advisory or other management services, provided such funds satisfy the criteria contained in the Master Indenture.

(e) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above. Such certificates must be issued by commercial banks (including affiliates of the Trustee), savings and loan associations or mutual savings banks. The collateral must be held by a third party and the County or the Trustee must have a perfected first priority security interest in the collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation.

(g) Investment agreements with, or guaranteed by, a domestic or foreign bank, financial institution or corporation or other entity (other than a life or property casualty insurance company) the long-term debt of which is rated at the time of execution at least "AA" by S&P and "Aa" by Moody's, and which agreements are acceptable to each Credit Provider whose acceptance is required by a Supplemental Indenture, an Issuing Instrument or a Credit Support Agreement.

(h) Commercial paper rated, at the time of purchase, at least "P-1" by Moody's and "A-1" by S&P and which matures not later than 270 calendar days after the date of purchase.

(i) Bonds, notes, or other obligations of any state of the United States of America or of any agency, instrumentality or local government unit of any such state which are rated by Moody's and S&P in the highest rating category assigned by such Rating Agencies and general obligations of such states rated at least "A-2" by Moody's and "A" by S&P.

(j) United States dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including those of the Trustee and its affiliates) which has an unsecured, uninsured and unguaranteed obligation rating on their short-term certificates of deposit on the date of purchase of at least "P-1" by Moody's and "A-1" by S&P and maturing not more than 180 calendar days after the date of purchase.

(k) Repurchase Agreements for 30 days or less must satisfy the following criteria. Repurchase Agreements which exceed 30 days must be acceptable to each Credit Provider whose acceptance is required by a Supplemental Indenture, an Issuing Instrument or a Credit Support Agreement.

(i) Repurchase agreements must be between the County or the Trustee and a dealer bank or securities firm

(1) Primary dealers on the Federal Reserve reporting dealer list must be rated at the time of execution at least "A" by S&P and Moody's, or

(2) Banks must be rated at the time of execution at least "A" by S&P and Moody's.

(ii) The written repurchase agreements contract must include the following:

(1) Securities which are acceptable for transfer are:

(A) Securities described in subsection (a) or (b) of this definition, or

(B) Securities of FNMA or FHLMC described in subsection (c) of this definition.

(2) The collateral must be delivered to the County, the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneously with payment.

(3) Valuation of Collateral

(A) The securities must be valued weekly, marked-to-market at current market price plus accrued interest

(iii) The value of collateral in the case of securities described in subsections (a) or (b) of this definition must be equal to 104% of the amount of cash transferred by the County or the Trustee to the dealer bank or security firm under the repurchase agreement plus accrued interest. The value of collateral in the case of securities of FNMA or FHLMC described in subsection (c) of this definition must be equal to 105% of the amount of cash transferred by the County or the Trustee to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the value of securities held as collateral falls below the required percentage of the value of the cash transferred, then additional cash and/or acceptable securities must be transferred.

(iv) Legal Opinion. An opinion of counsel selected by the County, which may be in-house counsel to the County or other counsel retained by the County, to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds must be received by the County or the Trustee.

(l) Investments in the County of Sacramento Pooled Investment Fund.

(m) Investments in the State of California's Local Agency Investment Fund (LAIF).

(n) Advance Refunded Municipal Securities.

(o) Negotiable and non-negotiable certificates of deposit or thrift or bank notes issued by a state or national bank or a state-licensed branch of a foreign bank (excluding the Trustee) that have maturities of not more than three hundred sixty-five (365) days and that are fully insured by the Federal Deposit Insurance Corporation or the short-term obligations of which state or national bank or state-licensed branch of a foreign bank are rated no lower than "A1" by Moody's and "A+" by S&P, or medium-term notes with a maximum maturity of five (5) years and subject to the same credit qualifications contained herein.

(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (o), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(i) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(ii) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o), inclusive.

(iii) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

(q) Any other forms of investments relating to proceeds of a Series of Obligations if approved in writing by the Credit Provider for such Series.

"Person" means an individual, corporation, firm, association, partnership, trust or other entity or group of entities, whether or not a legal entity, including a governmental entity or any agency or political subdivision thereof.

"Principal Office" means, with respect to: (a) the Trustee, the principal office of such Trustee in Los Angeles, California; and (b) a Paying Agent or a Credit Provider, the office designated as such in writing by such party to the Trustee; provided however that with respect to presentation of Obligations for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee or other Fiduciary at which, at any particular time, its corporate trust agency business shall be conducted.

"Priority Obligations" has the meaning described under the heading "THE MASTER INDENTURE – Covenants and Obligations of the County – Creation of Prior Liens."

"Purchase Price" means, with respect to Tender Obligations, the purchase price set forth in, or determined pursuant to, the Supplemental Indenture or Issuing Instrument relating to such Series to be paid to the Owners of such Obligations when such Obligations are tendered for purchase or deemed tendered for purchase in accordance with the provisions of such Supplemental Indenture or Issuing Instrument.

"Qualified Counterparty" means a party (other than the County) to a Swap (1) (a) who is rated, at the time of execution of such Swap, in the two highest rating categories (without regard to any gradations within a rating category) by at least two nationally recognized rating agencies, (b) whose senior debt obligations are rated, at the time of execution of such Swap, in the two highest rating categories (without regard to any gradations within a rating category) by at least two nationally recognized rating agencies or guaranteed by an entity so rated, (c) whose obligations under such Swap are guaranteed for the entire term of the Swap by a bond insurer or other institution which has been assigned a credit rating, at the time of execution of such Swap, in the two highest rating categories (without regard to any gradations within a rating category) by at least two nationally recognized rating agencies, or (d) whose obligations under such Swap are collateralized in such a manner as to obtain a rating, at the time of execution of such Swap, by in the two highest rating categories (without regard to any gradations within a rating category) by at least two nationally recognized rating agencies; and (2) who is otherwise qualified to act as the other party to such Swap under all applicable laws of the State.

"Qualified Swap" means a Swap satisfying the conditions of the Master Indenture relating to the issuance of Senior Obligations or Subordinate Obligations, as applicable.

"Rating Agency" means, as of any time and to the extent it is then providing or maintaining a rating on Obligations at the request of the County, each of Moody's, S&P and Fitch, or in the event that neither Moody's, S&P or Fitch then maintains a rating on Obligations at the request of the County, any other nationally recognized rating agency then providing or maintaining a rating on Obligations at the request of the County.

"Rating Confirmation" means written evidence from each Rating Agency then rating Outstanding Obligations at the request of the County to the effect that, following the event which requires the Rating Confirmation, the then current rating for each Outstanding Obligation shall not be lowered or withdrawn solely as a result of the occurrence of such event. If no rating is in effect with respect to any Series of Obligations, references to "Rating Confirmation" in the Master Indenture shall be considered deleted and none shall be required with respect to such Series.

"Rebate Fund" means the Fund so designated, established pursuant to the Master Indenture.

"Rebate Instructions" means the instructions by an Authorized County Representative as to the deposit of moneys in the Rebate Fund, the investment of moneys in Rebate Fund and the payment of moneys from the Rebate Fund given, with respect to each Series of Obligations, in accordance with the Tax Certificate, if any, relating to such Series of Obligations.

"Redemption Price" means, with respect to any redemption of an Obligation prior to its maturity, the amount to be paid upon such redemption as set forth in, or determined in accordance with, the Supplemental Indenture or Issuing Instrument relating to such Obligation.

"Refunding Bonds" means Bonds issued in accordance with the terms and conditions of the Master Indenture and satisfying the conditions of the Master Indenture relating to the issuance of Senior Bonds, Subordinate Bonds, or Junior Subordinate Bonds, as applicable.

"Refunding Senior Obligations" means Senior Obligations, including Refunding Bonds, that satisfy the applicable conditions of the Master Indenture relating to the issuance of Senior Obligations.

"Refunding Subordinate Obligations" means Subordinate Obligations, including Refunding Bonds, that satisfy the applicable conditions of the Master Indenture relating to the issuance of Subordinate Obligations and which are subordinated as provided in the provisions of the Master Indenture relating to the issuance of Subordinate Obligations.

"Reimbursement Obligations" means the obligations of the County to pay from the Net Revenues amounts due under a Credit Support Agreement.

"Released Revenues" means **(1)** a category of income, receipts and other revenues of the County which are excluded from the definition of "Revenues" in this Section 1.01 pursuant to Section 2.14 **and (2) any income, receipts and other revenues of the County derived from any hotel owned by the County (or another entity controlled by the County) as part of, or in connection with, the Airport System**.

"Reserve and Contingency Fund" means the Fund so designated, established pursuant to the Master Indenture.

"Reserve and Contingency Requirement" means, as of any date of calculation, an amount equal to $2,000,000 or such greater amount as specified in the then-current Annual Budget.

"Reserve Guaranty" means a policy of insurance or surety bond or a letter of credit or other financial arrangement issued by a Reserve Guaranty Provider, rated (or its guarantor is rated) in the two highest rating categories (without regard to any gradations within a rating category) by at least two nationally recognized rating agencies at the time of issuance of such policy or surety bond or letter of credit or other financial arrangement.

"Reserve Guaranty Agreement" means an agreement between the County and a Reserve Guaranty Provider under which, among other things, the County agrees to reimburse the Reserve Guaranty Provider for amounts drawn under the applicable Reserve Guaranty and to pay interest on such amounts and expense related thereto. "Reserve Guaranty Agreement" also means and includes covenants or agreements of the county contained in a Supplemental Indenture or Issuing Instrument providing for the reimbursement to the Reserve Guaranty Provider for draws under the applicable Reserve Guaranty.

"Reserve Guaranty Provider" means any insurance company, bank or other institution which has issued a Reserve Guaranty.

"Revenues" mean all income, receipts, earnings and revenues **(including, but not limited to, any Subsidy)** received by or accrued to the Department from the ownership or operation of the Airport System, excluding, except to the extent deposited in the Revenue Fund:

(a) gifts, grants and other funds otherwise included in this definition of "Revenues" which are restricted by their terms to purposes inconsistent with the payment of Operating Expenses or payment of Obligations;

(b) 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 Operating Expenses or the payment of Obligations;

(c) except as and to the extent included in calculations made pursuant to the provisions of the Master Indenture relating to rates and charges, any Transfer;

(d) except as provided in the Master Indenture with respect to discharged Special Facility Obligations, any Special Facility Revenue;

(e) any gain from the sale, exchange or other disposition of capital assets of the Airport System;

(f) any Released Revenues;

(g) any unrealized gains on securities held for investment by or on behalf of the County;

(h) any gains resulting from changes in valuation of any Swap;

(i) any unrealized gains from the write-down, reappraisal or revaluation of assets;

(j) the proceeds of Obligations;

(k) Facilities Construction Credits;

(l) Passenger Facility Charges;

(m) Customer Facility Charges;

(n) Grant Funds;

(o) investment income derived from any moneys or securities which may be placed in escrow or trust to defease Obligations;

(p) any arbitrage earnings which are required to be paid to the United States of America pursuant to Section 148 of the Code; and

(q) interest earnings or other investment earnings on any Account in the Construction Fund established by any Supplemental Indenture unless otherwise provided in such Supplemental Indenture.

For purposes of testing compliance with the rate covenant and the limitations on the issuance of Obligations contained in the Master 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 or in the definition of Accrued Debt Service or Aggregate Adjusted Annual Debt Service, as applicable.

For purposes of meeting any of the tests prescribed by the Master Indenture, any transfers from the Capital Improvement Fund to the Revenue Fund shall be deemed to be "Revenues."

"Revenue Fund" means the Fund so designated, established pursuant to the Master Indenture.

"S&P" means Standard & Poor's Rating Services, a Division of the McGraw-Hill Companies, and any successor entity rating Obligations at the request of the County.

"Securities Depository" means a trust company or other entity which provides a book-entry system for the registration of ownership interests of Participants in securities and which is acting as security depository for Book-Entry Bonds.

"Senior Bonds" means Bonds issued for the purpose set forth in the Master Indenture and satisfying the conditions therein relating to the issuance of Senior Obligations, which have the priority set forth in the provisions of the Master Indenture relating to the issuance of Senior Obligations.

"Senior Debt Service Fund" means the Fund so designated, established pursuant to the Master Indenture.

"Senior Debt Service Reserve Fund" means the Fund so designated, established pursuant to the Master Indenture.

"Senior Debt Service Reserve Requirement" means: (i) with respect to the Senior Debt Service Reserve Fund, as of any date of calculation, an amount equal to the least of (a) 10% of the initial offering price to the public of the Participating Senior Bonds as determined under the Code, or (b) the greatest amount of Bond Debt Service for the Participating Senior Bonds in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Participating Senior Bond is due, or (c) 125% of the sum of the Bond Debt Service for the Participating Senior Bonds for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the issuance of any Participating Senior Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service for the Participating Senior Bonds is due, divided by the number of such Fiscal Years, all as computed and determined by the County and specified in writing to the Trustee; provided, however that in determining Bond Debt Service with respect to any Participating Senior Bonds that constitute Variable Rate Obligations, the interest rate on such Participating Senior Bonds for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Participating Senior Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Participating Senior Bonds shall have been Outstanding (or if such Participating Senior Bonds that constitute Variable Rate Obligations have not yet been issued, then the interest rate on such Participating Senior Bonds shall be assumed to be equal to 110% of the average SIFMA Index during the last 12 months ending with the month preceding the date of calculation); (ii) with respect to any Senior Series Debt Service Reserve Fund, the amount specified as such in the Supplemental Indenture establishing such Senior Series Debt Service Reserve Fund; and (iii) with respect to any debt service reserve for Senior Obligations other than the Senior Debt Service Reserve Fund or a Senior Series Debt Service Reserve Fund, the amount, if any, specified in the applicable Issuing Instrument establishing such debt service reserve as the Senior Debt Service Reserve Requirement for such debt service reserve.

"Senior Obligations" means Senior Bonds and any Obligations (or portions thereof) which have the priority set forth in the Master Indenture relating to the issuance of Senior Obligations and that satisfy the conditions therein, including without limitation Reimbursement Obligations related to Senior Bonds and Net Payments due under Qualified Swaps related to Senior Bonds but excluding Termination Payments under Qualified Swaps related to Senior Bonds.

"Senior Series Debt Service Reserve Fund" means any fund established by the Trustee pursuant to a Supplemental Indenture in connection with the issuance of any Series of Senior Bonds other than Participating Senior Bonds and that is required to be funded for the purpose of providing additional security for such Series of Senior Bonds and, under the conditions provided in such Supplemental Indenture, to provide additional security for such other Series of Senior Bonds as shall satisfy such conditions.

"Serial Obligations" means Obligations for which no Sinking Fund Installments are established.

"Series" means Obligations issued at the same time or sharing some other common term or characteristic and designated in the Supplemental Indenture or Issuing Instrument pursuant to which such Obligations were issued as a separate issue or series of Obligations.

"Series 2008 Senior Bonds" means the County of Sacramento Airport System Senior Revenue Bonds Series 2008A (Non-AMT), Series 2008B (AMT) and Taxable Series 2008C.

"Series 2008 Subordinate Bonds" means the County of Sacramento Airport System Subordinate and PFC Revenue Refunding Bonds, Series 2008D (Non-AMT) and Series 2008E (AMT).

"Series 2010 Continuing Disclosure Certificate" means the continuing disclosure certificate executed by the County relating to the Series 2010 Senior Bonds.

"Series 2010 Senior Bonds" means the County of Sacramento Airport System Senior Revenue Bonds, Series 2010.

"SIFMA Index" means the Securities Industry & Financial Markets Association (formerly The Bond Market Association) ("SIFMA") Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor, or otherwise designated by SIFMA.

"Significant Portion" means, for purposes of the Master Indenture with respect to the County's covenants relating to sale, lease or disposition of property and eminent domain, any Airport System facilities or portions thereof which, if such facilities had been sold or disposed of on the date which is one year prior to the last day of the month preceding the month of sale or disposition of the facilities pursuant to such covenants, would have resulted in a reduction of Net Revenues for such year of more than 5% when actual Net Revenues for such year are decreased by Revenues directly attributable to such Airport System facilities and increased by the Operating Expenses directly attributable to such Airport System facilities.

"Sinking Fund Installment" means, with respect to any Term Obligations, each amount so designated for such Term Obligations in the Supplemental Indenture or Issuing Instrument relating to such Obligations requiring payments of such amounts by the County from the Net Revenues to be applied to the retirement of such Obligations on and prior to the stated maturity date thereof.

"Special Facilities" or "Special Facility" mean a facility or group of facilities or category of facilities which are designated as a Special Facility pursuant to the Master Indenture. "Special Facilities" shall include the facilities relating to The Cessna Aircraft Company Project Special Facility Obligations as described in the definition of "Special Facility Obligations."

"Special Facility Obligations" means Obligations issued or incurred pursuant to an Issuing Instrument to finance or refinance Special Facilities and which are not payable from the Net Revenues or secured by a lien on and/or pledge of the Revenues but which are payable from, and secured by a pledge and lien on, only revenues derived from the financed Special Facilities. "Special Facility Obligations" shall include the County of Sacramento Variable Rate Demand Special Facilities Airport Revenue Bonds, Series 1998 (The Cessna Aircraft Company Project).

"Special Facility Revenue" means the contractual payments and all other revenues derived by the County from a Special Facility which are pledged to secure Special Facility Obligations.

"Specified Capital Improvement" means a Capital Improvement specified in a Supplemental Indenture or Issuing Instrument the costs of which are to be funded in whole or in part, with the proceeds of Obligations.

"State" means the State of California.

"Subordinate Bonds" means Bonds issued for the purpose set forth in the Master Indenture and satisfying the conditions therein relating to the issuance of Subordinate Obligations, which are subordinated as provided in the provisions of the Master Indenture relating to the issuance of Subordinate Obligations.

"Subordinate Debt Service Fund" means the Fund so designated, established pursuant to the Master Indenture.

"Subordinate Debt Service Reserve Fund" means the Fund so designated, established pursuant to the Master Indenture.

"Subordinate Debt Service Reserve Requirement" means: (i) with respect to the Subordinate Debt Service Reserve Fund, as of any date of calculation, an amount equal to the least of (a) 10% of the initial offering price to the public of the Participating Subordinate Bonds as determined under the Code, or (b) the greatest amount of Bond Debt Service for the Participating Subordinate Bonds in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Participating Subordinate Bond is due, or (c) 125% of the sum of the Bond Debt Service for the Participating Subordinate Bonds for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the issuance of any Participating Subordinate Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service for the Participating Subordinate Bonds is due, divided by the number of such Fiscal Years, all as computed and determined by the County and specified in writing to the Trustee; provided, however that in determining Bond Debt Service with respect to any Participating Subordinate Bonds that constitute Variable Rate Obligations, the interest rate on such Participating Subordinate Bonds for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Participating Subordinate Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Participating Subordinate Bonds shall have been Outstanding (or if such Participating Subordinate Bonds that constitute Variable Rate Obligations have not yet been issued, then the interest rate on such Participating Subordinate Bonds shall be assumed to be equal to 110% of the average SIFMA Index during the last 12 months ending with the month preceding the date of calculation); (ii) with respect to any Subordinate Series Debt Service Reserve Fund, the amount specified as such in the Supplemental Indenture establishing such Subordinate Series Debt Service Reserve Fund; and (iii) with respect to any debt service reserve for Subordinate Obligations other than the Subordinate Debt Service Reserve Fund or a Subordinate Series Debt Service Reserve Fund, the amount, if any, specified in the applicable Issuing Instrument establishing such debt service reserve as the Subordinate Debt Service Reserve Requirement for such debt service reserve.

"Subordinate Obligation" means any Subordinate Bonds and any Obligations (or portions thereof) which are subordinated as provided in the provisions of the Master Indenture relating to the issuance of subordinate obligations and that satisfy the conditions of the Master Indenture, including without limitation Termination Payments under Qualified Swaps related to Senior Bonds, Reimbursement Obligations related to Subordinate Bonds and Net Payments under Qualified Swaps related to Subordinate Bonds but excluding Termination Payments under Qualified Swaps related to Subordinate Bonds.

"Subordinate Payment Default" means a failure to pay when due any Subordinate Obligations.

"Subordinate Series Debt Service Reserve Fund" means any fund established by the Trustee pursuant to a Supplemental Indenture in connection with the issuance of any Series of Subordinate Bonds other than Participating Subordinate Bonds and that is required to be funded for the purpose of providing additional security for such Series of Subordinate Bonds and, under the conditions provided in such Supplemental Indenture, to provide additional security for such other Series of Subordinate Bonds as shall satisfy such conditions.

"Subsidy" means any subsidy, reimbursement or other payment from the federal government of the United States of America under the American Recovery and Reinvestment Act of 2009 (or any similar legislation or regulation of the federal government of the United States of America or any other governmental entity).

"Supplemental Indenture" means any supplemental indenture supplementing or amending the Master Indenture as theretofore in effect, entered into by the County and the Trustee in accordance with the Master Indenture.

"Swap" means any contract, agreement or arrangement between the County and a counterparty relating to the Airport System (a) providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (b) providing for the exchange of cash flows or a series of payments, or (c) providing for the hedge of payment, currency, rate spread or similar exposure, including but not limited to interest rate exposure. The term "Swap" includes any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure.

"Tax Certificate" means a certificate relating to the requirements of the Code signed on behalf of the County and delivered in connection with the issuance of a Series of Obligations constituting Tax-Exempt Securities.

"Tax-Exempt" means, with respect to interest on any obligations of a state or local government, including the Obligations, that such interest is excluded from the gross income of the holders thereof (other than any holder who is a "substantial user" of facilities financed with such obligations or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

"Tax-Exempt Securities" means bonds, notes or other securities the interest on which is Tax-Exempt.

"Tender Obligations" means any Obligations or portions of Obligations, a feature of which is an option or obligation, on the part of the Owners thereof under the terms of such Obligations, to tender for purchase all or a portion of such Obligations to the County, a fiscal agent, a paying agent, a tender agent or other agent.

"Termination Payment" means, with respect to a Swap, the amount payable by the County or the counterparty as a result of the termination of such Swap prior to its scheduled expiration date.

"Term Obligations" means Obligations as to which Sinking Fund Installments have been established.

"Test Year" means, with respect to the issuance of Refunding Senior Obligations or Refunding Subordinate Obligations, the period commencing in the Fiscal Year in which such Obligations are issued and ending in the last Fiscal Year in which Obligations which are Outstanding both immediately prior to and immediately after the issuance of such Obligations are scheduled to remain Outstanding.

"Transfer" means with respect to a Fiscal Year (a) the amount in the Capital Improvement Fund on the last Business Day of such Fiscal Year plus (b) any amounts withdrawn from the Capital Improvement Fund during such Fiscal Year to pay Operating Expenses and to make any required payments or deposits to pay or secure the payment of Obligations less (c) any amounts credited to the Capital Improvement Fund from the Revenue Fund during such Fiscal Year.

"Trust Estate" means, subject to the provisions of the Master Indenture and any applicable Issuing Instrument permitting the application thereof for the purposes and on the terms and conditions set forth therein and subject to the rights of the County to release categories of Revenues from the Trust Estate as provided in the Master Indenture: (a) the Net Revenues; (b) each Swap, including all payments (including Termination Payments) thereunder; (c) each Credit Support Instrument, including all payments thereunder; (d) each Reserve Guaranty, including all payments thereunder; (e) all Available CFC Revenues, all Available Grant Revenues, and all Available PFC Revenues; (f) the Construction Fund, the Revenue Fund, the Senior Debt Service Fund, the Senior Debt Service Reserve Fund, the Subordinate Debt Service Fund, the Subordinate Debt Service Reserve Fund, the Junior Subordinate Fund, the Reserve and Contingency Fund, the Capital Improvement Fund, each Senior Series Debt Service Reserve Fund, each Subordinate Series Debt Service Reserve Fund, the Available CFC Account, the Available Grant Account and the Available PFC Account, including all Accounts in any of the foregoing, all money, instruments, investment property, and other property on deposit in or credited to any such Fund or Account, and all property, including Permitted Investments, purchased with money on deposit in or credited to any such Fund or Account; (g) any additional property that may from time to time, by delivery or by writing of any kind, be subjected to the lien by the County or by anyone on its behalf which additional property the Trustee is authorized and directed to accept as part of the Trust Estate; and (h) all proceeds of the foregoing.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., and any successor trustee under the Master Indenture.

"United States Bankruptcy Code" means Title 11 of the United States Code, as the same may be amended and supplemented, and any successor statute.

"Variable Rate Obligations" means any Obligation the interest rate on which is not fixed to the final maturity date thereof.

THE MASTER INDENTURE

General

The Master Indenture sets forth certain terms of the Bonds and Obligations, the conditions for issuance of the Bonds and Obligations, the nature and extent of the security of the Bonds and Obligations, various rights of the Holders of the Bonds and Obligations, rights, duties and immunities of the Trustee and the rights and obligations of the County. Although certain provisions of the Master Indenture are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Master Indenture.

Authorization and Issuance of Bonds and Obligations

Authorization of Bonds and Obligations. Bonds of the County to be generally designated as "County of Sacramento Airport System Revenue Bonds" may be issued from time to time pursuant to Supplemental Indentures. The aggregate principal amount of Bonds which may be executed, authenticated and delivered under the Master Indenture is not limited except as may hereafter be provided in the Master Indenture or as may be limited by law.

The Bonds may be issued in one or more Series, and the designation thereof, in addition to the name "County of Sacramento Airport System Revenue Bonds" shall include such further appropriate particular designation added to or incorporated in such title for the Bonds of any particular Series as the County may determine. Each Bond shall bear upon its face the designation so determined for the Series to which it belongs.

Obligations other than Bonds may be issued or incurred from time to time on the terms and conditions set forth in the Master Indenture and the Issuing Instrument relating to such Obligations. The amount of Obligations that may be secured under the Master Indenture and the applicable Issuing Instrument is not limited except as may hereafter be provided in the Master Indenture or an Issuing Instrument or as may be limited by law.

Limited Obligations. The Obligations shall not constitute a charge against the general credit of the County but shall constitute and evidence special obligations of the County payable as to principal, Redemption Price, interest and other payments solely from the Trust Estate and, with respect to any particular Series of Obligations, from such other sources as shall be specified in the Supplemental Indenture or Issuing Instrument relating to such Series. The Purchase Price for the Tender Obligations shall be payable from such sources as are specified in the Supplemental Indenture or Issuing Instrument relating to such Series. The provisions of the Master Indenture described under this caption "Limited Obligations" shall not preclude the payment or redemption of Obligations, at the election of the County, from any other legally available funds.

The Obligations shall recite in substance that the principal, Redemption Price, interest and other payments on the Obligations are payable solely from the Trust Estate pledged for the payment thereof, and that the County is not obligated to pay the Obligations except from the Trust Estate; that the General Fund of the County is not liable and the full faith and credit or taxing power of the County is not pledged for the payment of the principal, Redemption Price, interest and other payments on the Obligations, and no tax or assessment shall ever be levied or collected to pay the principal, Redemption Price, interest and other payments on the Obligations; and that the Obligations are not secured by a legal or equitable pledge of or charge, lien or encumbrance upon any of the property of the County or any of its income or receipts except the Trust Estate as provided in the Master Indenture, and neither the payment of the principal, Redemption Price, interest or other payments on the Obligations is a general debt, liability or obligation of the County or the State of California.

From and after the issuance of the Obligations of each Series the findings and determinations of the Board respecting that Series shall be conclusive evidence of the existence of the facts so found and determined in any action or proceeding in any court in which the validity of such Obligations is at issue, and no bona fide purchaser of any of such Obligations shall be required to see to the existence of any fact or to the performance of any condition or to the taking of any proceeding required prior to such issuance or to the application of the purchase price paid for such Obligations. The validity of the issuance of each Series of Obligations shall not be dependent on or affected in any way by (i) any proceedings taken by the County for the acquisition and construction of any additions, betterments, extensions or improvements to the Airport System, or (ii) any contracts made by the County in connection therewith, or (iii) the failure to complete the acquisition and construction of any additions, betterments, extensions or improvements to the Airport System. Any recital contained in the Obligations that the Obligations are issued under and pursuant to the Act and under and pursuant the Indenture shall be conclusive evidence of their validity and of the regularity of their issuance and all Obligations shall be incontestable from and after their issuance. Obligations shall be deemed to be issued, within the meaning of the Indenture, whenever the definitive Bonds (or any temporary Bonds exchangeable therefor) or fully executed Obligations have been delivered to the purchaser thereof and the purchase price thereof received.

Indenture to Constitute Contract. In consideration of the purchase and acceptance of each Obligation issued or secured under the Indenture and any applicable Issuing Instrument by those who shall own the same from time to time, the provisions of each Obligation and the provisions of the Indenture and any applicable Issuing Instrument applicable to such Obligation, and the provisions of the State Constitution, the Act and any other general laws of the State applicable to such Obligation, shall be deemed to be and shall constitute a contract between the County and the Owner of such Obligation.

General Provisions for Issuance of Bonds. All (but not less than all) the Bonds of each Series shall be executed by the County for issuance under the Indenture and delivered to the Trustee and thereupon shall be authenticated by the Trustee and by it delivered to the County or upon its order, but only upon the receipt by the Trustee of the following items (upon which the Trustee may conclusively rely in determining whether the conditions precedent for the issuance and authentication of such Series of Bonds have been satisfied):

(a) An executed counterpart of the Master Indenture, as amended to the date of the initial delivery of such Series of Bonds, and an executed counterpart of the Supplemental Indenture relating to such Series of Bonds, which Supplemental Indenture shall specify:

(i) the sources of payment for the Bonds of such Series other than the Trust Estate, if any;

(ii) the Series designation of such Bonds and whether such Bonds constitute Senior Bonds, Subordinate Bonds or Junior Subordinate Bonds and whether such Bonds are Current Interest Obligations, Capital Appreciation Obligations or Convertible Obligations;

(iii) the authorized principal amount of the Bonds of such Series;

(iv) the purposes for which such Series of Bonds are being issued, which shall be one of the purposes specified in “Additional Bonds” and “Refunding Bonds” below;

(v) the date or manner of determining the date of the Bonds of such Series;

(vi) the maturity date or dates of the Bonds of such Series and the principal amount of the Bonds of such Series maturing on each such maturity date;

(vii) which, if any, of the Bonds of such Series shall constitute Serial Obligations and which, if any, shall constitute Term Obligations;

(viii) the interest rate or rates on the Bonds of such Series or the manner of determining such interest rate or rates;

(ix) the Interest Payment Dates for the Bonds of such Series or the manner of establishing such Interest Payment Dates;

(x) the Authorized Denominations of the Bonds of such Series;

(xi) the Redemption Price or Prices, if any, and, subject to the provisions of the Master Indenture with respect to redemption, the redemption terms for the Bonds of such Series or the manner of determining such Redemption Prices and terms;

(xii) the Sinking Fund Installments, if any, for the Bonds of such Series which constitute Term Obligations;

(xiii) if any of the Bonds of such Series constitute Tender Obligations, the terms and conditions, if any, including Purchase Price, for the exercise by the Owners or Beneficial Owners of such Bonds of the option to tender such Bonds for purchase and the terms and conditions, if any, including Purchase Price, upon which the Bonds of such Series shall be subject to mandatory tender for purchase;

(xiv) if the Bonds of such Series are not to be Book-Entry Bonds, a statement to such effect;

(xv) whether the Bonds of such Series will be Participating Senior Bonds or Participating Subordinate Bonds;

(xvi) if the Bonds of such Series will not be Participating Senior Bonds or Participating Subordinate Bonds, if such Bonds are to be secured by an existing Senior Series Debt Service Reserve Fund or existing Subordinate Series Debt Service Reserve Fund;

(xvii) if the Bonds of such Series will not be Participating Senior Bonds or Participating Subordinate Bonds nor be secured by an existing Senior Series Debt Service Reserve Fund or existing Subordinate Series Debt Service Reserve Fund, whether a Senior Series Debt Service Reserve Fund or a Subordinate Series Debt Service Reserve Fund is to be established in connection with such Series of Bonds and, if so, the amount or manner of determining the amount of the Senior Debt Service Reserve Requirement or Subordinate Debt Service Reserve Requirement in connection with such Senior Series Debt Service Reserve Fund or Subordinate Series Debt Service Reserve Fund, as applicable;

(xviii) the appropriate Funds and Accounts, if any, relating to such Series of Bonds established under such Supplemental Indenture;

(xix) the application of the proceeds of the sale of such Series of Bonds including the amount, if any, to be deposited in the Funds and Accounts maintained under the Master Indenture or the Supplemental Indenture relating to such Series;

(xx) the forms of the Bonds of such Series and of the certificate of authentication thereon; and

(xxi) such other provisions as are appropriate or necessary and not inconsistent with the provisions of the Master Indenture described above.

(b) An Opinion of Bond Counsel, dated the date of the initial delivery of such Series of Bonds, to the effect that the Master Indenture, as amended and supplemented to such date, including as supplemented by the Supplemental Indenture relating to such Series of Bonds, constitute the valid and binding obligation of the County.

(c) A certificate of an Authorized County Representative to the effect that no Event of Default has occurred and is continuing (except that Bonds may be issued to cure any Event of Default which may then be existing).

(d) With respect to any Senior Bonds other than the Series 2008 Senior Bonds, the Trustee shall have received the documents required by the applicable provisions of the Master Indenture relating to conditions to the issuance of Senior Obligations.

(e) With respect to any Subordinate Bonds other than the Series 2008 Subordinate Bonds, the Trustee shall have received the documents required by the applicable provisions of the Master Indenture relating to the conditions to the issuance of Subordinate Obligations.

(f) With respect to any Junior Subordinate Bonds, the Trustee shall have received the documents required by the applicable provisions of the Master Indenture relating to the conditions to the issuance of Junior Subordinate Obligations.

(g) Such further documents, moneys and securities as are required by the applicable provisions of the Master Indenture or of the Supplemental Indenture relating to such Series.

After the original issuance of Bonds of any Series, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to the Indenture.

Additional Bonds. One or more Series of Additional Bonds may be issued, authenticated and delivered upon original issuance for the purpose of paying all or a portion of the Costs of any Capital Improvement and for any other lawful purpose. Additional Bonds may be issued in a principal amount sufficient to pay such Costs, including providing amounts for the Costs of Issuance of such Series of Additional Bonds and the making of any deposits into the Funds or Accounts required by the provisions of the Indenture or the Supplemental Indenture relating to such Additional Bonds and for any other lawful purpose.

Refunding Bonds. One or more Series of Refunding Bonds may be issued, authenticated and delivered upon original issuance for the purpose of refunding all or any portion of any Outstanding Obligations, including payment of costs incidental to or connected with the refunding of such Obligations. Refunding Bonds may be issued in a principal amount sufficient to accomplish such refunding, including providing amounts for the Costs of Issuance of such Refunding Bonds and the making of any deposits into the Funds and Accounts required by the provisions of the Indenture or the Supplemental Indenture relating to such Refunding Bonds and for any other lawful purpose.

General Provisions for Issuance of Obligations Other than Bonds. All Obligations (other than Bonds) of each Series shall be issued or incurred by the County and secured under the Indenture and the applicable Issuing Instrument in accordance with the terms thereof, but only upon the receipt by the Trustee of the following items (upon which the Trustee may conclusively rely in determining whether the conditions precedent for the issuance or incurrence of such Series of Obligations have been satisfied):

(a) An executed counterpart of the Master Indenture, as amended to the date of the initial issuance of such Series of Obligations, and an executed counterpart of the Issuing Instrument relating to such Series of Obligations, which Issuing Instrument shall specify:

(i) the sources of payment for the Obligations of such Series other than the Trust Estate, if any;

(ii) the Series designation of such Obligations and whether such Obligations constitute Senior Obligations, Subordinate Obligations or Junior Subordinate Obligations;

(iii) the purposes for which such Obligation or Series of Obligations are being issued;

(iv) the form, title, designation, manner of numbering or denominations, if applicable, of such Obligations;

(v) the date or dates of maturity or other final expiration of the term of such Obligations, if applicable;

(vi) the date of issuance or incurrence of such Obligations;

(vii) the principal amount of such Obligation (if any) for purposes of calculating the percentage of Owners of Obligations required to take actions or give consents pursuant to the Master Indenture (which, if such Obligation is not debt under Generally Accepted Accounting Principles, shall be equal to zero. The designation of zero as a principal amount of an Obligation shall not in any manner affect the obligation of the County to pay such Obligation); and

(viii) such other provisions as are appropriate or necessary and not inconsistent with the provisions described above.

(b) A certificate of an Authorized County Representative to the effect that no Event of Default has occurred and is continuing (except that Obligations may be issued to cure any Event of Default which may then be existing).

(c) With respect to any Senior Obligations, the Trustee shall have received the documents required by the applicable provisions of the Master Indenture.

(d) With respect to any Subordinate Obligations, the Trustee shall have received the documents required by the applicable provisions of the Master Indenture.

(e) With respect to any Junior Subordinate Obligations, the Trustee shall have received the documents required by the applicable provisions of the Master Indenture.

Conditions to Issuance of Senior Obligations.

(a) Without satisfying the requirements of subsection (e) below, the County may, at any time and from time to time, issue or enter into an Obligation which is a Qualified Swap, the Net Payments under which shall constitute Senior Obligations, provided that at the time of entering into such Swap (i) the Qualified Swap shall relate to a principal amount of Outstanding Senior Obligations or Senior Obligations issued or expected to be issued; (ii) the notional amount of the Qualified Swap shall not exceed the principal amount of the related Outstanding Senior Obligations or Senior Obligations expected to be issued; and (iii) the counterparty shall be a Qualified Counterparty.

(b) The County may, at any time and from time to time, issue Refunding Senior Obligations provided that either: (i) the requirements of the Master Indenture described in subsection (e) below are satisfied upon the issuance of such Refunding Senior Obligations and the application of the proceeds thereof; or (ii) the Trustee has received a certificate of an Authorized County Representative certifying that the Aggregate Adjusted Annual Debt Service for all Obligations to be Outstanding after the issuance of such Refunding Senior Obligations shall not exceed the Aggregate Adjusted Annual Debt Service for all Obligations Outstanding immediately prior to the issuance of such Refunding Senior Obligations in each Test Year.

(c) Without satisfying the requirements of the Master Indenture described in subsection (b) or subsection (e), the County may issue the Series 2008 Senior Bonds.

(d) Without satisfying the requirements of the Master Indenture described in subsection (e), the County may, at any time and from time to time, enter into Credit Support Agreements or otherwise become obligated for Reimbursement Obligations with respect to Senior Obligations.

(e) The County may, at any time and from time to time, issue any Additional Senior Obligations, provided:

> (i) an Authorized County Representative or an Airport Consultant has provided to the Trustee a certificate stating that Net Revenues for either the most recent Fiscal Year for which audited financial statements of the Airport System are available or any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the month of issuance of the proposed Additional Senior Obligations were sufficient to satisfy the rate covenant set forth in the Master Indenture for each of the next five full Fiscal Years following issuance of the Additional Senior Obligations, or each of the next two full Fiscal Years from the issuance of the Additional Senior Obligations during which there is no Capitalized Interest, whichever is later, including the Aggregate Adjusted Annual Debt Service during such Fiscal Years on such proposed Senior Obligations; or
>
> (ii) an Airport Consultant has provided to the Trustee a certificate stating that, based upon assumptions the Person signing the certificate deems reasonable, projected Net Revenues will be sufficient to satisfy the rate covenant set forth in the Master Indenture for each of the next five full Fiscal Years following issuance of the Additional Senior Obligations, or each of the next two full Fiscal Years from issuance of the Additional Senior Obligations during which there is no Capitalized Interest, whichever is later, including the Aggregate Adjusted Annual Debt Service during such Fiscal Years on such proposed Senior Obligations.

For purposes of (e)(i) and (ii) above, the Person signing the certificate required by such clause may assume that, in each relevant Fiscal Year, Accrued Debt Service for Outstanding Obligations will equal Aggregate Adjusted Annual Debt Service for such Fiscal Year.

For purposes of (e)(i) above, the County 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 Additional Senior Obligations but which, during the Fiscal Year or 12-month period utilized by the County for purposes of (e)(i) above, 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 Fiscal Year or 12-month period under consideration, as determined by an Authorized County Representative.

For purposes of (e)(ii) above, in estimating Net Revenues, the Person signing the certificate required by such clause may take into account (1) Revenues from Capital Improvements 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 has been approved by the Board and will be in effect during the period for which the estimates are provided or (3) any other increases in Revenues which the Person signing the certificate believes to be a reasonable assumption for such period. With respect to Operating Expenses of the County, the Person signing the certificate required by (e)(ii) above shall use such assumptions as such Person believes to be reasonable, taking into account: (i) historical Operating Expenses of the County, (ii) Operating Expenses associated with the Capital Improvements to be funded with the proceeds of the Additional Senior Obligations proposed to be issued and any other new Capital Improvements and Airport System facilities and (iii) such other factors, including inflation and changing operations or policies of the County, as the Person signing such certificate believes to be appropriate. The Person signing the certificate required by (e)(ii) above shall include in such 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 Adjusted Annual Debt Service, which calculations may be based upon information provided by the County.

For purposes of preparing the certificate or certificates described above, the Authorized County Representative or Airport Consultant, as applicable, may rely upon financial statements prepared by the County 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 County 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 (e)(i) or (e)(ii) above shall be required if the proceeds of Additional Senior Obligations being issued will be used to pay Costs of completing the Construction of a Capital Improvement for which Senior Obligations have previously been issued and the principal amount of such Additional Senior Obligations being issued for completion purposes does not exceed an amount equal to 10% of the principal amount of the Senior Obligations originally issued for such Capital Improvement as shown in a written certificate of an Authorized County Representative and there is delivered to the Trustee (i) a certificate of an Authorized County Representative or an Airport Consultant stating that the nature and purpose of such Capital Improvement has not materially changed and that the proceeds of such Additional Senior Obligations plus any other moneys in the Construction Fund available to pay the Costs of such Capital Improvement are expected to be sufficient to pay the Costs of completing the Construction of the Capital Improvement, and (ii) a certificate of an Authorized County Representative to the effect that (A) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Capital Improvement) of the Senior Obligations issued to finance such Capital Improvement have been or will be used to pay Costs of the Capital Improvement, indicating the amount of such proceeds and investment earnings; and (B) the then estimated Costs of the Construction of the Capital Improvement.

(f) All Senior Obligations (i) shall be senior in payment and priority to all Subordinate Obligations, Junior Subordinate Obligations, and all obligations described in the Master Indenture with respect to the creation of prior liens, (ii) shall be paid with the priority provided in the Master Indenture with respect to the application of Revenues, and (iii) shall be entitled to all of the benefits provided to Senior Obligations by the terms of the Indenture and any applicable Issuing Instrument.

(g) For purposes of complying with any of the requirements set forth in the Master Indenture relating to issuance of Senior Obligations, (1) any calculation of Aggregate Adjusted Annual Debt Service with respect to specified Obligations for any period of time shall be reduced by the amount of any Subsidy that the County expects to receive during such period of time relating to or in connection with such Obligations and (2) any calculation of Net Revenues for any period of time shall be reduced by the amount of any Subsidy received or expected to be received by the County with respect to or in connection with the specified Obligations during such period of time.

Conditions to Issuance of Subordinate Obligations.

(a) Without satisfying the requirements of the Master Indenture described in subsection (e), the County may, at any time and from time to time, issue or enter into an Obligation which is a Qualified Swap, the Net Payments under which shall constitute Subordinate Obligations, provided that at the time of entering into such Swap (i) the Qualified Swap shall relate to a principal amount of Outstanding Subordinate Obligations or Subordinate Obligations issued or expected to be issued; (ii) the notional amount of the Qualified Swap shall not exceed the principal amount of the related Outstanding Subordinate Obligations or Subordinate Obligations expected to be issued; and (iii) the counterparty shall be a Qualified Counterparty.

(b) The County may, at any time and from time to time, issue Refunding Subordinate Obligations provided that either: (i) the requirements of the Master Indenture described in subsection (e) are satisfied upon the issuance of such Refunding Subordinate Obligations and the application of the proceeds thereof; or (ii) the Trustee has received a certificate of an Authorized County Representative certifying that the Aggregate Adjusted Annual Debt Service for all Obligations to be Outstanding after the issuance of such Refunding Subordinate Obligations shall not exceed the Aggregate Adjusted Annual Debt Service for all Obligations Outstanding immediately prior to the issuance of such Refunding Subordinate Obligations in each Test Year.

(c) Without satisfying the requirements of the Master Indenture described in subsection (b) or subsection (e), the County may issue the Series 2008 Subordinate Bonds.

(d) Without satisfying the requirements of the Master Indenture described in subsection (e), the County may, at any time and from time to time, enter into Credit Support Agreements or otherwise become obligated for Reimbursement Obligations with respect to Subordinate Obligations.

(e) The County may, at any time and from time to time, issue any Additional Subordinate Obligations, provided:

(i) an Authorized County Representative or an Airport Consultant has provided to the Trustee a certificate stating that Net Revenues for either the most recent Fiscal Year for which audited financial statements of the Airport System are available or any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the month of issuance of the proposed Additional Subordinate Obligations were sufficient to satisfy the rate covenant set forth in the Master Indenture for each of the next five full Fiscal Years following issuance of the Additional Subordinate Obligations, or each of the next two full Fiscal Years from the issuance of the Additional Subordinate Obligations during which there is no Capitalized Interest, whichever is later, including the Aggregate Adjusted Annual Debt Service during such Fiscal Years on such proposed Subordinate Obligations; or

(ii) an Airport Consultant has provided to the Trustee a certificate stating that, based upon assumptions the Person signing the certificate deems reasonable, projected Net Revenues will be sufficient to satisfy the rate covenant set forth in the Master Indenture for each of the next five full Fiscal Years following issuance of the Additional Subordinate Obligations, or each of the next two full Fiscal Years from issuance of the Additional Subordinate Obligations during which there is no Capitalized Interest, whichever is later, including the Aggregate Adjusted Annual Debt Service during such Fiscal Years on such proposed Subordinate Obligations.

For purposes of (e)(i) and (ii) above, the Person signing the certificate required by such clause may assume that, in each relevant Fiscal Year, Accrued Debt Service for Outstanding Obligations will equal Aggregate Adjusted Annual Debt Service for such Fiscal Year.

For purposes of (e)(i) above, the County 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 Additional Subordinate Obligations but which, during the Fiscal Year or 12-month period utilized by the County for purposes of (e)(i) above, 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 Fiscal Year or 12-month period under consideration, as determined by an Authorized County Representative.

For purposes of (e)(ii) above, in estimating Net Revenues, the Person signing the certificate required by such clause may take into account (1) Revenues from Capital Improvements 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 has been approved by the Board and will be in effect during the period for which the estimates are provided or (3) any other increases in Revenues which the Person signing the certificate believes to be a reasonable assumption for such period. With respect to Operating Expenses of the County, the Person signing the certificate required by (e)(ii) above shall use such assumptions as such Person believes to be reasonable, taking into account: (i) historical Operating Expenses of the County, (ii) Operating Expenses associated with the Capital Improvements to be funded with the proceeds of the Additional Subordinate Obligations proposed to be issued and any other new Capital Improvements and Airport System facilities and (iii) such other factors, including inflation and changing operations or policies of the County, as the Person signing such certificate believes to be appropriate. The Person signing the certificate required by (e)(ii) above shall include in such 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 Adjusted Annual Debt Service, which calculations may be based upon information provided by the County.

For purposes of preparing the certificate or certificates described above, the Authorized County Representative or Airport Consultant, as applicable, may rely upon financial statements prepared by the County 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 County 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 (e)(i) or (e)(ii) above shall be required if the proceeds of Additional Subordinate Obligations being issued will be used to pay Costs of completing the Construction of a Capital Improvement for which Subordinate Obligations have previously been issued and the principal amount of such Additional Subordinate Obligations being issued for completion purposes does not exceed an amount equal to 10% of the principal amount of the Subordinate Obligations originally issued for such Capital Improvement as shown in a written certificate of an Authorized County Representative and there is delivered to the Trustee (i) a certificate of an Authorized County Representative or an Airport Consultant stating that the nature and purpose of such Capital Improvement has not materially changed and that the proceeds of such Additional Subordinate Obligations plus any other moneys in the Construction Fund available to pay the Costs of such Capital Improvement are expected to be sufficient to pay the Costs of completing the Construction of the Capital Improvement, and (ii) a certificate of an Authorized County Representative to the effect that (A) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Capital Improvement) of the Subordinate Obligations issued to finance such Capital Improvement have been or will be used to pay Costs of the Capital Improvement, indicating the amount of such proceeds and investment earnings; and (B) the then estimated Costs of the Construction of the Capital Improvement.

(f) All Subordinate Obligations shall be junior in payment and priority to all Senior Obligations. Subordinate Obligations shall be paid in the priority set forth in the Master Indenture with respect to the application of Revenues, and only to the extent that funds are available to make such payments as provided therein after the required payments are made with respect to the Senior Obligations. Any exercise of rights or remedies by any holder, owner, or beneficial owner of a Subordinate Obligation, or the Trustee on behalf of the foregoing, and all Subordinate Obligations shall be subject to the limitations imposed on Subordinate Obligations by the terms of the Indenture and any applicable Issuing Instrument.

(g) For purposes of complying with any of the requirements of the Master Indenture relating to issuance of Subordinate Obligations, (1) any calculation of Aggregate Adjusted Annual Debt Service with respect to specified Obligations for any period of time shall be reduced by the amount of any Subsidy that the County expects to receive during such period of time relating to or in connection with such Obligations and (2) any calculation of Net Revenues for any period of time shall be reduced by the amount of any Subsidy received or expected to be received by the County with respect to or in connection with the specified Obligations during such period of time.

Conditions to Issuance of Junior Subordinate Obligations. The County may, at any time or from time to time, issue Junior Subordinate Obligations without satisfying the requirements of the Master Indenture with respect to conditions to the issuance of Senior or Subordinate Obligations for any purpose in connection with the Airport System, including, without limitation, the financing of all or a portion of the Costs of any Capital Improvement and/or the refunding of all or any portion of any Outstanding Obligations and/or for any other lawful purpose.

All Junior Subordinate Obligations shall be junior in payment and priority to all Subordinate Obligations and Senior Obligations. Junior Subordinate Obligations shall be paid in the priority set forth in the Master Indenture with respect to the application of Revenues, and only to the extent that funds are available to make such payments as provided therein after the required payments are made with respect to the Senior Obligations and the Subordinate Obligations. Any exercise of rights or remedies by any holder, owner, or beneficial owner of a Junior Subordinate Obligation, or the Trustee on behalf of the foregoing, and all Junior Subordinate Obligations shall be subject to the limitations imposed on Junior Subordinate Obligations by the terms of the Indenture and any applicable Issuing Instrument.

Special Facilities and Special Facility Obligations. The County shall be permitted to designate new or existing Airport System facilities as Special Facilities as permitted in the Master Indenture as described under this caption "Special Facilities and Special Facility Obligations." The County may, from time to time, and subject to the terms and conditions described under this caption (i) designate a separately identifiable existing facility or planned facility as a "Special Facility," (ii) pursuant to an Issuing Instrument and without a pledge of any Net Revenues, incur Obligations for the purpose of financing and/or refinancing Constructing, renovating, or improving, or providing financing and/or refinancing to a third party to Construct, renovate or improve, such Special Facility, (iii) provide that certain of the contractual payments derived from such Special Facility, together with other income and revenues available to the County from such Special Facility to the extent necessary to make the payments required by the Master Indenture, be "Special Facility Revenue" and not included as Revenues or Net Revenues, and (iv) provide that the Obligations so incurred shall be "Special Facility Obligations" and the principal of and interest thereon and other amounts payable with respect thereto shall be payable solely from the Special Facility Revenue. The County 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 and other amounts due with respect to such Special Facility Obligations solely from the Special Facility Revenue related to the Special Facility financed and/or refinanced with such Special Facility Obligations, which shall include contractual payments derived by the County under and pursuant to a contract (which may be in the form of a lease) relating to a Special Facility by and between the County and another Person, either public or private, as shall undertake the operation of such Special Facility.

No Special Facility Obligations shall be issued by the County unless there shall have been filed with the Trustee a certificate of an Authorized County Representative stating that:

(i) The Special Facility Revenue required to be paid by the third party operating the Special Facility and pledged to the payment of obligations relating to the Special Facility will be at least sufficient to pay as and when the same become due: (A) the principal of and interest on such Special Facility Obligations, (B) all costs of operating and maintaining such Special Facility not paid for by the operator thereof or by a party other than the County and (C) all sinking fund, reserve or other payments required by the Issuing Instrument relating to the Special Facility Obligations; and

(ii) With respect to the designation of any separately identifiable existing Airport System facility or Airport System facilities as a "Special Facility" or "Special Facilities", the County has qualified all Revenues from such Airport System facility or Airport System facilities as Released Revenues; and

(iii) No Event of Default has occurred and is continuing.

To the extent Special Facility Revenue received by the County during any Fiscal Year shall exceed the amounts required to be paid pursuant to the Master Indenture with respect to Special Facility Obligations 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 Master Indenture described under this subheading, 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 County from such facility shall be included as Revenues.

Special Facility Obligations shall be in compliance with the provisions of the Indenture if such Special Facility Obligations are issued in accordance with the provisions of the Master Indenture described under this subheading and compliance with other provisions of the Master Indenture described under this heading "Authorization and Issuance of Bonds and Obligations" is not required.

Obligations Secured by Other Revenues. The County may, from time to time, incur Obligations payable solely from certain revenues of the Airport System which do not constitute Revenues other than Special Facility Obligations at such times and upon such terms and conditions as the County shall determine; provided that such Obligations shall specifically include a provision that payment of such Obligations is neither secured by nor payable from the Trust Estate or any part thereof.

Released Revenues. The County may cause a category of income, receipts or other revenues then included in the definition of "Revenues" to be excluded from such definition for all purposes of the Indenture, which exclusion shall be effective from the date the County satisfies the conditions of the Master Indenture, by filing the following with the Trustee:

(a) a written request from an Authorized Airport Representative to release such category of income, receipts and other revenues from the definition of Revenues, accompanied by a written certificate of an Authorized County Representative certifying the County is in compliance with all requirements of the Indenture;

(b) a certificate of an Authorized Airport Representative or 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 Fiscal Years for which audited financial statements are available immediately preceding the date of such certificate or report, were sufficient to satisfy the rate covenant set forth in the Master Indenture for each of the two such Fiscal Years, assuming that 150% (instead of 125%) was used in the rate covenant set forth in the Master Indenture with respect to Outstanding Senior Obligations, 125% (instead of 110%) was used in the rate covenant set forth in the Master Indenture with respect to Outstanding Senior Obligations and Subordinate Obligations and 110% (instead of 100%) was used in the rate covenant set forth in the Master Indenture with respect to all Outstanding Senior Obligations, Subordinate Obligations and Junior Subordinate Obligations;

(c) a certificate of an Authorized Airport Representative or an Airport Consultant retained by the County 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 (and the preceding Fiscal Year if such year is not included in certificate required by paragraph (b) above) are expected to be sufficient to satisfy the rate covenant set forth in the Master Indenture for such Fiscal Year, assuming that 150% (instead of 125%) was used in the rate covenant set for in the Master Indenture with respect to Outstanding Senior Obligations, 125% (instead of 110%) was used in the rate covenant set forth in the Master Indenture with respect to Outstanding Senior Obligations and Subordinate Obligations and 110% (instead of 100%) was used in the rate covenant set forth in the Master Indenture with respect to all Outstanding Senior Obligations, Subordinate Obligations and Junior Subordinate Obligations; and

(d) a Rating Confirmation in connection with the withdrawal of the category of income, receipts and other revenues proposed to become Released Revenues.

Establishment and Application of Funds

Establishment of Funds and Accounts. The following Funds and Accounts are established and to be held by the County pursuant to the Master Indenture: (a) Construction Fund, (b) Revenue Fund, (c) Operating Fund, including the Operating Reserve Account therein, (d) Rebate Fund, (e) Reserve and Contingency Fund, and (f) Capital Improvement Fund. The following Funds and Accounts are established and to be held by the Trustee pursuant to the Master Indenture: (a) Senior Debt Service Fund, (b) Senior Debt Service Reserve Fund, (c) Subordinate Debt Service Fund, (d) Subordinate Debt Service Reserve Fund, and (e) Junior Subordinate Fund.

Revenues and Revenue Fund. All Revenues shall be promptly deposited upon receipt thereof to the credit of the Revenue Fund and applied as provided in the Master Indenture. The County may also from time to time, in its sole discretion and without any obligation to do so, deposit funds from any available source into the Revenue Fund.

Application of Revenues. As soon as practicable in each month, but in any case no later than the first Business Day of such month, the County shall withdraw moneys from the Revenue Fund and apply such moneys to the deposits and payments indicated below, in the amounts and in the priority set forth below. In the event there is not then on deposit in the Revenue Fund sufficient moneys to make all such deposits and payments, then such deposits and payments shall be made in the priority of the lettered paragraphs below. In the event any of the lettered paragraphs below requires more than one such deposit or payment and there is not then on deposit in the Revenue Fund sufficient moneys to make all such deposits and payments, then such deposits and payments shall be made pro rata (based on the total amount of such deposits and payments then due) to the extent of available moneys.

(a) First, to the Operating Fund the amount which, together with any amount therein available to pay such Operating Expenses (other than amounts in the Operating Reserve Account), is equal to the total amount appropriated for Operating Expenses in such month pursuant to the then current Annual Budget.

(b) Second:

(i) to the Senior Debt Service Fund, the amount, if any, required so that the balance in said Fund shall equal the Accrued Debt Service on all Outstanding Senior Bonds as of the last day of such month;

(ii) to the extent not included in Debt Service on Senior Bonds, to each Credit Provider of a Credit Support Instrument relating to the Senior Bonds, the amount of the Reimbursement Obligation, if any, payable by the County as of the last day of such month in accordance with each applicable Credit Support Agreement;

(iii) to each Qualified Counterparty, the amount of Net Payments, if any, payable by the County as of the last day of such month in accordance with each applicable Qualified Swap relating to the Senior Obligations; and

(iv) to the applicable trustee or paying agent for, or owner or payee of, Outstanding Senior Obligations not specified above in this subparagraph (b), the amount, if any, required to be paid during such month to such trustee, paying agent, owner or payee as and to the extent required by the Supplemental Indentures or Issuing Instruments for payment of such Outstanding Senior Obligations.

(c) Third:

(i) subject to the provisions of the Master Indenture described under the caption "Senior Debt Service Reserve Fund" below, to the Senior Debt Service Reserve Fund the amount, if any, required to maintain the Senior Debt Service Reserve Fund at the applicable Senior Debt Service Reserve Requirement; provided that the maximum amount required to be deposited into the Senior Debt Service Reserve Fund in any month shall not exceed one-twelfth (1/12) of the applicable Senior Debt Service Reserve Requirement; and

(ii) to each Senior Series Debt Service Reserve Fund, the amount, if any, required to be paid during such month pursuant to the applicable Supplemental Indenture to maintain each Senior Series Debt Service Reserve Fund at the amount required by such Supplemental Indenture;

(iii) to the applicable trustee or paying agent for, or owner of, Outstanding Senior Obligations other than Senior Bonds, the amount, if any, required to be paid during such month to such trustee, paying agent or owner pursuant to the Issuing Instruments for such Outstanding Senior Obligations to maintain each debt service reserve for such Outstanding Senior Obligations at the amount required by the applicable Issuing Instrument; and

(iv) to each Reserve Guaranty Provider relating to Senior Obligations, the amount, if any, payable by the County as of the last day of such month in accordance with each applicable Reserve Guaranty Agreement.

(d) Fourth, to the Rebate Fund, the amount required to be paid for Senior Obligations pursuant to the Rebate Instructions.

(e) Fifth:

(i) to the Subordinate Debt Service Fund, the amount, if any, required so that the balance in said Fund shall equal the Accrued Debt Service on all Outstanding Subordinate Bonds as of the last day of such month;

(ii) to the extent not included in Debt Service on Subordinate Bonds, to each Credit Provider of a Credit Support Instrument relating to the Subordinate Bonds, the amount of the Reimbursement Obligation, if any, payable by the County as of the last day of such month in accordance with each applicable Credit Support Agreement;

(iii) to each Qualified Counterparty, the amount of Net Payments, if any, payable by the County as of the last day of such month in accordance with each applicable Qualified Swap relating to the Subordinate Obligations or investments in funds established by the Master Indenture;

(iv) to the applicable trustee or paying agent for, or owner or payee of, Outstanding Subordinate Obligations not specified above in this subparagraph (e), the amount, if any, required to be paid during such month to such trustee, paying agent, owner or payee as and to the extent required by the Supplemental Indentures or Issuing Instruments for payment of such Outstanding Subordinate Obligations; and

(v) to each Qualified Counterparty, the balance of the amounts to be paid by the County, if any, as of the last day of such month in accordance with each applicable Qualified Swap relating to Senior Obligations, including any Termination Payments.

(f) Sixth:

(i) subject to the provisions of the Master Indenture described below under the caption "Subordinate Debt Service Reserve Fund", to the Subordinate Debt Service Reserve Fund the amount, if any, required to maintain the Subordinate Debt Service Reserve Fund at the applicable Subordinate Debt Service Reserve Requirement; provided that the maximum amount required to be deposited into the Subordinate Debt Service Reserve Fund in any month shall not exceed one-twelfth (1/12) of the applicable Subordinate Debt Service Reserve Requirement;

(ii) to each Subordinate Series Debt Service Reserve Fund, the amount, if any, required to be paid during such month pursuant to the applicable Supplemental Indenture to maintain each Subordinate Series Debt Service Reserve Fund at the amount required by such Supplemental Indenture;

(iii) to the applicable trustee or paying agent for, or owner of, Outstanding Subordinate Obligations other than Subordinate Bonds, the amount, if any, required to be paid during such month to such trustee, paying agent or owner pursuant to the Issuing Instruments for such Outstanding Subordinate Obligations to maintain each debt service reserve for such Outstanding Subordinate Obligations at the amount required by the applicable Issuing Instrument; and

(iv) to each Reserve Guaranty Provider relating to Subordinate Obligations, the amount, if any, payable by the County as of the last day of such month in accordance with each applicable Reserve Guaranty Agreement.

(g) Seventh, to the Rebate Fund, the amount required to be paid for Subordinate Obligations pursuant to the Rebate Instructions.

(h) Eighth, to the Operating Reserve Account one-twelfth (1/12) of the Operating Reserve Requirement, but only to the extent such deposit is required to make the amount on deposit in the Operating Reserve Account equal to the Operating Reserve Requirement.

(i) Ninth, to the Junior Subordinate Fund, the amount, if any, required to be paid during such month with respect to Junior Subordinate Obligations pursuant to the Master Indenture.

(j) Tenth, to the Rebate Fund, the amount required to be paid for Junior Subordinate Obligations pursuant to the Rebate Instructions.

(k) Eleventh, to the Reserve and Contingency Fund an amount equal to the greater of (x) one-twelfth (1/12th) of $2,000,000 or (y) the amount, if any, provided for deposit therein during such month pursuant to the then-current Annual Budget, but only to the extent such deposit is required to make the amount on deposit in the Reserve and Contingency Fund equal to the Reserve and Contingency Requirement.

(l) Twelfth, on the last Business Day of each month after making the deposits and payments required by the Master Indenture as described in subsection (a) through subsection (k), the County may withdraw from the Revenue Fund and deposit in the Capital Improvement Fund the balance, if any, of moneys remaining in the Revenue Fund.

Operating Fund. Moneys from the proceeds of Obligations may be deposited in the Operating Reserve Account or otherwise set aside in the Operating Fund as working capital or a reserve for working capital as specified in a Supplemental Indenture or Issuing Instrument.

Amounts in the Operating Fund (other than amounts in the Operating Reserve Account, except as described in subsection (d)) shall be paid out from time to time by the County for reasonable and necessary Operating Expenses.

Amounts in the Operating Fund which the County at any time determines to be in excess of the requirements of such Fund shall be transferred to the Revenue Fund and applied in accordance with the Master Indenture.

Amounts in the Operating Reserve Account shall be paid out from time to time by the County for reasonable and necessary Operating Expenses in the event that other moneys in the Operating Fund available for such purpose are insufficient therefor.

Senior Debt Service Fund. The Trustee shall apply the moneys in the Senior Debt Service Fund to the payment of the following: (i) on or before each Interest Payment Date for any of the Outstanding Senior Bonds the amount required for the interest payable on such date; (ii) on or before each due date therefor, the principal and, to the extent included in Debt Service, the Purchase Price of, Outstanding Senior Bonds payable on such due date; (iii) on or before each redemption date for Outstanding Senior Bonds, the amount required for the payment of the Redemption Price and any accrued interest on the Senior Bonds then to be redeemed; and (iv) upon receipt of a written request signed by an Authorized County Representative, to the respective Credit Providers, on each date a Reimbursement Obligation relating to Senior Bonds is due pursuant to a Credit Support Agreement, the amount of such Reimbursement Obligation to the extent not included in Debt Service on Senior Bonds and not otherwise paid as Operating Expenses. Amounts received by the Paying Agents pursuant to this subsection shall be applied by Paying Agents to the payment of the principal, Redemption Price or Purchase Price, as applicable, of, and interest on, the Senior Bonds on and after the due dates thereof.

Amounts accumulated in the Senior Debt Service Fund with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Senior Bonds for which such Sinking Fund Installment was established) may, and if so directed in writing by an Authorized County Representative shall, be applied by the Trustee, on or prior to the sixtieth (60th) day preceding the due date of such Sinking Fund Installment, to (i) the purchase of Senior Bonds of the Series and maturity for which such Sinking Fund Installment was established, or (ii) the optional redemption at not exceeding the applicable sinking fund Redemption Price of such Senior Bonds, if such Senior Bonds are then subject to redemption at the option by the County. All purchases of any Senior Bonds pursuant to this subsection shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Senior Bonds plus accrued interest, and such purchases shall be made by the Trustee as directed by an Authorized County Representative. The applicable sinking fund Redemption Price (or principal of maturing Senior Bonds) of any Senior Bonds so purchased or redeemed shall be deemed to constitute part of the Senior Debt Service Fund until such Sinking Fund Installment due date, for the purpose of calculating the amount of such Fund. If directed in writing by an Authorized County Representative on or prior to the forty-fifth (45th) day next preceding a Sinking Fund Installment due date, there shall be applied as a credit against such Sinking Fund Installment, and there shall be deemed to constitute part of the Senior Debt Service Fund until such Sinking Fund Installment due date for the purpose of calculating the amount of such Fund, the principal of any Senior Bonds of the Series and maturity for which such Sinking Fund Installment was established which have been purchased or redeemed and cancelled or delivered to the Trustee for cancellation on or prior to the forty-fifth (45th) day next preceding such Sinking Fund Installment due date and not previously applied as a credit against a Sinking Fund Installment. As soon as practicable after the forty-fifth (45th) day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption on such due date, by giving notice as provided in the Master Indenture, Senior Bonds of the Series and maturity for which such Sinking Fund Installment was established (except in the case of Senior Bonds maturing on a Sinking Fund Installment due date) in such amount as shall be necessary to complete the retirement of Senior Bonds from the unsatisfied balance of such Sinking Fund Installment. The Trustee shall pay out of the Senior Debt Service Fund, on or before such redemption date (or maturity date), the amount required for the redemption of the Senior Bonds so called for redemption (or for the payment of such Senior Bonds then maturing). All expenses in connection with the purchase or redemption of Senior Bonds may be paid from the Operating Fund.

The amount, if any, deposited in the Senior Debt Service Fund from the proceeds of each Series of Senior Bonds as Capitalized Interest shall be set aside in such Fund and applied to the payment of interest on Senior Bonds as provided in the Supplemental Indenture relating to such Series of Senior Bonds and shall not be included as amounts in the Senior Debt Service Fund in any month except to the extent that such Capitalized Interest is to pay interest on Senior Bonds for such month.

In the event of the refunding of one or more Senior Bonds (or portions thereof), the Trustee shall, upon the written direction of an Authorized County Representative, withdraw from the Senior Debt Service Fund amounts accumulated therein with respect to Debt Service on the Senior Bonds (or portions thereof) being refunded, and deposit such amounts with itself as Trustee or with an Escrow Agent specified by an Authorized County Representative, to be held for the payment of the principal or Redemption Price, as applicable, of, and interest on, the Senior Bonds (or portions thereof) being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Senior Bonds (or portions thereof) being refunded shall be deemed to have been paid, and (b) the amount remaining in the Senior Debt Service Fund after such withdrawal shall not be less than the requirement of such Fund.

Any provision of the Master Indenture to the contrary notwithstanding, so long as there shall be held in the Senior Debt Service Fund an amount sufficient to pay in full all Outstanding Senior Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Senior Debt Service Fund.

In determining the amount on deposit in the Senior Debt Service Fund, there shall be excluded from the balance of said Fund any Capitalized Interest with respect to interest on Senior Bonds accruing after the last day of such month and the amount, if any, set aside in said Fund for the payment of Debt Service on Senior Bonds which is then due and payable.

Senior Debt Service Reserve Fund. If on the Business Day immediately preceding an Interest Payment Date for the Participating Senior Bonds, or any other date on which any principal or interest on the Outstanding Participating Senior Bonds is due, after applying amounts in the Senior Debt Service Fund ratably (based on the amounts due) to the payment of the principal and interest then due with respect to all Outstanding Senior Bonds, the amount in the Senior Debt Service Fund available for payment of the principal and interest then due with respect to all Outstanding Participating Senior Bonds is less than the amount due on such date, the Trustee shall apply amounts in the Senior Debt Service Reserve Fund ratably (based on amounts due) to the extent necessary to make good the deficiency for the principal and interest then due with respect to the Outstanding Participating Senior Bonds.

Except as provided in the fourth paragraph under this caption "Senior Debt Service Reserve Fund," if on the last Business Day of any month the amount on deposit in the Senior Debt Service Reserve Fund shall exceed the applicable Senior Debt Service Reserve Requirement, such excess shall be applied to the reimbursement of each drawing on a Reserve Guaranty credited to such Fund (to the extent not reimbursed upon the reinstatement of such Reserve Guaranty pursuant to the fifth paragraph under this caption) and to the payment of interest or other amounts due with respect to any Reserve Guaranty credited to such Fund and any remaining moneys shall be deposited in the Senior Debt Service Fund.

Whenever the amount in the Senior Debt Service Reserve Fund and all Senior Series Debt Service Reserve Funds (excluding Reserve Guaranties), together with the amount available therefor in the Senior Debt Service Fund, is sufficient to pay in full all Outstanding Senior Bonds in accordance with their terms (including principal or applicable Redemption Price and interest thereon), the funds on deposit in the Senior Debt Service Reserve Fund and all Senior Series Debt Service Reserve Funds shall be transferred to the Senior Debt Service Fund and applied to the payment of the Outstanding Senior Bonds (including principal or applicable Redemption Price and interest thereon).

In the event of the refunding, purchase or redemption of one or more Participating Senior Bonds (or portions thereof), the Trustee shall, upon the written direction of an Authorized County Representative, withdraw from the Senior Debt Service Reserve Fund any or all of the amounts on deposit therein (excluding Reserve Guaranties) and deposit such amounts with itself as Trustee or with the Escrow Agent to be held for the payment of the principal or Redemption Price of, and interest on, the Participating Senior Bonds (or portions thereof) being refunded, purchased or redeemed; provided that such withdrawal shall not be made unless immediately thereafter the amount remaining in the Senior Debt Service Reserve Fund after such withdrawal, taking into account any deposits to be made in the Senior Debt Service Reserve Fund in connection with such refunding, purchase or redemption, shall not be less than the Senior Debt Service Reserve Requirement for the Participating Senior Bonds to be Outstanding upon such refunding, purchase or redemption.

In lieu of the deposits and transfers to the Senior Debt Service Reserve Fund required by the Master Indenture, the County may cause to be deposited in the Senior Debt Service Reserve Fund a Reserve Guaranty or Reserve Guaranties in an aggregate amount equal to the difference between the applicable Senior Debt Service Reserve Requirement and the sums, if any, then on deposit in the Senior Debt Service Reserve Fund or being deposited in the Senior Debt Service Reserve Fund concurrently with such Reserve Guaranty or Guaranties.

In computing the amount on deposit in the Senior Debt Service Reserve Fund, a Reserve Guaranty shall be valued at the amount available to be drawn or payable thereunder on the date of computation.

The Trustee shall draw upon or otherwise take such action as is necessary in accordance with the terms of the Reserve Guaranties credited to the Senior Debt Service Reserve Fund to receive payments with respect to the Reserve Guaranties (including the giving of notice as required thereunder): (i) on any date on which moneys will be required to be withdrawn from the Senior Debt Service Reserve Fund and applied to the payment of principal or interest on, any Participating Senior Bonds and such withdrawal cannot be met by moneys on deposit in the Senior Debt Service Reserve Fund; (ii) unless such Reserve Guaranty expires on the final maturity date for the Outstanding Participating Senior Bonds, on the first Business Day which is at least thirty (30) days prior to the expiration date of each Reserve Guaranty, in an amount equal to the deficiency which would exist in the Senior Debt Service Reserve Fund if the Reserve Guaranty expired, unless a substitute Reserve Guaranty with an expiration date not earlier than one hundred eighty (180) days after the expiration date of the expiring Reserve Guaranty (or the final maturity date of the Outstanding Participating Senior Bonds, if sooner) is delivered to the Trustee prior to such date or the County deposits funds in the Senior Debt Service Reserve Fund on or before such date such that the amount in the Senior Debt Service Reserve Fund on such date (without regard to such expiring Reserve Guaranty) is at least equal to the applicable Senior Debt Service Reserve Requirement.

If at any time a Reserve Guaranty is delivered pursuant to this subparagraph there shall be any amount in the Senior Debt Service Reserve Fund in excess of the applicable Senior Debt Service Reserve Requirement, such excess amount may be applied to the cost of acquiring such Reserve Guaranty and, to the extent not so applied, shall be applied to either: (i) the purchase or redemption of Participating Senior

Bonds as directed in writing by an Authorized County Representative (other than amounts due for interest on such purchase or redemption which shall be paid from amounts accumulated in the Senior Debt Service Fund with respect to such interest or other available funds); or (ii) any lawful purpose as directed by an Authorized County Representative if the County delivers to the Trustee a Favorable Opinion of Bond Counsel with respect to such application.

If a disbursement is made pursuant to a Reserve Guaranty credited to the Senior Debt Service Reserve Fund, the County shall be obligated either (i) to reinstate the maximum limits of such Reserve Guaranty or (ii) to deposit into the Senior Debt Service Reserve Fund funds in the amount of the disbursement made under such Reserve Guaranty, or a combination of such alternatives, as shall provide that the amount in the Senior Debt Service Reserve Fund equals the applicable Senior Debt Service Reserve Requirement; provided, however, that to the extent a Reserve Guaranty will be reinstated so that the amount in the Senior Debt Service Reserve Fund (including Reserve Guarantees) shall equal the applicable Senior Debt Service Reserve Requirement, amounts in the Senior Debt Service Reserve Fund in excess of the applicable Senior Debt Service Reserve Requirement shall be applied to the reimbursement of drawings under a Reserve Guaranty.

Subordinate Debt Service Fund. The Trustee shall apply the moneys in the Subordinate Debt Service Fund to the payment of the following: (i) on or before each Interest Payment Date for any of the Outstanding Subordinate Bonds the amount required for the interest payable on such date; (ii) on or before each due date therefor, the principal and, to the extent included in Debt Service, the Purchase Price of, Outstanding Subordinate Bonds payable on such due date; (iii) on or before each redemption date for Outstanding Subordinate Bonds, the amount required for the payment of the Redemption Price and any accrued interest on the Subordinate Bonds then to be redeemed; and (iv) upon receipt of a written request signed by an Authorized County Representative, to the respective Credit Providers, on each date a Reimbursement Obligation relating to Subordinate Bonds is due pursuant to a Credit Support Agreement, the amount of such Reimbursement Obligation to the extent not included in Debt Service on Subordinate Bonds and not otherwise paid as Operating Expenses. Amounts received by the Paying Agents pursuant to this subsection shall be applied by Paying Agents to the payment of the principal, Redemption Price or Purchase Price, as applicable, of, and interest on, the Subordinate Bonds on and after the due dates thereof.

Amounts accumulated in the Subordinate Debt Service Fund with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Subordinate Bonds for which such Sinking Fund Installment was established) may, and if so directed in writing by an Authorized County Representative shall, be applied by the Trustee, on or prior to the sixtieth (60th) day preceding the due date of such Sinking Fund Installment, to (i) the purchase of Subordinate Bonds of the Series and maturity for which such Sinking Fund Installment was established, or (ii) the optional redemption at not exceeding the applicable sinking fund Redemption Price of such Subordinate Bonds, if such Subordinate Bonds are then subject to redemption at the option by the County. All purchases of any Subordinate Bonds pursuant to this subsection shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Subordinate Bonds plus accrued interest, and such purchases shall be made by the Trustee as directed by an Authorized County Representative. The applicable sinking fund Redemption Price (or principal of maturing Subordinate Bonds) of any Subordinate Bonds so purchased or redeemed shall be deemed to constitute part of the Subordinate Debt Service Fund until such Sinking Fund Installment due date, for the purpose of calculating the amount of such Fund. If directed in writing by an Authorized County Representative on or prior to the forty-fifth (45th) day next preceding a Sinking Fund Installment due date, there shall be applied as a credit against such Sinking Fund Installment, and there shall be deemed to constitute part of the Subordinate Debt Service Fund until such Sinking Fund Installment due date for the purpose of calculating the amount of such Fund, the principal of any Subordinate Bonds of the Series and maturity for which such Sinking Fund Installment was established which have been purchased or redeemed and cancelled or delivered to the Trustee for cancellation on or prior to the forty-fifth (45th) day next preceding such Sinking Fund Installment due date and not previously applied as a credit against a Sinking Fund Installment. As soon as practicable after the forty-fifth (45th) day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption on such due date, by giving notice as provided in the Master Indenture, Subordinate Bonds of the Series and maturity for which such Sinking Fund Installment was established (except in the case of Subordinate Bonds maturing on a Sinking Fund Installment due date) in such amount as shall be necessary to complete the retirement of Subordinate Bonds from the unsatisfied balance of such Sinking Fund Installment. The Trustee shall pay out of the Subordinate Debt Service Fund, on or before such redemption date (or maturity date), the amount required for the redemption of the Subordinate Bonds so called for redemption (or for the payment of such Subordinate Bonds then maturing). All expenses in connection with the purchase or redemption of Subordinate Bonds may be paid from the Operating Fund.

The amount, if any, deposited in the Subordinate Debt Service Fund from the proceeds of each Series of Subordinate Bonds as Capitalized Interest shall be set aside in such Fund and applied to the payment of interest on Subordinate Bonds as provided in the Supplemental Indenture relating to such Series of Subordinate Bonds and shall not be included as amounts in the Subordinate Debt Service Fund in any month except to the extent that such Capitalized Interest is to pay interest on Subordinate Bonds for such month.

In the event of the refunding of one or more Subordinate Bonds (or portions thereof), the Trustee shall, upon the written direction of an Authorized County Representative, withdraw from the Subordinate Debt Service Fund amounts accumulated therein with respect to Debt Service on the Subordinate Bonds (or portions thereof) being refunded, and deposit such amounts with itself as Trustee or with an Escrow Agent specified by an Authorized County Representative, to be held for the payment of the principal or Redemption Price, as applicable, of, and interest on, the Subordinate Bonds (or portions thereof) being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Subordinate Bonds (or portions thereof) being refunded shall be deemed to have been paid pursuant to the Master Indenture, and (b) the amount remaining in the Subordinate Debt Service Fund after such withdrawal shall not be less than the requirement of such Fund.

Any provision of the Master Indenture to the contrary notwithstanding, so long as there shall be held in the Subordinate Debt Service Fund an amount sufficient to pay in full all Outstanding Subordinate Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Subordinate Debt Service Fund.

In determining the amount on deposit in the Subordinate Debt Service Fund, there shall be excluded from the balance of said Fund any Capitalized Interest with respect to interest on Subordinate Bonds accruing after the last day of such month and the amount, if any, set aside in said Fund for the payment of Debt Service on Subordinate Bonds which is then due and payable.

Subordinate Debt Service Reserve Fund. If on the Business Day immediately preceding an Interest Payment Date for the Participating Subordinate Bonds, or any other date on which any principal or interest on, the Outstanding Participating Subordinate Bonds is due, after applying amounts in the Subordinate Debt Service Fund ratably (based on the amounts due) to the payment of the principal and interest then due with respect to all Outstanding Subordinate Bonds, the amount in the Subordinate Debt Service Fund available for payment of the principal and interest then due with respect to all Outstanding Participating Subordinate Bonds is less than the amount due on such date, the Trustee shall apply amounts in the Subordinate Debt Service Reserve Fund ratably (based on amounts due) to the extent necessary to make good the deficiency for the principal and interest then due with respect to the Outstanding Participating Subordinate Bonds.

Except as provided in the fourth paragraph under this caption "Subordinate Debt Service Reserve Fund," if on the last Business Day of any month the amount on deposit in the Subordinate Debt Service Reserve Fund shall exceed the applicable Subordinate Debt Service Reserve Requirement, such excess shall be applied to the reimbursement of each drawing on a Reserve Guaranty credited to such Fund (to the extent not reimbursed upon the reinstatement of such Reserve Guaranty pursuant to the fifth paragraph under this caption) and to the payment of interest or other amounts due with respect to any Reserve Guaranty credited to such Fund and any remaining moneys shall be deposited in the Subordinate Debt Service Fund.

Whenever the amount in the Subordinate Debt Service Reserve Fund and all Subordinate Series Debt Service Reserve Funds (excluding Reserve Guaranties), together with the amount available therefor in the Subordinate Debt Service Fund, is sufficient to pay in full all Outstanding Subordinate Bonds in accordance with their terms (including principal or applicable Redemption Price and interest thereon), the funds on deposit in the Subordinate Debt Service Reserve Fund and all Subordinate Series Debt Service Reserve Funds shall be transferred to the Subordinate Debt Service Fund and applied to the payment of the Outstanding Subordinate Bonds (including principal or applicable Redemption Price and interest thereon).

In the event of the refunding, purchase or redemption of one or more Participating Subordinate Bonds (or portions thereof), the Trustee shall, upon the written direction of an Authorized County Representative, withdraw from the Subordinate Debt Service Reserve Fund any or all of the amounts on deposit therein (excluding Reserve Guaranties) and deposit such amounts with itself as Trustee or with the Escrow Agent to be held for the payment of the principal or Redemption Price of, and interest on, the Participating Subordinate Bonds (or portions thereof) being refunded, purchased or redeemed; provided that such withdrawal shall not be made unless immediately thereafter the amount remaining in the Subordinate Debt Service Reserve Fund after such withdrawal, taking into account any deposits to be made in the Subordinate Debt Service Reserve Fund in connection with such refunding, purchase or redemption, shall not be less than the Subordinate Debt Service Reserve Requirement for the Participating Subordinate Bonds to be Outstanding upon such refunding, purchase or redemption.

In lieu of the deposits and transfers to the Subordinate Debt Service Reserve Fund required by the Master Indenture, the County may cause to be deposited in the Subordinate Debt Service Reserve Fund a Reserve Guaranty or Reserve Guaranties in an aggregate amount equal to the difference between the applicable Subordinate Debt Service Reserve Requirement and the sums, if any, then on deposit in the Subordinate Debt Service Reserve Fund or being deposited in the Subordinate Debt Service Reserve Fund concurrently with such Reserve Guaranty or Guaranties.

In computing the amount on deposit in the Subordinate Debt Service Reserve Fund, a Reserve Guaranty shall be valued at the amount available to be drawn or payable thereunder on the date of computation.

The Trustee shall draw upon or otherwise take such action as is necessary in accordance with the terms of the Reserve Guaranties credited to the Subordinate Debt Service Reserve Fund to receive payments with respect to the Reserve Guaranties (including the giving of notice as required thereunder): (i) on any date on which moneys will be required to be withdrawn from the Subordinate Debt Service Reserve Fund and applied to the payment of principal or interest on, any Participating Subordinate Bonds and such withdrawal cannot be met by moneys on deposit in the Subordinate Debt Service Reserve Fund; (ii) unless such Reserve Guaranty expires on the final maturity date for the Outstanding Participating Subordinate Bonds, on the first Business Day which is at least thirty (30) days prior to the expiration date of each Reserve Guaranty, in an amount equal to the deficiency which would exist in the Subordinate Debt Service Reserve Fund if the Reserve Guaranty expired, unless a substitute Reserve Guaranty with an expiration date not earlier than one hundred eighty (180) days after the expiration date of the expiring Reserve Guaranty (or the final maturity date of the Outstanding Participating Subordinate Bonds, if sooner) is delivered to the Trustee prior to such date or the County deposits funds in the Subordinate Debt Service Reserve Fund on or before such date such that the amount in the Subordinate Debt Service Reserve Fund on such date (without regard to such expiring Reserve Guaranty) is at least equal to the applicable Subordinate Debt Service Reserve Requirement.

If at any time a Reserve Guaranty is delivered pursuant to this paragraph there shall be any amount in the Subordinate Debt Service Reserve Fund in excess of the applicable Subordinate Debt Service Reserve Requirement, such excess amount may be applied to the cost of acquiring such Reserve Guaranty and, to the extent not so applied, shall be applied to either: (i) the purchase or redemption of Participating Subordinate Bonds as directed in writing by an Authorized County Representative (other than amounts due for interest on such purchase or redemption which shall be paid from amounts accumulated in the Subordinate Debt Service Fund with respect to such interest or other available funds); or (ii) any lawful purpose relating to the Airport System as directed by an Authorized County Representative if the County delivers to the Trustee a Favorable Opinion of Bond Counsel with respect to such application.

If a disbursement is made pursuant to a Reserve Guaranty credited to the Subordinate Debt Service Reserve Fund, the County shall be obligated either (i) to reinstate the maximum limits of such Reserve Guaranty or (ii) to deposit into the Subordinate Debt Service Reserve Fund, in accordance with the Master Indenture, funds in the amount of the disbursement made under such Reserve Guaranty, or a combination of such alternatives, as shall provide that the amount in the Subordinate Debt Service Reserve Fund equals the applicable Subordinate Debt Service Reserve Requirement; provided, however, that to the extent a Reserve Guaranty will be reinstated so that the amount in the Subordinate Debt Service Reserve Fund (including Financial Guarantees) shall equal the applicable Subordinate Debt Service Reserve Requirement, amounts in the Subordinate Debt Service Reserve Fund in excess of the applicable Subordinate Debt Service Reserve Requirement shall be applied to the reimbursement of drawings under a Reserve Guaranty.

Junior Subordinate Fund. The Trustee shall apply moneys in the Junior Subordinate Fund to the payment of the following:

(a) on or before each Interest Payment Date for any of the Outstanding Junior Subordinate Bonds the amount required for the interest payable on such date;

(b) on or before each due date therefor, the principal and, to the extent included in Debt Service, the Purchase Price of, Outstanding Junior Subordinate Bonds payable on such due date;

(c) on or before each redemption date for Outstanding Junior Subordinate Bonds, the amount required for the payment of the Redemption Price and any accrued interest on the Junior Subordinate Bonds then to be redeemed;

(d) to the respective Credit Providers, on each date a Reimbursement Obligation relating to Junior Subordinate Obligations is due pursuant to a Credit Support Agreement, the amount of such Reimbursement Obligation to the extent not otherwise paid as Debt Service on Junior Subordinate Obligations and not otherwise paid as Operating Expenses;

(e) to each Qualified Counterparty, the amount of Net Payments and Termination Payments, if any, payable by the County as of the last day of such month in accordance with each applicable Qualified Swap relating to the Junior Subordinate Bonds;

(f) to the applicable trustee or paying agent for, or owner of, Outstanding Junior Subordinate Obligations not otherwise paid above, the amount, if any, required to be paid during such month to such trustee, paying agent or owner as and to the extent required by the Issuing Instruments for payment of such Outstanding Subordinate Obligations;

(g) to the applicable trustee or paying agent for, or owner of, Outstanding Junior Subordinate Obligations, the amount, if any, required to be paid during such month to such trustee, paying agent or owner pursuant to the Supplemental Indentures or Issuing Instruments for such Outstanding Subordinate Obligations to maintain each debt service reserve for such Outstanding Subordinate Obligations at the amount required by the applicable Supplemental Indenture or Issuing Instrument;

(h) to each Reserve Guaranty Provider relating to Junior Subordinate Obligations, the amount, if any, payable by the County as of the last day of such month in accordance with each applicable Reserve Guaranty Agreement; and

(i) to the payment of any other payment due with respect to any Junior Subordinate Obligations.

Reserve and Contingency Fund. Amounts in the Reserve and Contingency Fund shall be applied to the cost of renewals, replacements, extensions, betterments and improvements to the Airport System, including, without limitation, any Capital Improvement. Amounts in the Reserve and Contingency Fund shall also be applied to the payment of operation and maintenance costs and contingencies for the Airport System including payments with respect to the prevention or correction of any unusual loss or damage in connection with the Airport System or to prevent a loss of revenue therefrom, all to the extent not scheduled to be paid from amounts in the Operating Fund pursuant to the then current Annual Budget.

No payments shall be made from the Reserve and Contingency Fund if and to the extent that the proceeds of insurance, including the proceeds of any self insurance fund, or other moneys recoverable as the result of damage to the Airport System, if any, are available to pay the costs otherwise payable from such Fund.

If on any date the amount in the Funds described in subsections (a) through (j) under the caption "Application of Revenues" above (after application of the Master Indenture with respect to the Capital Improvement Fund) shall be less than the requirement of such Fund and there shall not be on deposit in the Capital Improvement Fund available moneys sufficient to cure any such deficiency, then the Trustee shall transfer from the Reserve and Contingency Fund and deposit in the Funds in the order of priority described in the Master Indenture the amount necessary (or all the moneys in the Reserve and Contingency Fund if less than the amount necessary) to make up any such deficiency.

Any balance in the Reserve and Contingency Fund not required to meet any deficiencies in a Fund by the 10th day of a month or not needed for any of the purposes for which such Fund was established, shall be transferred to the Operating Fund, if and to the extent deemed necessary by the County and any remaining balance may be transferred to the Capital Improvement Fund.

Capital Improvement Fund. If on any date the amount in the Funds described in subsections (a) through (k) under the caption "Application of Revenues" above shall be less than the requirement of such Fund pursuant to the Master Indenture, then the County shall transfer from the Capital Improvement Fund and deposit the amount necessary (or all the moneys in the Capital Improvement Fund if less than the amount necessary) to make up any such deficiency. Amounts in the Capital Improvement Fund not required to meet deficiencies shall be used by the County for any lawful purpose.

Rebate Fund. When required in connection with a Series of Obligations pursuant to the Supplemental Indenture or Issuing Instrument relating to such Series of Obligations or the Tax Certificate, if any, relating to such Series of Obligations, there shall be established an Account within the Rebate Fund with respect to such Series of Obligations. Amounts on deposit in each Account in the Rebate Fund shall be applied as provided in Supplemental Indenture or Issuing Instrument pursuant to which Account was established and the Rebate Instructions relating to such Account.

Available Revenues. At any time and from time to time, the County and the Trustee, without the consent of the Owner of any Obligation and without the consent of any Credit Provider, may enter into a Supplemental Indenture or Issuing Instrument that (i) specifies the amount of Passenger Facility Charges that shall constitute Available PFC Revenues, the amount of Customer Facility Charges that shall constitute Available CFC Revenues, or the amount of Grant Funds that shall constitute Available Grant Revenues during each Fiscal Year specified in such Supplemental Indenture or Issuing Instrument or (ii) specifies Obligations that shall be secured by Available Revenues. More than one Series of Obligations may be secured by Available CFC Revenues, Available Grant Revenues, or Available PFC Revenues, and no consent from any Owner of any Obligation that is secured by any Available Revenues, or from any Credit Provider, shall be required as a condition to the issuance or incurring of any subsequently-issued Obligations that is secured by any Available Revenues. Notwithstanding any other provision of the Indenture, any Issuing Instrument, any Credit Support Agreement or any Credit Support Instrument, the County and the Trustee may amend (including reduce) the amount of Available CFC Revenues, Available Grant Revenues, or Available PFC Revenues specified pursuant to clause (i) of this paragraph with respect to any Fiscal Year without the consent of any Owner of any Obligation or any Credit Provider.

The Master Indenture establishes the following accounts, to be held by the Trustee: (i) Available CFC Account; (ii) Available Grant Account; and (iii) Available PFC Account.

The County shall, promptly upon receipt, deposit, or cause to be deposited, all Available CFC Revenues in the Available CFC Account, all Available Grant Revenues in the Available Grant Account, and all Available PFC Revenues in the Available PFC Account.

Notwithstanding any other provision of the Master Indenture or any Issuing Instrument, (i) the Available CFC Account and the Available CFC Revenues shall secure on a pro rata pari passu basis all Obligations, whenever issued and whether Senior Obligations, Subordinate Obligations, or Junior Subordinate Obligations, that are specified in the applicable Supplemental Indenture or Issuing Instrument to be secured by the Available CFC Account and the Available CFC Revenues; and (ii) Available CFC Revenues held in the Available CFC Account shall be applied by the Trustee as follows:

The pro rata amount of the Available CFC Revenues, including any investment earnings thereon, on deposit in the Available CFC Account shall be applied to the payment of such Obligations secured thereby and such amount shall be accounted for as a credit against the amounts required to be deposited for such purposes pursuant to the provisions of the Master Indenture described above under the caption "Application of Revenues."

Notwithstanding any other provision of the Master Indenture or any Issuing Instrument, (i) the Available Grant Account and the Available Grant Revenues shall secure on a pro rata pari passu basis all Obligations, whenever issued and whether Senior Obligations, Subordinate Obligations, or Junior Subordinate Obligations, that are specified in the applicable Supplemental Indenture or Issuing Instrument to be secured by the Available Grant Account and the Available Grant Revenues; and (ii) Available Grant Revenues held in the Available Grant Account shall be applied by the Trustee as follows:

The pro rata amount of the Available Grant Revenues, including any investment earnings thereon, on deposit in the Available Grant Account shall be applied to the payment of such Obligations secured thereby and such amount shall be accounted for as a credit against the amounts required to be deposited for such purpose pursuant to the provisions of the Master Indenture described above under the caption "Application of Revenues."

Notwithstanding any other provision of the Master Indenture or any Issuing Instrument, (i) the Available PFC Account and the Available PFC Revenues shall secure on a pro rata pari passu basis all Obligations, whenever issued and whether Senior Obligations, Subordinate Obligations, or Junior Subordinate Obligations, that are specified in the applicable Supplemental Indenture or Issuing Instrument to be secured by the Available PFC Account and the Available PFC Revenues; and (ii) Available PFC Revenues held in the Available PFC Account shall be applied by the Trustee as follows:

The pro rata amount of the Available PFC Revenues, including any investment earnings thereon, on deposit in the Available PFC Account shall be applied to the payment of such Obligations secured thereby and such amount shall be accounted for as a credit against the amounts required to be deposited for such purpose pursuant to the provisions of the Master Indenture described above under the caption "Application of Revenues."

Investment of Certain Funds. Moneys held in the Senior Debt Service Fund, the Subordinate Debt Service Fund and the Junior Subordinate Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in "Permitted Investments" which mature not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Fund. Moneys held in the Senior Debt Service Reserve Fund and the Subordinate Debt Service Reserve Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in "Permitted Investments" which mature not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Fund, but in any event not later than five (5) years from the time of such investment except that any security described in clause (g) of the definition of Permitted Investments may mature not later than thirty (30) years from the time of such investment provided that the Trustee may make withdrawals of all or any part of such Permitted Investment without penalty upon not more than two Business Days notice. Moneys held in the Revenue Fund and the Construction Fund may be invested and reinvested in Permitted Investments which mature or which may be drawn upon not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Funds. Moneys in the Operating Fund, including amounts in the Operating Reserve Account, the Reserve and Contingency Fund and the Capital Improvement Fund may be invested and reinvested in Permitted Investments which mature or which may be drawn upon not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Funds but in any event not later than five (5) years from the time of such investment. Moneys held in any other Fund or Account may be invested as provided in the Supplemental Indenture or Issuing Instrument establishing such Fund or Account. Notwithstanding any provision of the Master Indenture to the contrary, the investment of the proceeds of the Obligations of any Series, or any moneys held under the Master Indenture for the payment of the principal or Redemption Price of, or interest on, the Obligations of such Series, may be further restricted as provided in the Supplemental Indenture or Issuing Instrument authorizing such Series. The Trustee shall make all such investments of moneys held by it and shall sell or otherwise liquidate any such investment and take all actions necessary to draw funds under any such investment, including the giving of necessary notices of the drawing of any moneys under any investment in securities described in clause (g) of the definition of "Permitted Investments", in each case in accordance with directions of an Authorized County Representative, which directions shall be consistent with the Master Indenture and applicable law, and which directions shall be written. In the absence of written investment instructions directing the Trustee, the Trustee is directed to invest available funds in investments described in paragraph (d) of the definition of Permitted Investments.

Interest or other income (net of that which (x) represents a return of accrued interest paid in connection with the purchase of any investment or (y) is required to effect the amortization of any premium paid in connection with the purchase of any investment) earned on any moneys or investments in the Funds and Accounts shall be applied as follows: (i) all such interest or other income on moneys or investments in the Funds or Accounts established in the Master Indenture (other than the Construction Fund and the Rebate Fund) shall be paid into the Revenue Fund; provided, however, that with respect to the Senior Debt Service Reserve Fund and each Senior Series Debt Service Reserve Fund, such payment shall be made only to the extent the amounts remaining in such Funds is not less than the applicable Senior Debt Service Reserve Requirement and with respect to the Subordinate Debt Service Reserve Fund and each Subordinate Series Debt Service Reserve Fund, such payment shall be made only to the extent the amounts remaining in such Funds is not less than the applicable Subordinate Debt Service Reserve Requirement, (ii) all such interest or other income on moneys or investments in the Rebate Fund shall be applied as provided in the Master Indenture with respect to the County's tax covenants, (iii) unless otherwise provided with respect to an Account in the Construction Fund funded with the proceeds of a Series of Bonds in the Supplemental Indenture authorizing such Series, all such interest or other income on moneys or investments in each Account in the Construction Fund shall be retained in such Account, and (iv) all such interest or other income earned on moneys in any other Fund or Account shall be applied as provided in the Supplemental Indenture establishing such Fund or Account.

Covenants and Obligations of the County

Creation of Prior Liens. Except as provided in the Indenture, the County shall not issue any bond, note, or other evidence of indebtedness, incur any obligation, including any Obligation, payable from or secured by the Trust Estate or any part thereof or create, permit, or suffer to exist any lien or other encumbrance on the Trust Estate or any part thereof; provided that the County may issue obligations payable from and secured by the Trust Estate or any part thereof if such obligations are subordinate in payment and priority to the Junior Subordinate Obligations, the Subordinate Obligations and the Senior Obligations.

Any agreement pursuant to which are issued obligations permitted by the paragraph above (each, a "Junior Agreement") shall contain provisions to the following effect:

(1) The provisions of paragraphs (1)-(22) (the "Subordination Provisions") shall apply as long as any Obligation (other than any Obligation issued pursuant to the first paragraph under this caption) (the "Priority Obligations") is Outstanding, except that the Subordination Provisions shall continue to be effective or be reinstated, as the case may be, if at any time any payment in respect of any Priority Obligation is avoided, recovered, rescinded, annulled, or must otherwise be returned by the Trustee or the holder thereof, upon the bankruptcy or other similar proceedings with respect to the County or otherwise, all as though such payment had not been made. Any amounts received by any holder of an obligation issued pursuant to the first paragraph under this caption or any trustee or representative thereof (each, a "Junior Holder") on account of such an obligation (each, a "Junior Obligation") shall, in the event of a reinstatement of the Subordination Provisions pursuant to this paragraph, be held in trust for and paid over to the Trustee.

(2) The indebtedness evidenced by each Junior Obligation is junior and subordinate in all respects, including in right of payment, to the prior payment of the Priority Obligations, to the extent and in the manner provided in the Subordination Provisions. Any lien, security interest, pledge, or other encumbrance securing any Junior Obligation is subordinate in all respects to the lien of the Master Indenture. The rights and remedies of the Junior Holders are subject to the restrictions and limitations set forth in the Subordination Provisions.

(3) No payment shall be made on any Junior Obligations from the Trust Estate or any part thereof, except from amounts payable to the County pursuant to paragraph (*l*) under the caption "Application of Revenues" above. Except as permitted by the immediately preceding sentence, each Junior Holder shall not ask for, demand, sue for, take, accept, or receive, directly or indirectly, by set-off, counterclaim, redemption, purchase, or in any other manner whatsoever, whether voluntary or involuntary and whether by operation of law or otherwise, (i) any payment or distribution, whether in money, securities, or other property, of or on account of any principal, premium, if any, or interest in respect of any Junior Obligations, or (ii) any payment or distribution for the purpose of any redemption, purchase, or other acquisition, direct or indirect, by the County of any Junior Obligations, and no such payment shall be due by the County. Except as permitted by the first sentence of this paragraph, the County shall not make any such payment or distribution. In the event that any payment or distribution with respect to any Junior Obligation shall be received by any Junior Holder in violation of the Subordination Provisions, such payment shall be held in trust for the benefit of the Trustee and shall be immediately paid to Trustee for application pursuant to the Master Indenture. In the event of the failure of the applicable Junior Holder to indorse or assign any such payment or distribution, the Trustee is irrevocably authorized under the Master Indenture to indorse or assign such payment or distribution.

(4) Each Junior Holder (i) shall not exercise any right or remedy otherwise available to it, whether pursuant to the applicable Junior Agreement, the applicable Junior Obligation, or applicable law, whether or not there has been any default or event of default under the applicable Junior Agreement or the applicable Junior Obligation, (ii) shall not accelerate, make demand, or otherwise cause to become due and payable prior to the original stated maturity the applicable Junior Obligation or any obligation under the applicable Junior Agreement, (iii) shall not declare any default or event of default under the applicable Junior Agreement or the applicable Junior Obligation, and no such default or event of default shall exist or occur, and (iv) shall not bring suit or institute any other action or proceeding against the County to enforce, nor seek or obtain any writ, judgment, or other process or remedy with respect to, its rights or interests under or in respect of the applicable Junior Agreement or the applicable Junior Obligation.

(5) In the event of (i) any bankruptcy or other similar proceeding of which the County or its property is the subject, (ii) any proceeding for the liquidation, dissolution, or other winding-up of the County, or (iii) any distribution, division, marshalling, or application of any of the properties or assets of the County or the proceeds thereof to creditors, voluntary or involuntary, and whether or not involving legal proceedings, then in any such event:

(A) All Priority Obligations shall first be paid in full, including all principal, premium, if any, interest, and other payments owing pursuant to the terms of the Master Indenture, any applicable Issuing Instrument and the Priority Obligations, including interest, premium, and other payments accruing after the commencement of any such proceeding or that would have accrued but for the commencement of any such proceeding, and regardless of whether any such amounts are allowed claims, disallowed claims, or allowable claims in such proceeding, or are avoided or subordinated in such proceeding, before any payment or distribution of any character, whether in money, securities, or other property, shall be made in respect of any Junior Obligation. The Subordination Provisions expressly are intended to include and do include the "rule of explicitness" in that the Subordination Provisions expressly entitle the Trustee and the holders of the Priority Obligations, and are intended to provide the Trustee and the holders of the Priority Obligations, with the right to receive payment of all post-petition interest, premium, fees, expenses, and other payments through distributions made pursuant to the provisions of the Subordination Provisions even though such interest, premium, fees, expenses or other payments are not allowed or allowable in such proceeding under Section 502(b)(2) or Section 506(b) of the United States Bankruptcy Code or under any other provision of the United States Bankruptcy Code or any other law, or are avoided or subordinated in any such proceeding;

(B) all principal or premium, if any, and interest and other payments on the Junior Obligations shall forthwith become due and payable, and any payment or distribution of any character, whether in money, securities, or other property, which would otherwise, but for the terms of the Master Indenture described under this caption, be payable or deliverable in respect of the Junior Obligations, shall be paid or delivered directly to the Trustee, for application pursuant to the Master Indenture until the Priority Obligations have been paid in full as described in paragraph (A) above, and the Junior Holders irrevocably (i) authorize, empower, and direct all receivers, trustees, liquidators, conservators, fiscal agents, and other applicable Persons to effect all such payments and deliveries, and (ii) to the extent necessary to effectuate the foregoing, assign to the Trustee their rights to (I) all such amounts, and (II) all collateral securing the Junior Obligations or the Junior Agreements;

(C) in the event that, notwithstanding the foregoing, any such payment or distribution of assets is received by any Junior Holder on account of, or with respect to, any Junior Obligation before all Priority Obligations shall have been paid in full as described in paragraph (A) above, such payment or distribution shall be held in trust for the benefit of and shall be immediately paid over to the Trustee for application in accordance with the Master Indenture. In the event of the failure of any Junior Holder to indorse or assign any such payment or distribution, the Trustee is irrevocably authorized under the Master Indenture to indorse or assign such payment or distribution;

(D) each Junior Holder irrevocably authorizes and empowers the Trustee (without imposing any obligation on the Trustee) to demand, sue for, collect, and receive all payments and distributions on account of each Junior Obligation and to receipt therefor, to file all claims therefor, and to take all such other actions, including the right to vote such Junior Obligation or any claims in respect thereof, in the name of the applicable Junior Holder, or otherwise, as the Trustee may determine to be necessary or appropriate, without any notice to any Junior Holder; and

(E) each Junior Holder shall execute and deliver to the Trustee all such further instruments confirming the above authorization, and all such powers of attorney, proofs of claim, assignments of claim, and other instruments, and shall take all such other action as may be reasonably requested by the Trustee to enforce all claims upon or in respect of any Junior Obligation.

(6) The Junior Holders appoint the Trustee as their attorney-in-fact with full authority in the place and stead of the Junior Holders and in the name of the Junior Holders or its own name or otherwise, from time to time in the Trustee's discretion, to take any action and to execute any instrument which the Trustee may deem necessary or advisable to accomplish the purposes of the Subordination Provisions. The power of attorney granted in the Master Indenture is coupled with an interest and is irrevocable.

(7) The terms of the Subordination Provisions, the subordination effected by the provisions described under this caption, and the rights of the holders of the Priority Obligations

shall not be affected by (i) any lack of validity or enforceability of any Priority Obligation, the Master Indenture, any Issuing Instrument, any Junior Obligation, or any Junior Agreement; (ii) any change in the time, manner, or place of payment of, or in any other terms of, all or any of the Junior Obligations, the Junior Agreements, the Priority Obligations, any Issuing Instrument or the Master Indenture; (iii) any amendment, supplement, waiver, or other modification, including any increase in the amount thereof, whether by course of conduct or otherwise, of the terms of any or all of the Priority Obligations, the Master Indenture, any Issuing Instrument the Junior Obligations, or the Junior Agreements; (iv) any substitution, exchange, or release of any part of the Trust Estate or any other collateral; (v) the commencement of any bankruptcy, insolvency, or similar proceeding in respect of the County; (vi) any exercise or non-exercise by the Trustee or any holder of any Priority Obligation of any right, power, or remedy under or in respect of any Priority Obligation, any Issuing Instrument or the Master Indenture, (vii) any waiver, consent, release, indulgence, extension, renewal, modification, delay, or other action, inaction, or omission, in respect of any Priority Obligation, any Issuing Instrument or the Master Indenture, or (viii) any other circumstances which otherwise might constitute a defense available to, or a discharge of, the County in respect of any Priority Obligation, any Issuing Instrument or the Master Indenture, or the Junior Holders in respect of the Junior Obligations or the Junior Agreements, whether or not or any Junior Holder shall have had notice or knowledge of any of the foregoing. No failure to exercise, and no delay in exercising, on the part of the Trustee or any holder of any Priority Obligation, any right, power, or privilege shall operate as a waiver thereof; nor shall any single or partial exercise by the Trustee or any holder of any Priority Obligation of any right, power, or privilege preclude any other further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided in the Subordination Provisions are cumulative and shall not be exclusive of any rights or remedies provided by law.

(8) The Trustee and the holders of the Priority Obligations may, at any time and from time to time, without the consent of, or notice to, any Junior Holder and without impairing or releasing the priorities and other benefits provided in the Subordination Provisions, even if any right of subrogation or other right or remedy of any Junior Holder is affected, impaired, or extinguished thereby, do any one or more of the following: (i) change the manner, place, or terms of payment or change or extend the time of payment of, or amend, renew, compromise, extend, accelerate, exchange, or increase, increase or decrease the rate of interest payable on, or alter any of the terms of, any Priority Obligation, any Issuing Instrument or the Master Indenture or any lien, pledge, security interest, or encumbrance on any collateral securing any Priority Obligation, any Issuing Instrument or the Master Indenture or any liability of the County (including any increase in or extension of the Priority Obligations, any Issuing Instrument or the Master Indenture, without any restriction as to the amount, tenor, or terms of any such increase or extension) or otherwise amend, renew, exchange, extend, modify, or supplement in any manner any lien, pledge, security interest, or encumbrance held by the Trustee or any holder of Priority Obligations, any Priority Obligation, any Issuing Instrument or the Master Indenture; (ii) sell, substitute, exchange, release, waive, surrender, realize upon, enforce, or otherwise deal with in any manner and in any order any part of the collateral securing any Priority Obligation, any Issuing Instrument or the Master Indenture or any liability of the County to the Trustee or any holder of any Priority Obligation; (iii) settle or compromise any Priority Obligation or any other liability of the County or any collateral therefor and apply any sums by whomsoever paid and however realized to any liability (including any Priority Obligation) in any manner or order; (iv) exercise or delay in or refrain from exercising any right or remedy against the County or with respect to any collateral, elect any remedy, or otherwise deal freely with the County or any collateral securing any Priority Obligation, any Issuing Instrument or the Master Indenture or any liability incurred directly or indirectly in respect thereof; or (v) release or discharge any Priority

Obligation, any Issuing Instrument or the Master Indenture or any agreement or obligation of the County or any other Person with respect thereto.

(9) The Trustee and the holders of the Priority Obligations shall have the exclusive right to enforce rights, exercise remedies (including setoff and the right to credit bid their debt) and make determinations regarding the release, disposition, or restrictions with respect to the collateral securing any Priority Obligation, any Issuing Instrument or the Master Indenture without any consultation with, and without the consent of, any Junior Holder, all as though the Junior Obligations and the Junior Agreements did not exist. In exercising rights and remedies with respect to the collateral securing the Priority Obligations, any Issuing Instrument or the Master Indenture, the Trustee and the holders of the Priority Obligations may enforce the provisions of the Priority Obligations, any Issuing Instrument and the Master Indenture and exercise remedies thereunder, all in such order and in such manner as they may determine in the exercise of their sole discretion.

(10) The Junior Holders shall not exercise any right of subrogation that they may have or obtain pursuant to the exercise of any right or remedy in connection with the Junior Obligations or the Junior Agreement. The Junior Holders agree not to acquire, directly or indirectly, by subrogation or otherwise, any lien that is senior to the lien of the Master Indenture, and any such lien so acquired shall automatically and without any further action become subject and subordinate to the lien of the Master Indenture.

(11) Notwithstanding the date, manner, or order of grant, attachment, or perfection of any liens, pledges, security interests, or encumbrances securing any Junior Obligation, any Issuing Instrument or any Junior Agreement or of any liens, pledges, security interests, or encumbrances securing any Priority Obligation, any Issuing Instrument or the Master Indenture and notwithstanding any provision of any applicable law, any Junior Obligation, or any Junior Agreement or any other circumstance whatsoever, including the bankruptcy or insolvency of the County or any non-perfection, avoidance, or subordination of any lien, pledge, security interest, or encumbrance purporting to secure any Priority Obligation, any Issuing Instrument, the Master Indenture, any Junior Obligation, or any Junior Agreement, (i) any lien, pledge, security interest, or encumbrance on the Trust Estate or any part thereof securing any Priority Obligation, any Issuing Instrument or the Master Indenture, now or hereafter acquired, regardless of how acquired, whether by grant, possession, statute, operation of law, subrogation, or otherwise, shall be senior in all respects and prior to any lien, pledge, security interest, or encumbrance on the Trust Estate or any part thereof securing any Junior Obligation or any Junior Agreement and (ii) any lien, pledge, security interest, or encumbrance on the Trust Estate or any part thereof securing any Junior Obligation or any Junior Agreement, now or hereafter acquired, regardless of how acquired, whether by grant, possession, statute, operation of law, subrogation, or otherwise, shall be junior and subordinate in all respects to all liens, pledges, security interests, and encumbrances on the Trust Estate or any part thereof securing any Priority Obligation, any Issuing Instrument or the Master Indenture.

(12) The Subordination Provisions constitute a "subordination agreement" within the meaning of Section 510(a) of the United States Bankruptcy Code and any successor thereto.

(13) Each Junior Holder shall not commence a bankruptcy or similar case or proceeding against the County or its property.

(14) No provision of any Junior Agreement or any Junior Obligation shall restrict in any way the rights and remedies of the Trustee or any holder of a Priority Obligation as set forth

in the Subordination Provisions, the Master Indenture, any Issuing Instrument, or any Priority Obligation.

(15) Each Junior Holder waives any right to, and shall not, contest or object to, in any proceeding, including any bankruptcy, insolvency, or similar proceeding, (i) the validity, enforceability, legality, or binding effect of the Master Indenture, any Issuing Instrument, each Priority Obligation, or any provision thereof, (ii) the validity, perfection, priority, or enforceability of the liens, pledges, security interests, and encumbrances granted pursuant to the Master Indenture, any Issuing Instrument or any Priority Obligation, or (iii) the provisions of the Subordination Provisions.

(16) Each Junior Holder waives any right to, and shall not, contest or object to, in any proceeding, including any bankruptcy, insolvency, or similar proceeding, (i) any foreclosure proceeding or action brought by the Trustee or any holder of any Priority Obligation or any other exercise by the Trustee or any holder of any Priority Obligation of any rights or remedies relating to the collateral securing the Master Indenture, any Issuing Instrument or any Priority Obligation, or (ii) any forbearance by the Trustee or any holder of any Priority Obligation from bringing or pursuing any foreclosure proceeding or action or any other exercise of any rights or remedies relating to any collateral securing the Master Indenture, any Issuing Instrument or any Priority Obligation.

(17) The Junior Holders (i) agree that they will not take any action that would hinder, delay, limit, or prohibit any exercise of remedies under the Master Indenture, any Issuing Instrument or any Priority Obligation, including any collection, sale, lease, exchange, transfer, or other disposition of the collateral securing the Master Indenture, any Issuing Instrument or any Priority Obligation, whether by foreclosure or otherwise, or that would limit, invalidate, avoid, or set aside the Master Indenture, any Issuing Instrument, any Priority Obligation, or any collateral securing the Master Indenture, any Issuing Instrument or any Priority Obligation, or subordinate the priority of any Priority Obligation, any Issuing Instrument or the Master Indenture to any Junior Obligation or any Junior Agreement, and (ii) waive any and all rights they may have as a junior lien creditor or otherwise, whether arising under the Uniform Commercial Code or under any other law, to contest or object to the manner in which the Trustee or any holder of any Priority Obligation seeks to enforce or collect any Priority Obligation, any Issuing Instrument, the Master Indenture, or any lien, pledge, security interest, or encumbrance granted pursuant to the Master Indenture, any Issuing Instrument or any Priority Obligation, including the manner in which collateral is disposed of, or to receive any notice with respect thereto, regardless of whether any action or failure to act by or on behalf of the Trustee or any holder of any Priority Obligation is adverse to the interests of any Junior Party or is commercially reasonable.

(18) The Junior Parties agree not to assert and waive, to the fullest extent permitted by law, any right to demand, request, plead, or otherwise assert or otherwise claim the benefit of, any marshalling, appraisal, valuation, or other similar right that may otherwise be available under applicable law with respect to the Trust Estate or any part thereof or any other similar rights a junior secured creditor may have under applicable law.

(19) The Junior Parties waive presentment, demand, protest, notice of protest, notice of default or dishonor, notice of payment or nonpayment, notice of acceptance of any Junior Agreement by the Trustee or any holder of any Priority Obligation, notice or proof of any action taken in reliance hereon, and all other notices and demands of every kind in connection with each Priority Obligation, the Master Indenture, any Issuing Instrument, each Junior Obligation, or any Junior Agreement. The Junior Holders waive all diligence in collection or protection of or

realization upon the Priority Obligations, the Master Indenture, any Issuing Instrument, or any collateral therefor.

(20) The Junior Parties waive any defense based on the adequacy of a remedy at law that might be asserted as a bar to the remedy of specific performance of the Subordination Provisions in any action brought therefor by the Trustee or any holder of a Priority Obligation.

(21) Any waiver, amendment, or supplement of the Subordination Provisions shall be treated as a waiver, amendment, or supplement of the Master Indenture and shall not be effective except in compliance with the terms of the Master Indenture relating to waivers, supplements, and amendments thereto. Notwithstanding any other provision of any Junior Agreement to the contrary, including any provision that states that it controls over any other provision to the contrary, this paragraph shall not be amended in any way.

(22) The Trustee and the holders of the Priority Obligations are express third-party beneficiaries of the Subordination Provisions and as such may enforce the provisions set forth in the Subordination Provisions to the fullest extent provided by law.

Rates and Charges. The County covenants to fulfill the following requirements:

(a) The County shall, while any of the Obligations remain Outstanding, establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the ownership and operation of the Airport System and for services rendered in connection therewith, so that Net Revenues in each Fiscal Year will be at least equal to 100% of the aggregate amount of transfers required to be made by the County pursuant to paragraphs (b) through (k) under the caption "Application of Revenues" above during such Fiscal Year.

(b) (i) The County further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the ownership and operation of the Airport System and for services rendered in connection therewith, so that for each Fiscal Year the Net Revenues for such Fiscal Year plus any Transfer will be equal to at least 125% of Accrued Debt Service on all Outstanding Senior Obligations for such Fiscal Year. For purposes of this subsection (b)(i), the amount of any Transfer taken into account shall not exceed 25% of the Accrued Debt Service on the Outstanding Senior Obligations for such Fiscal Year.

(ii) The County further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the ownership and operation of the Airport System and for services rendered in connection therewith, so that for each Fiscal Year the Net Revenues for such Fiscal Year plus any Transfer will be equal to at least 110% of Accrued Debt Service on all Outstanding Senior Obligations and Subordinate Obligations for such Fiscal Year. For purposes of this subsection (b)(ii), the amount of any Transfer taken into account shall not exceed 10% of the Accrued Debt Service on the Outstanding Senior Obligations and Subordinate Obligations for such Fiscal Year.

(iii) The County further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the ownership and operation of the Airport System and for services rendered in connection therewith, so that for each Fiscal Year the Net Revenues for such Fiscal Year will be equal to at least 100% of Accrued Debt Service on all Outstanding Senior Obligations, ~~Junior Obligations~~**Subordinate Obligations** and Junior Subordinate Obligations for such Fiscal Year.

(iv) For purposes of complying with any of the requirements of the Master Indenture described in subsection (b), (1) any calculation of Accrued Debt Service with respect to specified Obligations for any period of time shall be reduced by the amount of any Subsidy that the County received during such period of time relating to or in connection with such Obligations and (2) any calculation of Net Revenues for any period of time shall be reduced by the amount of any Subsidy received by the County with respect to or in connection with the specified Obligations during such period of time.

(c) The County covenants that if Net Revenues in any Fiscal Year are less than the amount specified in subsection (a) under this caption "Rates and Charges," or that if Net Revenues together with any Transfer in any Fiscal Year are less than the amount specified in subsection (b) under this caption, the County will retain and direct an Airport Consultant to make recommendations as to the revision of the County's business operations and its schedule of rates, tolls, fees, rentals and charges for the use of the Airport System and for services rendered by the County in connection with the Airport System. After receiving such recommendations, the County shall, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the County, take all lawful measures to comply with the recommendations of the Airport Consultant as to revisions of the County's business operations and schedule of rates, tolls, fees, rentals and charges as may be necessary to produce Net Revenues, together with any Transfer (only as applied in subsection (b) under this caption), in the amount specified in subsection (a) or (b) under this caption in the next Fiscal Year.

In the event that Net Revenues, together with any Transfer (only as applied in subsection (b) under this caption), for any Fiscal Year (referred to in this paragraph as "Fiscal Year One") are less than the amount specified in subsection (a) or (b) under this caption but, prior to or during the next succeeding Fiscal Year (referred to in this paragraph as "Fiscal Year Two"), the County has taken all lawful measures to comply with the recommendations of the Airport Consultant as to revisions of the County's business operations and schedule of rates, tolls, fees, rentals and charges as required by subsection (c) under this caption, such deficiency in Net Revenues for Fiscal Year One shall not constitute an Event of Default. Nevertheless, even if the measures required by subsection (c) under this caption to revise the schedule of rates, tolls, fees, rentals and charges have been taken by the County, in the event the Net Revenues in Fiscal Year Two (as evidenced by the audited financial statements of the County for such Fiscal Year), together with any Transfer (only as applied in subsection (b) under this caption), are less than the amount specified in subsection (a) or (b) under this caption, such deficiency in Net Revenues for Fiscal Year Two, as the second successive year of deficiencies in Net Revenues, shall, with the applicable notice, constitute an Event of Default.

(d) The County shall file with the Trustee a calculation or other evidence from an Authorized County Representative or an Independent Certified Public Accountant demonstrating compliance (or non-compliance) with the rate covenants of the Master Indenture.

Sale, Lease or Other Disposition of Property. The County shall not, except as permitted below, transfer, sell, lease or otherwise dispose of any Airport System facility or facilities. Any transfer of an asset over which the County retains substantial control in accordance with the terms of such transfer, shall not, for so long as the County has such control, be deemed a disposition of an Airport System facility or facilities.

The County may, to the extent permitted by law, transfer, sell, lease or otherwise dispose of Airport System facilities only if such transfer, sale, lease 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 System 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 of such disposition are to be used as described below and the County delivers to the Trustee a certificate of an Authorized County Representative to the effect that the County expects that such disposal will not materially impair the operations or financial condition of the Airport System or the performance by the County of all of its obligations and covenants under the Master Indenture or any Issuing Instrument and with respect to all Outstanding Obligations; or

(c) The County has furnished evidence (including, but not limited to, a certificate of an Authorized County Representative) to the Trustee that (i) the disposition of such Airport System facilities, including Airport System facilities constituting a Significant Portion of the Airport System, would not result in the ratings on any Obligations being suspended or downgraded by any Rating Agency and (ii) such disposition would be for a consideration not less than fair market value; or

(d) The County has furnished to the Trustee (i) a certificate of an Authorized County Representative or an Airport Consultant to the effect that notwithstanding such disposition of Airport System facilities, including Airport System facilities constituting a Significant Portion of the Airport System, but taking into account the use of the proceeds of such disposition in accordance with the expectations of the County as evidenced by a certificate of an Authorized County Representative, the County is expected to be in compliance with the Master Indenture with respect to the County's covenant regarding rates and charges during each of the five Fiscal Years immediately following such disposition and (ii) a Ratings Confirmation with respect to the disposition of any Significant Portion of Airport System facilities; or

(e) If the disposition involves a lease of any part of the Airport System, other than a Significant Portion, such lease shall not materially impair the operations or financial condition of the Airport System or the performance by the County of all of its obligations and covenants under the Master Indenture or any Issuing Instrument and with respect to all Outstanding Obligations.

Proceeds of the disposition of Airport System facilities under paragraphs (b), (c) and (d) above shall be deposited into a separate fund or account held by the County and used, within a reasonable period of time, to (i) provide additional revenue-producing Airport System facilities, (ii) pay or redeem Obligations or (iii) create an escrow fund pledged to pay specified Bonds and thereby cause such Bonds to be deemed to be paid as provided in the Master Indenture or create an escrow fund pledged to pay specified other Obligations and thereby cause such other Obligations to be deemed paid in accordance with the Issuing Instrument pursuant to which such Obligations were issued; provided, however, that if the County proposes to use the proceeds as described in clause (ii) or (iii) above, the County shall pay, redeem or defease, as applicable, Obligations in accordance with the Payment Priorities.

Operation and Maintenance of the Airport System; Budgets. The County shall maintain and preserve the Airport System facilities in good repair and working order at all times and shall operate the Airport System in an efficient and economical manner and shall pay all Operating Expenses as they become due and payable. The County shall prepare, not later than July 30 of each Fiscal Year, a proposed Annual Budget for the Airport System for approval by the Board setting forth the estimated Revenues, Operating Expenses, scheduled Debt Service for all Outstanding Obligations of the County for such Fiscal Year and shall take such action as may be necessary to include all such payments and all other payments required to be made under the Issuing Instruments for Outstanding Obligations of the County during such Fiscal Year. Any such Annual Budget may be amended at any time during any Fiscal Year provided that such amended budget shall include all payments coming due in such Fiscal Year with respect to Obligations, and debt service reserves therefor, payable from Net Revenues.

The County covenants to adopt a budget with respect to Capital Improvements for the Airport System for each Fiscal Year which will show, in addition to such other matters as the County 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 County's Annual Budget.

The County covenants to file copies of its Annual Budget and its Capital Improvements budget promptly upon availability with the Trustee. The Trustee shall not be responsible for reviewing the Annual Budget or the Capital Improvements budget.

If the County determines to amend its Capital Improvements budget to pay from Revenues any unbudgeted expenditure, the County shall, as a condition to making such amendment, file a certificate of an Authorized County Representative with the Trustee demonstrating that payment from Revenues of such unbudgeted expenditure is not expected to impair the County's ability to comply with the Master Indenture with respect to the County's covenant regarding rates and charges.

Amendments to Indenture

Amendments Permitted. The Master Indenture or any Supplemental Indenture and the rights and obligations of the County and of the Owners of the Outstanding Obligations and of the Fiduciaries may be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, which the County and the Trustee may enter into with the written consent of each Credit Provider whose consent is required by a Credit Support Agreement, when the written consent of the Owners of at least a majority in aggregate principal amount of the Senior Obligations then Outstanding shall have been filed with the Trustee and, if the modification, amendment or supplement affects the provisions of the Master Indenture with respect to the issuance of Obligations other than bonds, the issuance of Senior Obligations, the application of Revenues, the County's covenant regarding rates and charges, or the County's covenant regarding the sale, lease or disposition of property, the written consent of the Owners of at least a majority in aggregate principal amount of the Subordinate Obligations then Outstanding shall have been filed with the Trustee; or if less than all of the Outstanding Obligations are affected, the written consent of the Owners of at least a majority in aggregate principal amount of all affected Outstanding Obligations; provided that if such modification, amendment or supplement shall, by its terms, not take effect so long as any Obligations of any particular Series and maturity remain Outstanding, the consent of the Owners of such Obligations shall not be required and such Obligations shall not be deemed to be Outstanding for the purpose of the calculation of Outstanding Obligations. No such modification, amendment or supplement shall (i) reduce the aforesaid percentage of Obligations the consent of the Owners of which is required to effect any such modification, amendment or supplement without the consent of the Owners of all of the Obligations then Outstanding; (ii) extend the fixed maturity of any Obligation, or reduce the principal amount thereof, or reduce the amount of any Sinking Fund Installment therefor, or extend the due date of any such Sinking Fund Installment, or reduce the rate of interest on any Obligation or extend the time of payment of interest thereon, without the consent of the Owner of each Obligation so affected; or (iii) modify the rights or obligations of any Fiduciary without the consent of such Fiduciary.

It shall not be necessary for the consent of the Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Prior to the entry into any Supplemental Indenture by the County and the Trustee for any of the purposes described under this caption "Amendments Permitted," the County shall cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to the Owners of all Outstanding Obligations (or the affected Outstanding Obligations) at their addresses appearing on the Bond Register. Such notice shall briefly set forth the substance of the proposed Supplemental Indenture and shall state that copies thereof are on file at the office of the Trustee for inspection by each Owner of an Outstanding Obligation.

Whenever, at any time after the date of the mailing of notice of the proposed entry into a Supplemental Indenture pursuant to this subsection, the County shall have received an instrument or instruments in writing by or on behalf of the Owners of not less than a majority in aggregate principal amount of the Senior Obligations or Subordinate Obligations, as applicable, then Outstanding, or if less than all of the Outstanding Senior Obligations or Subordinate Obligations, as applicable, are affected, by the Owners of not less than a majority in aggregate principal amount of the affected Outstanding Obligations, which instrument or instruments shall refer to the proposed Supplemental Indenture described in the notice of the proposed Supplemental Indenture and shall consent to the substance of such Supplemental Indenture referred to in such notice, thereupon, but not otherwise, the County and the Trustee may enter into such Supplemental Indenture without liability or responsibility to any Owner of any Obligation, whether or not such Owner shall have consented thereto.

The Master Indenture or any Supplemental Indenture or Issuing Instrument may be supplemented from time to time and at any time by a Supplemental Indenture or Issuing Instrument, which the County and the Trustee may enter into without the consent of any Credit Provider and without the consent of the Owner of any Obligation, to provide for the issuance of a Series of Obligations in accordance with the terms and conditions described under the heading "Authorization and Issuance of Bonds and Obligations," and establishing the terms and conditions thereof.

No Credit Provider shall have the right to require that it consent to an amendment, Supplemental Indenture, or Issuing Instrument made pursuant to the Master Indenture with respect to Available Revenues, regardless of the provisions of any Credit Support Agreement or any Credit Support Instrument.

The Master Indenture and any Supplemental Indenture and the rights and obligations of the County, the Fiduciaries and the Owners of the Outstanding Obligations may also be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, which the County and the Trustee may enter into with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement but without the consent of any Owners of Obligations, so long as such modification, amendment or supplement shall not materially, adversely affect the interests of the Owners of the Outstanding Obligations, including for any one or more of the following purposes:

(i) to add to the covenants and agreements of the County contained in the Master Indenture or a Supplemental Indenture other covenants and agreements thereafter to be observed, to pledge, provide or assign any security for the Obligations (or any portion thereof), or to surrender any right or power in the Master Indenture reserved to or conferred upon the County;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Master Indenture or a Supplemental Indenture, or in regard to matters or questions arising under the Master Indenture or a Supplemental Indenture, as the County may deem necessary or desirable;

(iii) to modify, amend or supplement the Master Indenture or a Supplemental Indenture in such manner as to permit the qualification of the Master Indenture under the Trust

Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; or

(iv) to make any other modification, amendment or supplement that shall not materially adversely affect the interests of the Owners of the Outstanding Obligations.

Notwithstanding anything to the contrary, the provisions of the Master Indenture or any Supplemental Indenture may also be modified, amended or supplemented by a Supplemental Indenture or Supplemental Indentures, including amendments which would otherwise be described in the first paragraph under this caption, which the County and the Trustee may enter into without the consent of the Owners of Obligations constituting Tender Obligations if either (i) the effective date of such Supplemental Indenture is a date on which such Obligations are subject to mandatory tender for purchase or (ii) the notice described in the third paragraph under this caption is given to Owners of such Obligations at least thirty (30) days before the effective date of such Supplemental Indenture, and on or before such effective date, the Owners of such Obligations have the right to demand purchase of such Obligations.

Unless otherwise provided in the Supplemental Indenture or Issuing Instrument relating to the Obligations and notwithstanding anything to the contrary in the Master Indenture (other than the provision in the sixth paragraph under this caption), the Credit Provider for all or any portions of the Obligations shall be deemed to be the Owner of such Obligations for all purposes under the Master Indenture except the payment of interest of and principal and premium of any of the Obligations.

For purposes of the provisions of the Master Indenture described under this caption, it shall not be necessary that consents of the Owners of any particular percentage of Outstanding Obligations of any affected Series be obtained but it shall be sufficient if the consent of the Owners of a majority in aggregate principal amount of the combination of affected Outstanding Obligations shall be obtained.

Effect of Supplemental Indenture. Upon the County and the Trustee entering into any Supplemental Indenture, the Master Indenture shall be deemed to be modified, amended or supplemented in accordance therewith, and the respective rights, duties and obligations under the Master Indenture of the County, the Fiduciaries and all Owners of Outstanding Obligations shall thereafter be determined, exercised and enforced subject in all respects to such modification, amendment and supplement, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Master Indenture for any and all purposes. Upon the County and the Trustee entering into any Supplemental Indenture, no Owner of any Obligation shall have any right to object to the entry into such Supplemental Indenture by the County and the Trustee, or to object to any of the terms and provisions contained therein or the operation thereof or in any manner to question the propriety of the entry into such Supplemental Indenture, or to enjoin or restrain the County or the Trustee from entering into the same or to enjoin or restrain the County or the Trustee from taking any action pursuant to the provisions thereof whether or not such Owner gave its consent to such Supplemental Indenture.

Defeasance

Payment of Bonds. If the County shall pay, or cause to be paid, or there shall otherwise be paid, to the Owners of all Bonds the principal amount or Redemption Price, if applicable, of the Bonds, and interest due or to become due on the Bonds, at the times and in the manner stipulated therein and in the Master Indenture, together with all other Obligations and all other sums payable by the County under the Master Indenture, including all fees and expenses of the Trustee, then and in that case, subject to the provisions of the Master Indenture, the Issuing Instruments, and the lien of the Master Indenture and all covenants, agreements and obligations of the County contained in the Master Indenture and the Issuing Instruments, shall cease and terminate and shall be completely discharged and satisfied and the County shall be released therefrom and the Trustee shall assign and transfer to or upon the order of the County all of the Trust Estate (in excess of the amounts required for the foregoing) free and clear of any liens or encumbrances thereon pursuant to the Master Indenture and the Issuing Instruments and shall execute such documents as may be reasonably required by the County in this regard.

Bonds Deemed Paid. Bonds (or portions of Bonds) for the payment or redemption of which moneys shall have been set aside and shall be held in trust by an Escrow Agent at the maturity or redemption date thereof, as applicable, shall be deemed to have been paid within the meaning and with the effect expressed in the Master Indenture. Any Outstanding Bond (or any portion thereof such that both the portion thereof which is deemed paid and the portion which is not deemed paid pursuant to the provisions of the Master Indenture described under this caption shall be in an Authorized Denomination) shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the Master Indenture if (i) in case said Bond (or portion thereof) is to be redeemed on any date prior to maturity, the County shall have given the Trustee irrevocable instructions to give notice of redemption of such Bond (or portion thereof) on said date, (ii) there shall have been deposited with an Escrow Agent either moneys in an amount which shall be sufficient, or Defeasance Securities, the principal of and the interest on which when due shall provide moneys which, together with the other moneys, if any, held by such Escrow Agent for such purpose, shall be sufficient, in each case as evidenced by an Accountant's Certificate, to pay when due the principal amount of, and any redemption premiums on, said Bond (or portion thereof) and interest due and to become due on said Bond (or portion thereof) on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) if such Bond (or portion thereof) is not to be paid or redeemed within 60 days of the date of the deposit required by (ii) above, the County shall have given the Trustee, in form satisfactory to it, instructions to mail, as soon as practicable, by first class mail, postage prepaid, to the Owner of such Bond, at the last address, if any, appearing upon the Bond Register, a notice that the deposit required by (ii) above has been made with an Escrow Agent and that said Bond (or the applicable portion thereof) is deemed to have been paid in accordance with the provisions in the Master Indenture described under this caption and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal amount of, and any redemption premiums on, said Bond. Any notice given pursuant to clause (iii) of this paragraph with respect to Bonds which constitute less than all of the Outstanding Bonds of any Series and maturity shall specify the letter and number or other distinguishing mark of each such Bond. Any notice given pursuant to clause (iii) of this paragraph with respect to less than the full principal amount of a Bond shall specify the principal amount of such Bond which shall be deemed paid pursuant to the provisions of the Master Indenture described under this caption and notify the Owner of such Bond that such Bond must be surrendered. The receipt of any notice required by the Master Indenture shall not be a condition precedent to any Bond being deemed paid in accordance with the provisions of the Master Indenture described under this caption and the failure of any Owner to receive any such notice shall not affect the validity of the proceedings for the payment of Bonds in accordance with the provisions of the Master Indenture described under this caption.

No Bond which constitutes a Tender Obligation shall be deemed to be paid within the meaning of the Master Indenture unless the Purchase Price of such Bond, if tendered for purchase in accordance with the Master Indenture, could be paid when due from such moneys or Defeasance Securities (as evidenced by an Accountant's Certificate) or a Credit Support Instrument is provided in connection with such Purchase Price.

Defeasance of Portion of Bond. If there shall be deemed paid less than all of the full principal amount of a Bond, the County shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner of such Bond, a new Bond or Bonds for the principal amount of the Bond so surrendered which is deemed paid and another new Bond or Bonds for the balance of the principal amount of the Bond so surrendered, in each case of like Series, maturity and other terms, and in any of the Authorized Denominations.

Defeasance of Obligations Other than Bonds. If Obligations other than Bonds are capable of being defeased, such Obligations shall be defeased in accordance with the provisions of the Issuing Instrument relating to such Obligations.

Events of Default; Remedies

Events of Default. Each of the following shall constitute an Event of Default under the Master Indenture: (1) if default shall be made in the payment of the principal of or Sinking Fund Installment for, or interest on, or any other payment of, any Outstanding Senior Obligation when and as the same shall become due and payable, whether on an Interest Payment Date, at maturity, by declaration, or otherwise; (2) if default shall be made in the payment when due of the Purchase Price of any Outstanding Senior Obligations which are Tender Obligations; (3) if default shall be made by the County in the performance or observance of any other of the covenants, agreements or conditions on its part in the Master Indenture (other than a default with respect to Subordinate Obligations for so long as any Senior Obligations are Outstanding or a default with respect to Junior Subordinate Obligations for so long as any Senior Obligations or Subordinate Obligations are Outstanding) or in the Outstanding Senior Obligations contained, and such default shall continue for a period of 120 days after written notice thereof to the County by the Trustee or to the County and to the Trustee by the Owners of not less than 25% in aggregate principal amount of the Senior Obligations Outstanding; provided, however, if such default is such that it can be corrected by the County but not within the applicable period specified above, it shall not constitute an Event of Default if corrective action is instituted by the County within thirty days of the County's receipt of the notice of the default required by this paragraph and diligently pursued until the default is corrected; and provided further that the provisions described in under this caption are subject to the provisions of the Master Indenture with respect to the County's covenant regarding rates and charges; (4) any Senior Obligation is declared due and payable as a result of an event of default under the Issuing Instrument for such Senior Obligation; or (5) an Event of Bankruptcy shall have occurred and be continuing with respect to the County.

AS LONG AS ANY SENIOR OBLIGATIONS REMAIN OUTSTANDING, NO EVENT OF DEFAULT SHALL EXIST OR MAY BE DECLARED WITH RESPECT TO ANY SUBORDINATE OBLIGATIONS OR JUNIOR SUBORDINATE OBLIGATIONS. AS LONG AS ANY SUBORDINATE OBLIGATIONS REMAIN OUTSTANDING, NO EVENT OF DEFAULT SHALL EXIST OR MAY BE DECLARED WITH RESPECT TO ANY JUNIOR SUBORDINATE OBLIGATIONS.

If, and only if, the Senior Obligations are no longer Outstanding, all references to Senior Obligations in the Master Indenture with respect to Events of Default shall be read to be references to Subordinate Obligations and if, and only if, the Subordinate Obligations and Senior Obligations are no longer Outstanding, all references to Senior Obligations in the Master Indenture with respect to Events of Default shall be read to be references to Junior Subordinate Obligations.

While the Senior Obligations are Outstanding, a Subordinate Payment Default is not an Event of Default under the Master Indenture, provided that in the event of a Subordinate Payment Default, Owners of Subordinate Obligations shall have the remedies set forth in the Master Indenture as described in the first paragraph under the heading "Events of Default; Remedies – Remedies for Subordinate Obligations and Junior Subordinate Obligations."

While the Senior Obligations or Subordinate Obligations are Outstanding, a Junior Subordinate Payment Default is not an Event of Default under the Master Indenture, provided that in the event of a Junior Subordinate Payment Default, Owners of Junior Subordinate Obligations shall have the remedies set forth in the Master Indenture as described in the second paragraph under the heading "Events of Default; Remedies – Remedies for Subordinate Obligations and Junior Subordinate Obligations."

Right to Accelerate Upon Default. Notwithstanding anything to the contrary in the Master Indenture, any Issuing Instrument or in the Senior Obligations, unless all the Outstanding Senior Obligations shall have already become due and payable, upon the occurrence of an Event of Default, the Trustee may, and shall, at the direction of the Owners of a majority in aggregate principal amount of Outstanding Senior Obligations (other than Senior Obligations owned by or on behalf of the County) by written notice to the County, declare all of the Outstanding Senior Obligations to be immediately due and payable, whereupon the principal of the Senior Obligations thereby coming due and the interest thereon accrued to the date of payment and all other payments thereby coming due shall, without further action, become and be immediately due and payable. If the terms of any Supplemental Indenture or Issuing Instrument give a Person the right to consent to acceleration of the Obligations issued pursuant to such Supplemental Indenture or Issuing Instrument, the Obligations issued pursuant to such Supplemental Indenture or Issuing Instrument may not be accelerated by the Trustee unless such consent is obtained pursuant to the terms of such Supplemental Indenture or Issuing Instrument. Nothing in the Master Indenture shall affect the rights of the parties to a Swap to terminate such Swap.

Any such declaration, however, is subject to the condition that if, at any time after the Senior Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Master Indenture, there shall have been deposited with the Trustee a sum sufficient to pay the principal of the Senior Obligations matured and coming due prior to such declaration, with interest on such overdue principal at the rate borne by the respective Senior Obligations, the accrued interest on the Senior Obligations due prior to such declaration, any other payments then due and the reasonable fees and expenses of the Trustee (including but not limited to those of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of the principal of the Senior Obligations and accrued interest and other payments due on the Senior Obligations due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate principal of the Senior Obligations then Outstanding, by written notice to the County and to the Trustee, may, on behalf of the Owners of all of the Senior Obligations, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

The Subordinate Obligations shall not be subject to acceleration if any Senior Obligations are then Outstanding. The Junior Subordinate Obligations shall not be subject to acceleration if any Subordinate Obligations or Senior Obligations are then Outstanding.

If, and only if, the Senior Obligations are no longer Outstanding, all references to Senior Obligations under this caption shall be read to be references to Subordinate Obligations and if, and only if, the Subordinate Obligations and Senior Obligations are no longer Outstanding, all references to Senior Obligations under this caption shall be read to be references to Junior Subordinate Obligations.

Appointment of Receiver. If an Event of Default shall happen and shall not have been remedied, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Senior Obligations under the Master Indenture and any Issuing Instruments, the Trustee shall be entitled to make application for the appointment of a receiver or custodian of the Net Revenues and the Available Revenues, pending such proceedings, with such power as the court making such appointment shall confer. If an Event of Default shall happen and shall not have been remedied, upon the written request of the Trustee, a Credit Provider or the Owners of not less than 10% of the aggregate principal amount of the Outstanding Senior Obligations, the County shall transfer to the Trustee all moneys held in all of the Funds maintained by the County under the Master Indenture and shall transfer to the Trustee, at least monthly all the Net Revenues and Available Revenues received by the County.

If, and only if, the Senior Obligations are no longer Outstanding, all references to Senior Obligations under this caption shall be read to be references to Subordinate Obligations and if, and only if, the Subordinate Obligations and Senior Obligations are no longer Outstanding, all references to Senior Obligations under this caption shall be read to be references to Junior Subordinate Obligations.

Enforcement Proceedings. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may, with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement, proceed, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Senior Obligations at the time Outstanding, with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement, shall proceed, to protect and enforce its rights and the rights of the Owners of the Outstanding Senior Obligations by a suit or suits in equity or at law, whether for damages or the specific performance of any covenant contained in the Master Indenture or any Issuing Instrument, to enforce the lien of the Master Indenture, or in aid of the execution of any power granted in the Master Indenture or any Issuing Instrument, or any remedy granted under applicable provisions of the laws of the State, or for an accounting by the County as if the County were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All rights of action under the Master Indenture or any Issuing Instrument may be prosecuted and enforced by the Trustee without the possession of any of the Senior Obligations or the production thereof in the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its own name as trustee of an express trust.

Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Master Indenture or any Issuing Instrument, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Master Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Owners of a majority in principal amount of the Senior Obligations then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Master Indenture or any Issuing Instrument by any acts which may be unlawful or in violation of the Master Indenture or any Issuing Instrument, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Owners of the Senior Obligations.

If the Trustee or any Owner or Owners of Outstanding Senior Obligations have instituted any proceeding to enforce any right or remedy under the Master Indenture or any Issuing Instrument and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Owner or Owners, then and in every such case the County, the Trustee and the Owners shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions under the Master Indenture or such Issuing Instrument, and thereafter all rights and remedies of the Trustee and the Owners shall continue as though no such proceeding had been instituted.

If, and only if, the Senior Obligations are no longer Outstanding, all references to Senior Obligations under this caption shall be read to be references to Subordinate Obligations and if, and only if, the Subordinate Obligations and Senior Obligations are no longer Outstanding, all references to Senior Obligations under this caption shall be read to be references to Junior Subordinate Obligations.

Remedies for Subordinate Obligations and Junior Subordinate Obligations. If a Subordinate Payment Default has occurred, then the Owners of at least a majority of the aggregate principal amount of the Subordinate Obligations, may direct the Trustee to take the following actions: enforce by mandamus or specific performance the obligations of the County to deposit money pursuant to paragraphs (e) and/or (f) under the caption "Application of Revenues" above which is otherwise required to be deposited for the benefit of Subordinate Obligations pursuant to such provisions and is available for such deposit but is being wrongfully withheld by the County or direct an accounting of Trustee funds; provided however, that notwithstanding the foregoing, no remedial action may be taken that would adversely affect the Owners of the Senior Obligations.

If a Junior Subordinate Payment Default has occurred, then the Owners of at least a majority of the aggregate principal amount of the Junior Subordinate Obligations, may direct the Trustee to take the following actions: enforce by mandamus or specific performance the obligations of the County to deposit money pursuant to paragraph (i) under the caption "Application of Revenues" above which is otherwise required to be deposited for the benefit of Junior Subordinate Obligations pursuant to such provisions and is available for such deposit but is being wrongfully withheld by the County or direct an accounting of Trustee funds; provided however, that notwithstanding the foregoing, no remedial action may be taken that would adversely affect the Owners of the Senior Obligations or the Owners of the Subordinate Obligations.

The principal, premium, if any, and interest and any other payment on Subordinate Obligations will be subordinated in right of payment to principal, premium, if any, and interest and any other payments on the Senior Obligations. If any Event of Default shall have occurred and be continuing, Owners of Senior Obligations will be entitled to receive payment thereof in full, including any interest, premium, fees, expenses or other payments that would otherwise have accrued after the occurrence of an Event of Bankruptcy with respect to the County (whether or not such interest, premium, fees, expenses or other payments are allowable or allowed in the relevant proceeding, or are avoided or subordinated) before the Owners of the Subordinate Obligations are entitled to receive payment thereof; and any payment or distribution of assets otherwise payable to Owners of the Subordinate Obligations will be paid to Owners of Senior Obligations until all Senior Obligations have been paid in full, and the Owners of the Subordinate Obligations will be subrogated to the rights of such Owners of Senior Obligations to receive payments or distributions of assets with respect thereto.

The principal, premium, if any, and interest and any other payment on Junior Subordinate Obligations will be subordinated in right of payment to principal, premium, if any, and interest and any other payments on the Subordinate Obligations and Senior Obligations. If any Event of Default shall have occurred and be continuing, and the Senior Obligations are no longer Outstanding, Owners of Subordinate Obligations will be entitled to receive payment thereof in full, including any interest, premium, fees or expenses or other payments that would otherwise have accrued after the occurrence of an Event of Bankruptcy with respect to the County (whether or not such interest, premium, fees or expenses or other payments are allowable or allowed in the relevant proceeding, or are avoided or subordinated) before the Owners of the Junior Subordinate Obligations are entitled to receive payment thereof; and any payment or distribution of assets otherwise payable to Owners of the Junior Subordinate Obligations will be paid to Owners of Subordinate Obligations until all Subordinate Obligations have been paid in full, and the Owners of the Junior Subordinate Obligations will be subrogated to the rights of such Owners of Subordinate Obligations to receive payments or distributions of assets with respect thereto.

Remedies not Exclusive. No remedy by the terms of the Master Indenture conferred upon or reserved to the Trustee or the Owners of the Obligations is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Indenture or any Issuing Instrument or existing at law or in equity or by statute whether effective on or after the effective date of the Master Indenture. The assertion or employment of any right or remedy, under the Master Indenture or any Issuing Instrument or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Application of Net Revenues and Other Moneys After Default. If an Event of Default shall happen and shall not have been remedied, upon the written request of the Trustee, a Credit Provider or the Owners of not less than 10% of the aggregate principal amount of the Outstanding Senior Obligations, the County shall transfer to the Trustee all moneys held in all of the Funds maintained by the County under the Master Indenture and shall transfer to the Trustee, at least monthly all the Net Revenues and Available Revenues received by the County.

During the continuance of an Event of Default, the Trustee shall apply any money or other property (other than Available Revenues) received by the Trustee pursuant to any right given or action taken under the provisions of the Master Indenture as described under this caption, to the following purposes and in the following order of priority:

First: To the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries for Senior Obligations and the amount to be paid to the Rebate Fund pursuant to the Rebate Instructions for Senior Obligations.

Second: To the payment of the principal, Redemption Price and Purchase Price of and interest on the Outstanding Senior Bonds, and amounts owed on the other Outstanding Senior Obligations then due and payable; provided however, that in the event the amount of money available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available money to the payment of the principal, Redemption Price and Purchase Price of and interest on and other amounts owed on all Outstanding Senior Obligations then due and payable ratably (based on the respective amounts to be paid), without any discrimination or preference.

Third: To the payment to the Reserve Guaranty Providers, the amounts due with respect to Reserve Guaranties relating to Senior Obligations; provided however, that in the event the amount of money available to the Trustee is not sufficient to make all the payments required by this clause with respect to all Reserve Guaranties relating to Senior Obligations, the Trustee shall apply the available money to the payment of the amounts then due with respect to all Reserve Guaranties relating to Senior Obligations ratably (based on the respective amounts to be paid), without any discrimination or preference.

Fourth: To the transfer to the Senior Debt Service Reserve Fund and each Senior Series Debt Service Reserve Fund and to each debt service reserve for other Outstanding Senior Obligations, the amount, if any, necessary so that the amount on deposit in the Senior Debt Service Reserve Fund and each Senior Series Debt Service Reserve Fund shall equal the applicable Senior Debt Service Reserve Requirement and the amount in each debt service reserve for other Outstanding Senior Obligations shall equal the amount required to be on deposit in such debt service reserve under the applicable Issuing Instrument; provided that that in the event the amount of money available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available money to the transfer to the Senior Debt Service Reserve Fund, each Senior Series Debt Service Reserve Fund and each debt service reserve for other Outstanding Senior Obligations ratably (based on the respective amounts to be paid), without any discrimination or preference.

Fifth: To the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries for Subordinate Obligations and the amount to be paid to the Rebate Fund pursuant to the Rebate Instructions for Subordinate Bonds.

Sixth: To the payment of the principal, Redemption Price and Purchase Price of and interest on the Outstanding Subordinate Bonds, and the amounts owed on the other Outstanding Subordinate Obligations then due and payable; provided however, that in the event the amount of money available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available money to the payment of the principal, Redemption Price and Purchase Price of and interest on and other amounts owed on all Outstanding Subordinate Obligations then due and payable ratably (based on the respective amounts to be paid), without any discrimination or preference.

Seventh: To the payment to the Reserve Guaranty Providers, the amounts due with respect to Reserve Guaranties relating to Subordinate Obligations; provided however, that in the event the amount of money available to the Trustee is not sufficient to make all the payments required by this clause with respect to all Reserve Guaranties relating to Subordinate Obligations, the Trustee shall apply the available money to the payment of the amounts due with respect to all Reserve Guaranties relating to Subordinate Obligations ratably (based on the respective amounts to be paid), without any discrimination or preference.

Eighth: To the transfer to the Subordinate Debt Service Reserve Fund and each Subordinate Series Debt Service Reserve Fund and to each debt service reserve for other Outstanding Subordinate Obligations, the amount, if any, necessary so that the amount on deposit in the Subordinate Debt Service Reserve Fund and each Subordinate Series Debt Service Reserve Fund shall equal the applicable Subordinate Debt Service Reserve Requirement and the amount in each debt service reserve for other Outstanding Subordinate Obligations shall equal the amount required to be on deposit in such debt service reserve under the applicable Issuing Instrument; provided that that in the event the amount of money available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available money to the transfer to the Subordinate Debt Service Reserve Fund, each Subordinate Series Debt Service Reserve Fund and each debt service reserve for other Outstanding Subordinate Obligations ratably (based on the respective amounts to be paid), without any discrimination or preference.

Ninth: To the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries for Junior Subordinate Obligations and the amount to be paid to the Rebate Fund pursuant to the Rebate Instructions for Junior Subordinate Obligations.

Tenth: To the payment of amounts due with respect to outstanding Junior Subordinate Obligations in accordance with the provisions of the applicable Supplemental Indenture or Issuing Instrument pursuant to which such Junior Subordinate Obligations have been issued; provided that that in the event the amount of money available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available money to the payments of amounts due with respect to all Junior Subordinate Obligations ratably (based on the respective amounts to be paid), without any discrimination or preference except as otherwise provided in the Issuing Instruments pursuant to which such Junior Subordinate Obligations have been issued.

Eleventh: To the payment of any other amounts due under the Master Indenture, any Issuing Instrument, the Bonds or the Obligations.

Notwithstanding the foregoing, Available Revenues shall be applied solely as provided under the caption "Available Revenues" above; provided, however, that if the ratable distribution provisions of clauses Second or Seventh above are applicable, the amounts that would otherwise be distributed pursuant to such clauses Second or Seventh to Obligations that are secured by Available Revenues shall be reduced by the amount of Available Revenues that are available for distribution to such Obligations as described under the caption "Available Revenues" above, and the moneys that become available as a result of such reduction shall then be distributed pursuant to Clauses Second or Seventh, as applicable, without regard to this paragraph.

If and whenever all overdue installments of interest on all Outstanding Obligations, together with the reasonable and proper charges, expenses and liabilities of the Fiduciaries and any other fiduciary for Obligations, and all other sums payable for the account of the County under the Master Indenture or any Issuing Instrument, including the principal and Redemption Price of all Outstanding Bonds and payment of the other Outstanding Obligations and unpaid interest on all Outstanding Obligations which shall then be payable, shall be paid by or for the account of the County, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Master Indenture and the Outstanding Obligations and the Issuing Instruments shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over all unexpended moneys in the hands of the Trustee (except moneys deposited or pledged, or required by the terms of the Master Indenture to be deposited or pledged, with the Trustee), and thereupon the County and the Trustee shall be restored, respectively, to their former positions and rights under the Master Indenture. No such payment by the Trustee nor such restoration of the County and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Master Indenture or impair any right consequent thereon.

The Trustee may in its discretion establish special record dates for the determination of the Owners of Obligations for various purposes, including without limitation, payment of defaulted interest and giving direction to the Trustee.

Restriction on Owner's Action. Except as otherwise provided in the second paragraph under this caption, no Owner of any Senior Obligation shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Master Indenture or any Issuing Instrument or the execution of any trust under the Master Indenture or any Issuing Instrument or for any remedy under the Master Indenture or any Issuing Instrument unless such Owner shall have previously given to the Trustee written notice of the happening of an Event of Default, as described under this heading "Events of Default; Remedies," and the Owners of at least 25% in principal amount of the Senior Obligations then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Master Indenture or any Issuing Instrument or by the applicable laws of the State or to institute such action, suit or proceeding in its own name, and unless such Owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Senior Obligations shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the lien of the Master Indenture, or to enforce any right under the Master Indenture or any Issuing Instrument, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Master Indenture or any Issuing Instrument shall be instituted, had and maintained in the manner provided in the Master Indenture and any applicable Issuing Instrument and for the ratable benefit of all Owners of the Outstanding Senior Obligations, subject only to the provisions of the Master Indenture with respect to moneys held for particular Obligations.

Nothing in the Master Indenture, any Issuing Instrument or in the Senior Obligations contained shall affect or impair the obligation of the County, which is absolute and unconditional, to pay on the respective due dates thereof and at the places therein expressed, but solely from the Net Revenues and the Trust Estate, the principal amount, or Redemption Price if applicable, and any other payments of the Senior Obligations, and the interest thereon, to the respective Owners thereof, or affect or impair the right, which is also absolute and unconditional, of any Owner to institute suit for the enforcement of any such payment.

If, and only if, the Senior Obligations are no longer Outstanding, all references to Senior Obligations under this caption shall be read to be references to Subordinate Obligations and if, and only if, the Subordinate Obligations and Senior Obligations are no longer Outstanding, all references to Senior Obligations under this caption shall be read to be references to Junior Subordinate Obligations.

Notice of Default. The Trustee shall, within thirty (30) days after obtaining knowledge thereof, mail written notice of the occurrence of any Event of Default to each Credit Provider, each Reserve Guaranty Provider and each Owner of Obligations then Outstanding at such Owner's address, if any, appearing in the Bond Register.

Credit Providers. Unless provided otherwise in the applicable Supplemental Indenture or Issuing Instrument, any Credit Provider providing a Credit Support Instrument with respect to Obligations of such Series may exercise any right under the Master Indenture or the Supplemental Indenture authorizing the issuance of such Series of Obligations given to the Owners of the Obligations to which such Credit Support Instrument relates in lieu of such Owners.

THE FIFTH SUPPLEMENTAL INDENTURE

General

The Fifth Supplemental Indenture authorizes the issuance of the Series 2010 Senior Bonds and prescribes their terms, conditions and form. Although certain provisions of the Fifth Supplemental Indenture are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Fifth Supplemental Indenture.

Terms of the Series 2010 Senior Bonds

The Series 2010 Senior Bonds shall be issued as Participating Senior Bonds the payment of the principal of and interest on which shall, together with all other Outstanding Participating Senior Bonds, be secured by amounts in the Senior Debt Service Reserve Fund.

For a description of the maturity dates, principal amounts, interest rates, interest payment dates and redemption provisions for the Series 2010 Senior Bonds, see the inside cover pages and the front part of this Official Statement under the caption "THE SERIES 2010 SENIOR BONDS."

Continuing Disclosure

The County covenants and agrees to comply with the Series 2010 Continuing Disclosure Certificate as it may be amended or supplemented. Notwithstanding any other provision of the Indenture, failure of the County to comply with the requirements of the Series 2010 Continuing Disclosure Certificate, as it may from time to time be amended or supplemented, shall not be considered an Event of Default and the Trustee shall have no right to accelerate amounts due under the Master Indenture as a result thereof; provided, however, that the Trustee and the Owners of not less than 25% in principal amount of the Outstanding Series 2010 Senior Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations in the Third Supplemental Indenture with respect to the Series 2010 Continuing Disclosure Certificate.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and neither the County nor the Underwriters take any responsibility for the completeness or accuracy thereof. The County cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants (each as defined herein) will distribute to the Beneficial Owner (as defined herein) (a) payments of interest, principal or premium, if any, with respect to the Series 2010 Senior Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2010 Senior Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2010 Senior Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2010 Senior Bonds. The Series 2010 Senior 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 Series 2009 Bond will be issued for each maturity and series of the Series 2010 Senior Bonds, each in the aggregate principal amount of such maturity and series, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, All of which are registered clearing agencies. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2010 Senior Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 Senior Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2009 Bond ("Beneficial

Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010 Senior Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2010 Senior Bonds, except in the event that use of the book-entry system for the Series 2010 Senior Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010 Senior Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2010 Senior 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 Series 2010 Senior Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010 Senior 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 Series 2010 Senior Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2010 Senior Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2010 Senior Bonds may wish to ascertain that the nominee holding the Series 2010 Senior 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 the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2010 Senior Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2010 Senior Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2010 Senior Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest on the Series 2010 Senior 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 County or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such

Participant and not of DTC nor its nominee, the Trustee, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2010 Senior Bonds at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the County of Sacramento (the "County") in connection with the issuance of its $128,300,000 Airport System Senior Revenue Bonds, Series 2010 (the "Bonds").

The Bonds are being issued pursuant to a Master Indenture of Trust, dated as of May 1, 2008, between the County and The Bank of New York Mellon Trust Company, NA., as trustee (the "Trustee") (the "Master Indenture"), as supplemented and amended by a Fifth Supplemental Indenture of Trust, dated as of August 1, 2010, between the County and the Trustee (the "Fifth Supplemental Indenture" and, together with the Master Indenture, as supplemented and amended from time to time, the "Indenture"). In connection therewith the County covenants and agrees as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the County for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters (as defined herein) in complying with SEC (as defined herein) Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this section, the following capitalized terms shall have the following meanings.

"Annual Report" shall mean any Annual Report provided by the County pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"EMMA System" shall mean the MSRB's Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

"Listed Event" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the United States Securities and Exchange Commission.

"State" shall mean the State of California.

"Participating Underwriters" shall mean any of the original underwriters of the Bonds listed on the cover page of the Official Statement (as defined herein) required to comply with the Rule in connection with offering of the Bonds.

SECTION 3. Provision of Annual Reports.

(a) The County shall, not later than 210 days after the end of the County's Fiscal Year (presently June 30), commencing with the report for the 2009-2010 Fiscal Year, provide to the MSRB through the EMMA System (in an electronic format and accompanied by identifying information all as prescribed by the MSRB) an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Airport System may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the County's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the County is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the County shall send to the MSRB a notice in substantially the form attached hereto as Exhibit A.

SECTION 4. Content of Annual Reports. The County's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Airport System for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board; provided, that if the Airport System's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) An annual updating, to reflect results of the most recently completed fiscal year, of the following tables contained in the Official Statement for the Bonds, dated August 11, 2010 (the "Official Statement"):

1. Table 3 – Historical Enplaned Passengers - International Airport;

2. Table 4 – Historical Aircraft Landed Weight - International and Mather Airports;

3. Table 5 – Airlines' Market Shares of Enplaned Passengers – International Airport;

4. Table 6 – Statement of Revenues, Expenses and Changes in Net Assets – Sacramento County Airport System;

5. Table 7 - Nonairline Revenues; and

6. Table 8B – Summary of Historical Revenues, Expenses and Debt Service Coverage.

Any or all of the items listed above may be included by specific reference to other documents, including the audited financial statements of the Airport System, official statements of debt issues of the County relating to the Airport System, which have been submitted to the MSRB through the EMMA System; provided, that the County shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this section, the County shall, give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal or interest payment delinquencies.

2. Non-payment related defaults.

3. Modifications to the rights of the Holders.

4. Optional, contingent or unscheduled calls.

5. Defeasances.

6. Rating changes.

7. Adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds.

8. Unscheduled draws on the debt service reserves reflecting financial difficulties.

9. Unscheduled draws on the credit enhancements reflecting financial difficulties.

10. Substitution of the credit or liquidity providers or their failure to perform.

11. Release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the County obtains knowledge of the occurrence of a Listed Event, the County shall as soon as possible determine if knowledge of such event would be material under applicable federal securities laws.

(c) If the County determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the County shall promptly file or cause the filing of a notice of such occurrence with the MSRB through the EMMA System; provided, that notice of Listed Events described in subsections (a)(4) and (5) of this section need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The County's obligations under this Disclosure Certificate shall terminate (a) upon the legal defeasance, prior redemption or payment in full of all of the Bonds, or (b) if, in the opinion of nationally recognized bond counsel, the County ceases to be an "obligated person" (within the meaning of the Rule) with respect to the Bonds or the

Bonds otherwise cease to be subject to the requirements of the Rule. If such termination occurs prior to the final maturity of the Bonds, the County shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the County may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived; provided, that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally-recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the County chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the County shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the County to comply with any provision of this Disclosure Certificate, the Participating Underwriters or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the County to comply with this Disclosure Certificate shall be an action to compel performance hereunder.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the County, the Participating Underwriters and the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: August 25, 2010.

COUNTY OF SACRAMENTO

By: ______________________________

Chief Operations Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of County: COUNTY OF SACRAMENTO

Name of Issue: $128,300,000 Airport System Senior Revenue Bonds, Series 2010

Date of Issuance: August 25, 2010

NOTICE IS HEREBY GIVEN that the County of Sacramento has not provided an Annual Report with respect to the above-named Bonds as required by the Master Indenture of Trust, dated as of May 1, 2008, between the County and The Bank of New York Mellon Trust Company, NA., as trustee (the "Trustee") (the "Master Indenture"), as supplemented. The County anticipates that the Annual Report will be filed by ___________________________.

Dated: _________________________________

COUNTY OF SACRAMENTO

By____

APPENDIX G

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Board of Supervisors,
County of Sacramento
Sacramento, California

County of Sacramento
Airport System Senior Revenue Bonds
Series 2010
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the County of Sacramento (the "County") in connection with the issuance of $128,300,000 aggregate principal amount of County of Sacramento Airport System Senior Revenue Bonds, Series 2010 (the "Bonds"), issued pursuant to a Master Indenture of Trust, dated as of May 1, 2008 (as previously supplemented, the "Master Indenture"), as supplemented and amended by a Fifth Supplemental Indenture of Trust, dated as of August 1, 2010 (the "Fifth Supplemental Indenture" and together with the Master Indenture, as so supplemented and amended and as supplemented and amended from time to time, the "Indenture"), each between the County and The Bank of New York Mellon Trust Company, N.A., as Trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture; the Tax Certificate, dated the date hereof (the "Tax Certificate"), executed by the County; opinions of counsel to the County and the Trustee; certificates of the County, the Trustee and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions, or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated August 11, 2010, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the County.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the County. The Indenture creates a valid pledge, to secure the payment of principal of and interest on the Bonds, of the Trust Estate subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a "substantial user" of the facilities financed or refinanced by the Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is exempt from present State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

COUNTY OF SACRAMENTO • AIRPORT SYSTEM SENIOR REVENUE BONDS, SERIES 2010

FSC
www.fsc.org
MIX
From responsible sources
FSC™ C017146

Printed by: ImageMaster, Inc.